ANALYSIS OF THE FACTORS WHICH AFFECT THE OPERATIONS OF FIRMS IN EXPORT PROCESSING ZONES IN KENYA

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A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

FACULTY OF COMMERCE

UNIVERSITY OF NAIROBI

OCTOBER 2002

DECLARATION

This paper is my original work and has not been presented for a degree in any other university.

Musungu 25/10/2002

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This research paper has been submitted for examination with my approval as the university supervisor

25/10/2002

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ACKNOWLEDGEMENT

My sincere gratitude goes to my supervisor Dr John Yabs for his guidance and encouragement, and to my parents, siblings and friends for their unending support, encouragement and faith in me.

DEDICATION

This study is dedicated to all those who encouraged me throughout the course of my study and extended various forms of support to me. Without them, this study would not have been.

ABSTRACT

This study is an analysis of the factors that affect the operations of firms in EPZs with the aim of determining why despite the heavy investment that firms undertake and the attractive incentives offered by the Government, there have been cases of withdrawal from the export processing zones in Kenya.

A study of all the firms operating in Export Processing Zones in Nairobi and Athi River was undertaken. Primary data was collected using a questionnaire consisting of both open and close ended questions. The questionnaire consisted of five sections each addressing the different factors that impact on the operations of the firms. The five sections were directly related to the reasons for which EPZs were established in Kenya, namely; Employment generation, skills development, technology transfer, foreign exchange earning and creation of forward and backward linkages. The questionnaire was addressed to the General Manager or Managing Director of the firm.

Data was analysed using statistics, proportions, percentages and tables. These were deemed appropriate due to the qualitative nature of the study. The data is then presented in the form of bar graphs and pie charts. Majority of the firms in the EPZs are foreign owned. Most of their investment took place between 1990 and 1995. The major sources of information on EPZs in Kenya are business contacts.

70% of the EPZ firms in Kenya are labour intensive with 54% of the workforce being female. The USA and Europe are the major exporters of the EPZ products, 70% of which are finished products.

After extensive analysis of the factors affecting operations of firms in the EPZs the study identifies huge expenses incurred due to an ineffective infrastructure as the main reason for the withdrawal from the scheme. The power failures of 1998 – 2000, an ineffective telecommunication system and a

poor national road network are the main reasons for the withdrawal from the scheme.

The results of the study raise a number of issues that could be addressed in future research. Of key interest would be to determine the extent of marketing the EPZA undertakes to generate investment into the scheme. One may also want to determine what specific measures have been undertaken to reduce incidences of withdrawal from the scheme and the actual contribution of the EPZs in the overall economic development of the country.

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

Export Processing Zones (EPZS) in Kenya were established following a USAID financed study in 1989. On the basis of the findings and recommendations of the study, the Government proceeded rapidly to create an enabling EPZ environment. Accordingly, the Export Processing Zones Authority was established under the EPZ Act (Cap 517 of the Laws of Kenya) in 1990. The Act provides for the institutional, legal and incentive framework for the EPZ development programme. The objective of the EPZ Programme is to attract new investments and as a result[1]:

- Generate employment opportunities directly in EPZs and indirectly through subcontracting, contract work and sourcing of raw materials and services
- Earn foreign exchange through the promotion of non-traditional exports
- Achieve technology transfer and expertise in management, marketing and production
- Create forward and backward linkages in supply of goods and services
- Promote regional development through development of zones in various regions

An Export Processing Zone is any area that for the time being is designated by law as outside the national territory for the purpose of the operation of the customs laws. Essentially, an EPZ is a promotion instrument aimed at:

- Attracting a percentage of the flow of mobile international investment producing goods for export; and
- Encouraging local or indigenous manufacturers to focus on export development.

What the EPZ does is put together a neat package of incentives that include:

- Freedom to import raw materials and equipment free of duties and restrictions
- Simplified customs procedures for import and export
- Minimum bureaucracy in approval procedures prior to establishment and minimum government interference while in operation
- Tax incentives
- Good infrastructure and production facilities

These incentives are expected to attract investment that should lead to economic growth and development of the country concerned.

The first modern EPZ was established in 1960 at Shannon Airport in Ireland[ii]. Within ten years, the Shannon EPZ employed 8000 workers and accounted for 20% of Ireland's manufactured exports. Ireland's success was quickly copied by a number of Asian countries. Taiwan was the first country to duplicate the concept with the creation of three zones between 1966 and 1971. Shortly after the establishment of these zones, Taiwanese EPZs were responsible for 70,000 jobs and over $1.5 billion in annual exports. During the 1970s, as Taiwan extended EPZ-style incentives to the entire country, the zones produced more than 71,000 jobs while Korean zone programme was regularly producing more than $600 million in annual export sales. EPZ programmes have also been successful outside the Far East. In Mauritius, the EPZ regime reduced the 23% unemployment rate of 1982 to less than 4% in 1990; labour shortages in critical sectors began to surface. EPZ firms in 1990 numbered over 350 and employed 120,000 workers.

1.2 IMPLICATIONS OF EXPORT PROCESSING ZONES ON THE ECONOMY

The Export Processing Zones have been extremely successful as a means of introducing market-oriented economic and institutional policy reforms. Due to the limited geographic area of the zone, liberalisation of economic policies and administrative reform practices can be implemented in an EPZ without encountering widespread political opposition. Consequently the demonstration effects resulting from the zone's success can strengthen the political and economic case for the designation and development of additional EPZs throughout the entire economy, thereby diffusing these policy benefits to a wide range of communities. In this manner, EPZs can be effectively utilised to integrate local producers and products in the world market. A number of countries have used EPZs as a means to gain familiarity and experience with market oriented development policies. Taiwan, Singapore and South Korea embarked upon export processing zone initiatives during the 1960s, marking a departure from traditional policies of import substitution. As their exporting firms became successful, these Far East Asian countries gained confidence in the extension of liberalising reforms throughout the economy[iii].

EPZs have also provided the opportunity for the experimentation with the private provision of infrastructure and other services usually retained as public sector monopolies. For example, the enacted EPZ legislation in Uruguay specifically encourages the establishment of private utilities. In Jamaica, a private international telecommunication station was authorised to provide service to information processing firms in the Montego Bay EPZ. In these cases and elsewhere, EPZs are used to develop private sector initiatives, where overburdened public sector monopolies had fallen short.

The economic contributions associated with EPZs are in the form of employment, private investments, foreign exchange earnings, economic diversification, backward linkages and technology transfer[iv]. The degree to which the potential economic benefits of an EPZ regime have been realised has varied from country to country and from project to project. Employment creation is the most singularly significant (and immediate) contribution EPZs provide to the host country. The second contribution is in EPZ investment, which would not take place in the absence of the EPZ regime. Third is foreign exchange earnings retained by the EPZ host country which may vary in relation to the type of industries that occupy the zone and to the degree to which local supply relationships are established. Substantial potential for increased value added and backward linkages lies in the development of local resources-based processing activities within an EPZ[v].

Countries with successful EPZ regimes have put in place institutional mechanisms to support industrial linkages and technology transfer[vi]. These linkages substantially augment the impact of the EPZ programme on the national economy. The establishing of supply relationships between EPZ enterprises and local businesses make good business sense for most industries, if inputs available locally are of comparable quality and cost to their imported counterparts. Likewise, local subcontracting can be encouraged in those locations where the domestic industrial sector has the capability to produce at world market standards. Such transactions are effective when government policies are supportive of the local export sector, removing taxes and duties that make prices of their goods high. At the same time, industrial extension is needed to raise the quality of the local goods produced. Successful EPZ authorities have directed efforts at establishing communication between the EPZs and the local business community to widespread awareness of existing commercial opportunities.

In the developing world, successful EPZ regimes are found in Asia and parts of Latin America. In Africa, only Mauritius stands out as a successful case.

1.3 STATEMENT OF THE PROBLEM

Since the inception of the programme about ten years ago, EPZs in Kenya have experienced several cases of withdrawal from the scheme by firms that had invested heavily in Kenya. At the same time, levels of unemployment in the country are still quite high whereas it was expected that among other things, EPZs would reduce unemployment levels.

This study therefore sought to analyse the various factors that affect EPZ operations and to determine why, despite the heavy investment and incentives offered by the Government, there have been cases of withdrawal from the scheme.

1.4 OBJECTIVES OF THE STUDY

The objectives of the study were threefold.

1. To analyse the factors which affect the operations of firms in EPZs
2. To identify those factors that have caused withdrawal from the scheme
3. To suggest possible solutions against withdrawal from the scheme

In addressing these objectives, the study raised questions in relation to the expected results of this programme, as already mentioned above, namely:

- Employment generation
- Earning of foreign exchange through the promotion of non-traditional exports
- Technology transfer
- Creation of forward and backward linkages
- Promotion of regional development

1.5 IMPORTANCE OF THE STUDY

This study will be a valuable resource for all persons interested in advancing their knowledge of EPZ programmes in Kenya. It will be of particular interest to policy makers to enable them target for investment only those firms with the ability to contribute positively towards the achievement of the expectations for which the programme was initiated, as outlined above. It will also act as a reference for further research.

1.6 ORGANISATION OF THE STUDY

The study is made up of five chapters. Chapter one is the introductory chapter. It looks at the background of the study, statement of the problem, objectives and importance of the study.

Chapter two contains the literature review. Chapter three comprises the research methodology. It contains the population of the study and data collection methods used.

Chapter four encompasses the data presentation, analysis and interpretation techniques applied, as well as limitations to the study.

The conclusions and recommendations are presented in chapter five.

CHAPTER 2

LITERATURE REVIEW

2.1 EXPORT PROCESSING ZONES: BASIC CONCEPTS AND MODES OF DEVELOPMENT

Export Processing Zone Development has increased dramatically over the past twenty years and while the incentives packages and market orientation of these programmes vary in their scope and content, basic principles can be identified as common to successful EPZ programmes in any location. The following is an overview of the global evolution of EPZs and the fundamental elements defining the framework for successful EPZ programmes.

Since the introduction of EPZs in developing countries during the 1960s, a variety of changes have occurred. Global corporations have accelerated direct investments in or sourcing relationships with EPZs, but have become less willing to accept government owned and operated zones, and more insistent on world-class standards of services and amenities. Successful EPZ programmes have responded to such investor requirements through:

- **Private Zone Ownership and Management:** Reflecting the demonstrated preference of many investors for privately managed EPZ projects, private zones are now at the forefront of EPZ growth in the Dominican Republic, Costa Rica and Mexico in Latin America; Togo, Cameroon and Kenya in Africa; and China and Indonesia in Asia.

- **More Comprehensive Incentives:** Increased global competition among zones has led governments to seek ways to remove constraints on investment and employment growth, such as: de-monopolising utilities for zone-based firms; abolishing wage and price controls;

expediting investment approval procedures; allowing zone firms to sell a portion of their production to local markets; and "single factory" EPZ destinations.

- **Upscale Facilities and Services:** To attract technology-intensive firms, EPZs also have introduced satellite earth stations on premises, provided assistance to employers in screening workers, and arranged for specialised training services.

While these new trends in zone development are changing the global context for EPZ development, the most critical element in establishing a successful EPZ programme has proved to be the commitment of the government to the straightforward and effective implementation of the regime, and to macroeconomic policies in support of the export sector.

In the 1980s, countries world-wide increasingly recognised the benefits to be gained from economic liberalisation and from the increasing role of the private sector in the economy. In particular, as the limitations of import substitution policies as a means to encourage economic growth have become increasingly evident, the need to stimulate the development of non-traditional manufactured exports has become a heightened priority.

Many economies, however, remain characterised by policies and regulations that are significantly biased against exports. In addition, export manufactures operating in a developing country environment often encounter a host of other constraints that impede their ability to compete in international markets effectively. Typical distortions and constraints experienced by manufactures include:

- High duties and other tariffs on imported raw materials, intermediate goods, and capital equipment
- Overvalued exchange rates
- Inefficient and problematic infrastructure
- Lack of local expertise
- Impaired access to foreign exchange; and
- Artificial wage structures

In order to begin the process of overcoming these constraints, a number of developing countries have successfully used export processing zones as an effective way to eliminate the bias against exporters, and to encourage foreign investment in export manufacturing. Since EPZs have proven to be successful in stimulating the growth of non-traditional exports, creating employment, and mobilising private sector resources and initiative, their overall policy ramifications can be appreciable.

While EPZs are not the only policy mechanism available to stimulate exports, they compare favourably to other types of export incentive regimes both in the administrative ease with which investments can be approved and incentives granted to exporters, and in the monitoring and controls on on-going operations.

Finally, EPZs have been successfully used in the short-term to introduce market-oriented economic and institutional reforms in a targeted manner for the export sector, and more importantly, in the longer term as a way to demonstrate the attractiveness of broader economic policy liberalisation.

2.2 EXPORT PROCESSING ZONES: STEADY GROWTH, MAJOR SOURCE OF JOB CREATION

As global competition for jobs and foreign investment intensifies, Export Processing Zones (EPZs) are proliferating world-wide, growing from just a handful a few decades ago to over 850 today, according to a report published by the International Labour Office[vii] in 1996.

While acknowledging the huge economic and employment potential of EPZs, the ILO warns that their rise to ubiquity on the global manufacturing scene poses increasingly serious questions for the world's 27 million strong EPZ workforce (as much as 90 per cent of whom are female) and for the legions of development strategists who see EPZ investment as a quick way for developing countries to acquire the industrial skills and resources necessary to compete in the global economy[viii].

The report defines EPZs as "industrial zones with special incentives to attract foreign investment in which imported materials undergo some degree of processing before being exported again." In some countries, these zones are indistinguishable from organised, modern business complexes, but in many others they take the form of ring-fenced enclaves of industrial monoculture. No matter what form EPZs take, the free trade, foreign-investment and export-driven ethos of the modern economy has transformed them into "vehicles of globalisation."

The ILO analysis says that while EPZs are undoubtedly huge employment generators, particularly for women in developing countries, too many of them continue to be hampered by a reputation for low wages, poor working conditions and underdeveloped labour-relations systems. In addition, the ILO says that while the combination of direct manufacturing investment, employment and technology transfer can provide an important boost up the development ladder, the evidence thus far points to pervasive absence of meaningful linkages between the EPZs and the domestic economies of most of the host countries.

While many zone-operating countries had anticipated that the low-skilled processing and assembling of imported parts would be a necessary, but temporary first step up the ladder toward higher value- added manufacturing, only a few (for example Malaysia, Mauritius and Singapore) have actually managed to develop a wide range of domestic export industries on the basis of EPZ investment.

2.2.1 Global Growth of EPZs

The largest numbers of zones are in North America (320) and Asia (225). But the concentration of EPZs is rising in developing regions such as the Caribbean (51), Central America (41), the Middle East (39) and the figures are likely to increase throughout the world. The Philippines, for example, currently has 35 EPZs operating but has approved plans for about 80[ix] more.

Currently, the United States and Mexico together are the most active EPZ operators, with respectively 213 and 107, most of which are maquiladora assembly plants clustered around border cities such as Tijuana, Ciudad Juarez and Matamoras. Maquila plants in these cities are linked to production chains on the US side of the border. Originally established in 1965 as an emergency measure to combat unemployment, the maquila industry today produces exports worth US$5 billion annually, more than 30 per cent of total exports from Mexico. Manufacturing investment in the maquila sector is expected to grow in the aftermath of the elimination of tariffs resulting from the North

American Free Trade Agreement, particularly in such areas as clothing and textiles.

Other countries in the Western hemisphere are increasingly home to EPZs established largely to provide manufactured goods for sale into the US market: the Dominican Republic has 35 EPZs, Honduras 15 and Costa Rica 9. The report cites Costa Rica as a case in point for how smaller, less populous countries can profit from zone strategies. Since 1981, EPZs in Costa Rica have created almost 49,000 jobs, mostly in the garment and electronics sector, which have the added benefit of diversifying the country's exports away from traditional sectors such as bananas and coffee. Nearly 30 per cent of all the manufacturing employment in Costa Rica is now generated by enterprises operating in EPZs. The country's unemployment level is down to 5 per cent.
In Asia, China alone has 124 EPZs, many on the scale of full-sized urban and industrial developments, complete with community infrastructure such as education, transport and social services. Bangladesh, Pakistan and Sri Lanka have extensive EPZ strategies. In Africa there are 47 EPZs, 14 of which are in Kenya. In Mauritius, the entire territory has been zoned for export processing and the judicious management of EPZs is probably the major contributing factor to that country's economic growth.

Distribution of EPZs by region, 1997

Region	No. of zones	Key countries
North America	320	United States - 213, Mexico - 107
Central America	41	Honduras - 15, Costa Rica - 9
Caribbean	51	Dominican Republic - 35
South America	41	Colombia - 11, Brazil - 8
Europe	81	Bulgaria - 8, Slovenia - 8
Middle East	39	Turkey - 11, Jordan - 7

Asia	225	China - 124, Philippines - 35, Indonesia - 26
Africa	47	Kenya - 14, Egypt - 6
Pacific	2	Australia - 1, Fiji - 1
Total	845	

Source: WEPZA and ILO.

Growth in the Asian Tiger economies was also fuelled by EPZs. For three decades, the state of Penang in Malaysia proved highly effective in attracting quality investment in hi-tech manufacturing, with the number of plants increasing from 31 in 1970 to 743 in 1997 and the number of employees rising from around 3,000 to nearly 200,000 during the same period. Similarly, much of the growth in technological and financial prowess in Singapore developed on the basis of investments and steady productivity increases in EPZs, which succeeded both in raising the quantity and quality of jobs offered and in building the necessary linkages between the domestic and international economies.

2.2.2 So What is Wrong with EPZs?

An ILO Meeting[x] was held in October 2000 to debate and examine ways in which the labour and human resource problems of EPZs could be addressed in such a way as to improve wages and working conditions and increase productivity and inter linkages between EPZs and the domestic economies of the countries in which they are located. Special attention was given to the plight of women workers in EPZs. Women not only make up the majority of the EPZ workforce, but they tend to suffer more from the inherent problems of EPZs, including the long working hours, low wages, the almost total absence of social welfare facilities (such as child care) and the often arduous nature of the work.

The report says that "it is a regrettable feature of many zones that both male and female workers are trapped in low-wage, low-skill jobs. They are viewed as replaceable and their concerns do not receive sufficient attention in labour and social relations." The work force in EPZs worldwide is usually female in majority, but in certain activities, notably textiles, garment manufacturing and electronics assembly, women can account for 90 per cent or more of the workers.

The ILO report identifies five factors that contribute to this unsatisfactory state of affairs:

- Most zone operating countries have an abundant supply of available labour, which tends to keep wages down, although the negative image of much zone work sometimes obliges to pay a premium to get labour;

- Zones are particularly attractive to labour-intensive industries such as garments and footwear and assembly of electronic components, which use relatively basic technology and thus require a low-skill workforce. High labour turnover is not a problem because replacements are abundant;

- The generous incentives and low costs to entry attract simple processing industries to invest in the zones; such companies often lack professional management, particularly in human resources and general management. They also tend to be unable or unwilling to invest in new skills, technology or productivity improvements. They are also likely to provide few if any social benefits to their employees;

- The labour intensive nature of much processing and assembly work means that enterprises compete largely on the basis of price; with labour costs a large component of total costs, companies see labour as a cost to contain rather than an asset to develop;

Very few governments have managed to implement policies to ensure that zone investors transfer technology and skills to local industry and workers, with the result that the human capital base remains low.

According to the ILO, the shortage of appropriate human resource development strategies may well limit the potential for EPZs to improve productivity and upgrade jobs. The report says that "labour relations and human resource development remain two of the most problematic aspects of zone functioning."

Mechanisms for improving labour standards are often inadequate: "The classic model of labour regulation - with a "floor" or framework of minimum labour standards and free trade unions and employers coming together to negotiate binding agreements - is extremely rare in EPZs."

According to Mr. Auret Van Heerden, the main author of the report, "the frequent absence of minimal standards and poor labour-management relations have predictable outcomes, such as high labour turnover, absenteeism, stress and fatigue, low rates of productivity, excessive wastage of materials and labour unrest are still too common in EPZs."

2.2.3 The Law of the Zone versus the Law of the Land

The ILO report finds that in most but not all of the major EPZ operating countries the national labour and industrial-relations legislations are applicable in the zones. The report notes that in Singapore, which has a very strong tradition of tripartism, "there is no question of the investment policies infringing workers rights." The authors note that the policy dates back to the 1960s, a time when Singapore was desperately in need of investment and at a very early stage of industrial development.

In Mauritius, one of the most successful of all EPZ operators, the zone workers "are covered by the labour laws and labour relations system." However, a 1993 Industrial Expansion Act has provided enterprises with greater flexibility, notably in the calculation of hours of work for purposes of overtime, which has been persistently criticized by the labour movement. Mauritius has a high degree of trade union activity in some sectors of the domestic economy, but in the EPZs only 9 per cent of the workers are unionized.

The Philippines, according to the ILO report, "provides an excellent example of a zone-operating country in which no adequate system of labour regulation and labour-management relations existed in zones, but which, after years of industrial conflict, made the necessary reforms and established a stable system of labour-management relations", including respect for trade union rights. However, not all zones in the Philippines are developing apace. The report notes that "a number of private zones appear to have adopted a "trade union free" policy which conflicts with the labour laws."

The Dominican Republic, like the Philippines went through a period of labour unrest before instituting reforms which, the report says, "has gone a long way towards enhancing respect for labour standards and improving labour relations in the zones." Today there are 14 trade unions operating in the zones, although they are said to face considerable difficulties in establishing collective agreements. EPZs in Costa Rica are also covered by national law, "however trade union activity in Costa Rica is not well developed and the free zones are no exception," the report says.

There are very few countries which openly and officially exclude EPZs from the national labour legislation and system of labour-management relations. However, in Bangladesh, EPZs are excluded from the scope of the country's Industrial Relations Ordinance, which provides for organising and bargaining rights in other sectors. There are, however, labour regulations that do apply in the zones relating to such matters as job classification, minimum wages, leave, holiday periods, termination of employment and welfare facilities such as clinics and canteens.

Pakistan has also excluded its zones from the scope of the Industrial Relations Ordinance and prohibited all forms of industrial action in them.

Panama is the only country in Central America to have adopted special labour legislation for its EPZs, replacing the labour code. Initial legislation sought to strictly limit the influence of trade unions in EPZs. After much opposition and some revision to restore the recognition of trade union freedoms, the report says "the controversy has not been fully resolved and freedom of association is not well established in the zones."

The ILO insists that only EPZs with high-quality human resources and stable labour relations will be able to meet the high standards for speed, cost and quality in the global economy. If the full employment and productivity potential of EPZs is to be met, a proper human-resource development strategy will be necessary. If EPZs are to realize the full knock-on economic effects desired by the host countries, greater linkages with the domestic economies need to be forged.

Finally, much needed investments in social infrastructure, particularly of the sort needed by women workers (for example, child care facilities, safe transport and sanitary living and working conditions) could go a long way toward making EPZ employment more stable and attractive.

2.3 THE EVOLUTION AND STATUS OF KENYA'S EPZ PROGRAMME

After several studies indicated the potential viability of the EPZ programme in Kenya, the Government decided to implement the EPZ regime in 1990 as a major policy initiative that will build upon and reinforce its economic liberalisation and restructuring efforts. The country's current round of economic liberalisation was initiated in 1988 in the context of the industrial sector adjustment programme (ISAP), which aimed at restructuring Kenya's industrial sector in order to stimulate investment as well as render it more export oriented. The ISAP was launched in response to the limitations of import substituting strategy of industrialisation which were manifest in declining industrial investment and output, poor export performance and weak job creating capability.

The first phase of ISAP, which was implemented between 1988 and 1990, concentrated on trade liberalisation and domestic deregulation aimed at reducing the anti-export bias of the overall policy and regulatory framework. To reinforce the broader policy reforms process was well as accelerate export supply response through directly addressing infrastructure and institutional constraints to export production and marketing, it became necessary to implement a follow-on project to ISAP in the form of the Export Development Programme (EDP), supported by the World Bank. Implementation of the EPZ regime constitutes an integral part of the Export Development Programme.

The EPZ formula has been acknowledged by the World Bank and other international development agencies as " very effective in the early stages of an export drive as a means of attracting foreign and domestic investors in demonstrating a country's export potential, especially in less developed countries that lack the critical elements needed to initiate an an outward development strategy. However, to succeed the development of infrastructure, the formulation of appropriate incentives and other elements of the working environment must be well managed".

2.3.1 Export Development Programme

Concerns about performance, employment and increased reliance on external inflows prompted the Government to prepare an export development strategy paper in late 1989, which was subsequently discussed with the International Development Association (IDA) of the World Bank, and used as a basis for designing the EDP. The Government decided to implement a broad based strategy that draws mainly from the experience of successful exporting countries, notably the NICs in the Far East, where export promotion has been linked with the development of small and medium scale firms and the inflow of private foreign investment.

The objective of the Export Development Programme was to increase the quantity and diversity of Kenya's exports. The EDP intended to push aggressively towards increasing the neutrality of the trade regime. This was to be achieved by re-orienting the incentives, both towards enhancing the profitability of non-traditional exports (through appropriate exchange rate management, and improved access for exporters to inputs at international prices) and by squeezing profits in highly protected import substitution activities (through continued liberalisation of imports). In the interim, while protection was still high and variable, the Government had to reduce the anti-export bias by providing exporters' access to inputs at international prices, through the implementation of several parallel schemes e.g. duty and VAT exemption, Manufacturing Under Bond and Export Processing Zones.

It was evident however that the reforms in policies, while necessary, would not be sufficient by themselves in removing constratints to export production. To make the policy reforms more effective and sustainable, actions were required to remove impediments to efficient production and marketing and to draw small and medium firms into the export effort. Bottlenecks in physical infrastructure for handling and transporting exports, and institutional inadequacies in specific areas needed to be addressed simultaneously.

To support the policy reforms and generate the urgently needed employment opportunities, an IDA credit consisting of funding for closely integrated package of policy, investment and technical assistance components was negotiated and approved in 1990. Under the credit, the EDP would support the institutional and infrastructure development for an export processing zone, for the handling of export products and for firm level assistance for nascent exporters.

The programme had a number of related components including:

- Policy reforms (trade policy, export incentives, regulatory reform)
- Investment in off-site infrastructure for an export processing zone

- Direct Assistance to exporters in the form of a facility based on cost-sharing with the private sector to provide grant assistance for consultancy services to exporters (KEAS Project)
- Studies and technical assistance for product and development, future export programmes (KEDS and restructuring of Customs Department Projects).

2.3.2 The EPZ Programme

The first viability study into the establishment of EPZs in Kenya (referred to as the enabling environment study for EPZs in Kenya) was initiated in 1989 and completed in 1990 with financial assistance from USAID. The study's findings indicated that Kenya possessed the basic infrastructural and human resources required for an EP programme to be successful. The challenge was for the Government to develop an EPZ programme and strategy that would enhance the country's comparative advantage in order to enable it to effectively compete for international off-shore investments.

On the basis of the findings and the recommendation of the study, the Government proceeded rapidly in creating and enabling EPZ environment. Accordingly, the EPZ Act, which provides for the institutional, legal and incentive framework for the EPZ development programme, was enacted in late 1990. The Act provided for the creation of an independent private sector-oriented administrative authority – The Export Processing Zone Authority, to oversee the development and administration of the programme. In 1991. EPZ regulations, setting out specific procedural and informational requirements for designation of zones, and licensing of EPZ developers, operators and enterprises were gazetted.

The Act provided for both public and private EPZs. Consequently, the Government earmarked and gazetted Athi River EPZ after extensive site selection, environment and viability studies. This was done as a means of catalysing the programme and as a show of the Government's commitment to the programme. The Athi River EPZ's construction was financed by the World Bank. The Government also earmarked another public EPZ in Mombasa, whose feasibility study was funded by the ADB.

The private sector also responded positively to the EPZ regime. The largest of the private EPZs is the Sameer Industrial Park in Nairobi.

EPZ ventures are provided for fewer than two categories of licenses, namely the EPZ developer / operator licenses and the EPZ enterprise licenses. The developer / operator license provides for the role of development and management of high quality industrial parks. The enterprise license on the other hand, caters for three types of activities as follows;

- Manufacturing or processing
- Commercial activity related to or preceding manufacturing such as bulk breaking, re-labelling, grading, re-packaging and trading.
- Export related services including consultancy, information, brokerage and repair operations.

To date 17 zones have been gazetted in five towns (Nairobi, Athi River, Mombasa, Malindi and Nakuru). Investors are drawn from Kenya, Korea, Philipines, Pakistan, South Africa, Germany, Mauritius, UK and Sri Lanka.

EPZ products include cotton yarn, pharmaceutical products, security printing, assembled vehicles, horticulture produce, plastic items, sisal buffs, garments, refined petroleum products and computers. The USA has been the major importer of the produce, followed by Africa, Europe and finally the Middle East.

2.3.3 The Role of The EPZ Programme

In addition to these conventional benefits the EPZs were also intended to:

1. Facilitate transition to a more open economy
2. Serve as a visible demonstration to foreign and local investors of the Government's intentions to liberalise the overall economy
3. Introduce a possibility of experimenting with new policy instruments
4. Provide enclaves with dependable infrastructure in order to facilitate the manufacturing and exporting functions
5. Present one package of incentives, among others being offered by the Government, from which investors can choose

2.3.4 Status of the EPZ Programme

The first viability study into the establishment of EPZs in Kenya (referred to as the enabling environment study for EPZs in Kenya) was initiated in 1989 and completed in 1990, with financial assistance from USAID. The study's findings indicated that Kenya possessed the basic infrastructure and human resources required for an EPZ programme to be successful. The challenge was for the Government to develop an EPZ programme and strategy that would enhance the country's comparative advantage in order to enable it to effectively compete for international off - shore investments.

The Export Processing Zone Programme was designed to attract part of the international investment funds and to draw upon the manufacturing expertise and marketing know-how of international investors. Conventionally, such capital and technology can only be attracted to a completely deregulated environment, which allows the international investor to increase his competitiveness, thereby enabling him not only to maintain existing market share, but also develop new markets. Many developing countries are pursuing a vigorous campaign to attract foreign direct investments using the EPZ approach. Kenya therefore entered a competitive arena for scare capital with other countries. To be able to compete favourably, the policy and macro-economic environment had to be right. Policies comparable with incentives offered elsewhere had to be put in place to enable the country attract scarce capital. That was the EPZ programme.

By attracting mobile capital and technology the country expected to[xl]:

1. Generate employment directly and indirectly through subcontracting and sourcing of local raw materials and services

2. Increase foreign exchange earnings through the promotion of non-traditional exports and through use of hard currency in relation to purchase of local raw materials and services.

3. Gain in technology transfer and expertise in management, marketing and production

4. Link domestic economy to international markets thereby offering international exposure to local enterprise, the demonstration effect of which will eventually diffuse across the domestic economy

5. Promote backward linkages in agri- and natural resource processing activities and in services for equipment maintenance, legal, accounting and other services which would stimulate economic activities within the domestic economy

Hence, the Kenyan programme is now in its tenth year of operation with 37 firms operating in the various public and private zones in the country. The incentives provided under the programme include[xii]:

- ten years' tax holiday;
- duty and tax free access to inputs and capital equipment;
- relief from exchange controls;
- liberal conditions for repatriation of capital, interest and dividends;
- expeditious processing of work permits for essential expatriate workers;
- expeditious investment approval process;
- green channel treatment as regards processing of import and export cargo documentation.

In addition, the Government has fully appreciated the imperative to maintain an overall favourable investment climate to ensure efficient operating conditions in the zones and address infrastructure constraints faced by investors.

CHAPTER 3

RESEARCH METHODOLGY

3.1 Population of Study

A study of all the firms in the EPZs within Nairobi and Athi River was considered representative of all the firms in EPZs in Kenya.

This sample study began by collecting a list of the firms in EPZs in Kenya from the Export Processing Zones authority (EPZA). A comprehensive list detailing not only the name and location of the firms, but the products they manufacture as well as their contact addresses, was obtained from the EPZA. (Appendix 1)

Out of a total of 61 firms registered at the EPZA by October 2001, only 35 were operational 10 were in the process of being set up, 1 is seasonally operated, 2 were non-operational, 6 had been licensed to operate and 7 sites were undeveloped.

The number of firms in operating within the Nairobi and Athi River EPZs are 25. This represents 71% of the number of EPZ firms countrywide and hence a representative sample.

3.2 Data Collection Method

A questionnaire consisting of both open ended and close ended questions was used to collect primary data. This questionnaire consisted of five parts each addressing the different factors that affect EPZ operations. The five sections are based on the reasons for which EPZs were established in Kenya. They are;

1. Foreign Exchange earnings
2. Employment generation
3. Skill development
4. Technology transfer
5. Creation of backward and forward linkages

The questionnaire was addressed to the General Manager or Managing Director of the respective firms.

CHAPTER FOUR

4.1 DATA PRESENTATION, ANALYSIS AND INTERPRETATION

The data was analysed using statistics, proportions, percentages and tables. These were deemed appropriate due to the qualitative nature of the study. The data is then presented in the form of bar graphs and pie charts.

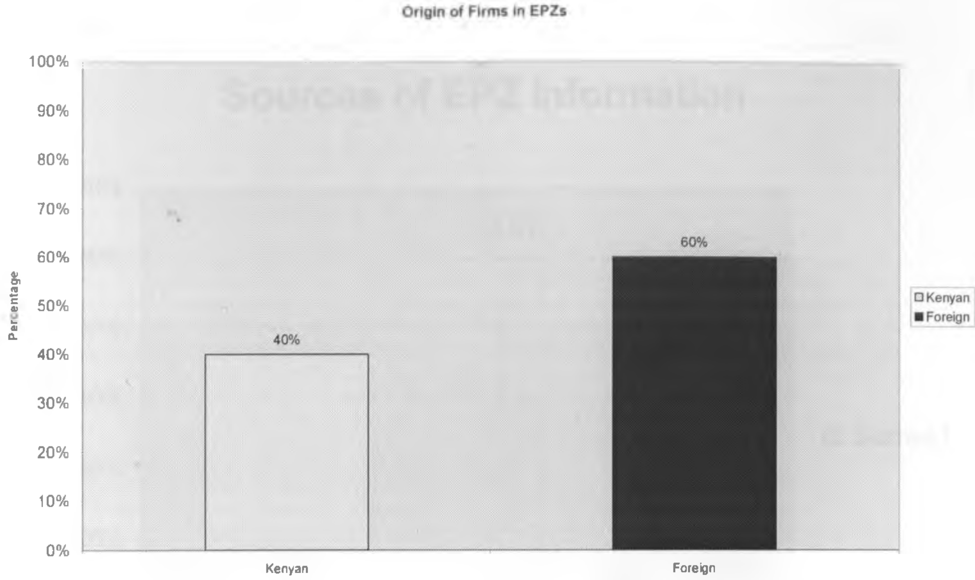
The data analysis and presentation takes into consideration the reasons for which the EPZ programme was initiated in Kenya. Presentation is therefore structured according to the main reasons for the establishment of EPZs in Kenya.

1. **General Company Information**

Section one of the questionnaire dealt with general company information. The researcher sought to establish details such as the location of the EPZ firm, home countries of the firms, how they got to know about the EPZ programme in Kenya, how long they've been operating in Kenya and the factors that influenced the decision to operate in Kenya.

There currently are 35 firms operating within the EPZs in Kenya. Of the firms interviewed 40% are owned by Kenyans and the remaining 60% have foreign origins from countries such as the United Kingdom, China, Sri Lanka and Ireland. This is illustrated in the graph below:

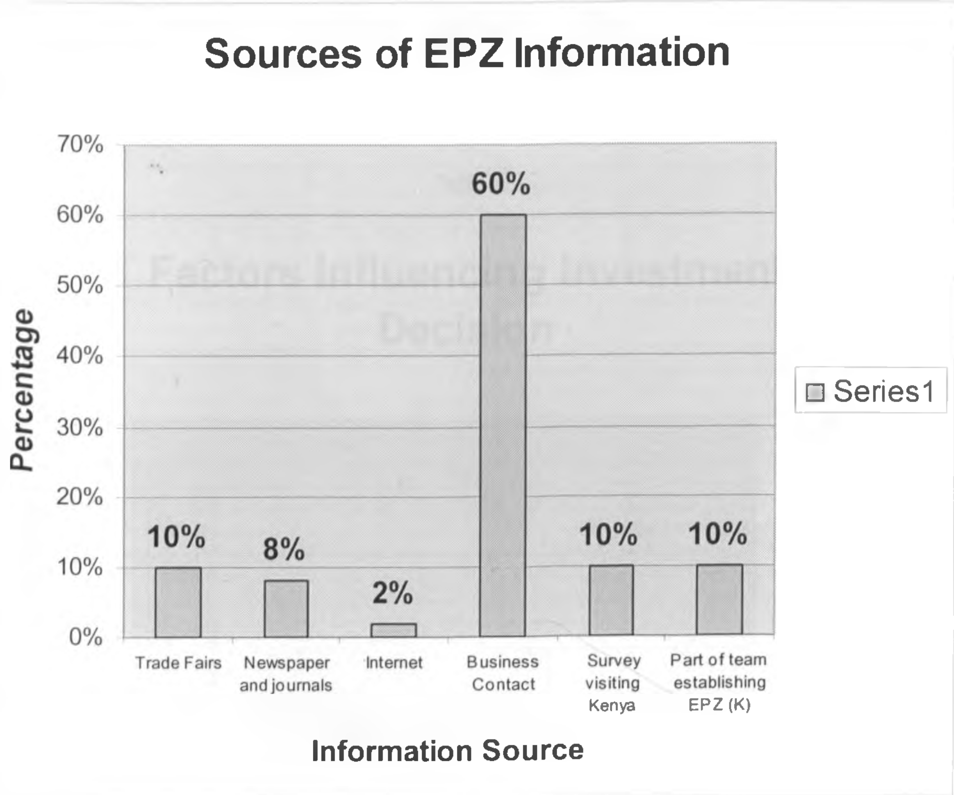
Table 1



Information on the EPZ programme in Kenya can be obtained for trade fairs, newspapers and journals, the internet, relevant government agencies, Ministry of Trade and Industry and local business contacts.

The firms currently operating within the zones obtained information on the zones from diverse sources. Table 2 below indicates that 60% of the firms in operation knew about EPZs in Kenya through local business contacts. 10% came on orientation visits to Kenya to prospect for business opportunities and got to know about EPZs here, 10% were made aware through trade fairs, 5% got information for the internet and another 5% from journals. The remaining 10% were part of the team that was involved in establishing EPZs in Kenya. This last category applies to locally incorporated firms. This indicates that business contacts that include government agencies such as the Export Promotion Council and the Export Processing Zones Authority are the highest source of information on the opportunities available in the EPZs.

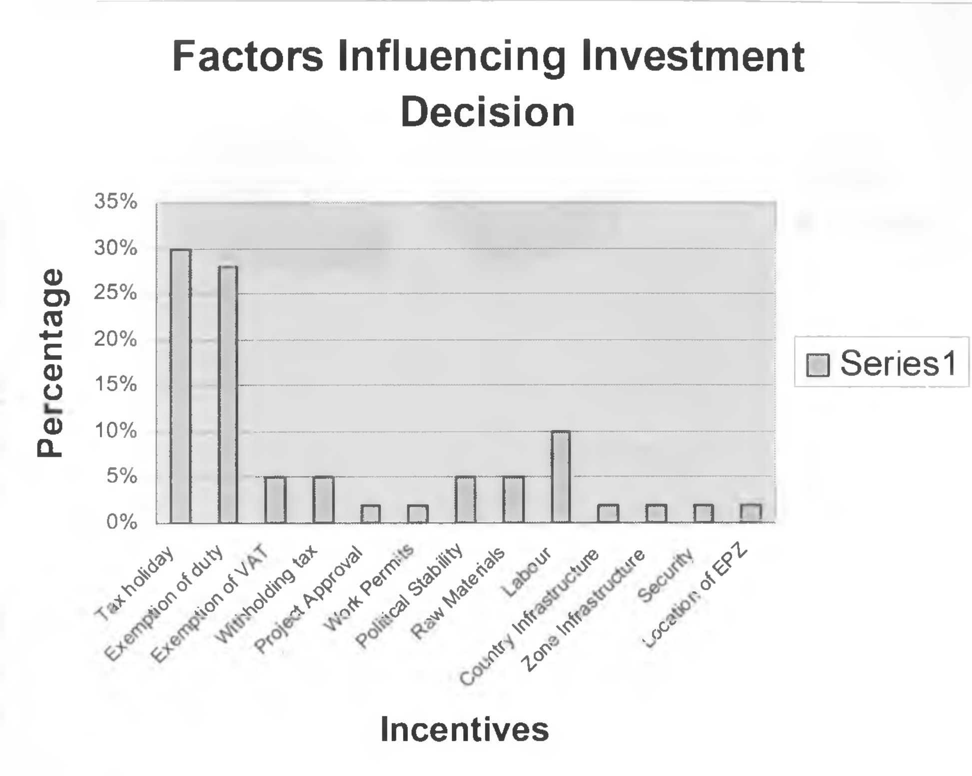
Table 2



Work on establishing EPZs in Kenya was commenced in 1990. It was during the period 1990 – 1995 that there was highest investment in the zones with 50% of the firms currently in operation being established then. The post 1995 years have evidenced more moderate investment with 10% – 20% of the firms now operating in the zones being established between 1995 and 2000.

There are a host of incentives offered by the government to encourage investment in EPZs. These are divided into three categories namely; tax incentives, facilitation and country characteristics. Four factors were analysed under the tax incentive portfolio, to determine the importance of each in making the decision to invest in Kenya. The 10 year corporate tax holiday and exemption of duty on company inputs were rated as the most important factors influencing their investment decision. Exemption of VAT and withholding tax holiday were rated as somewhat important. This is illustrated in Table 3 below.

Table 3

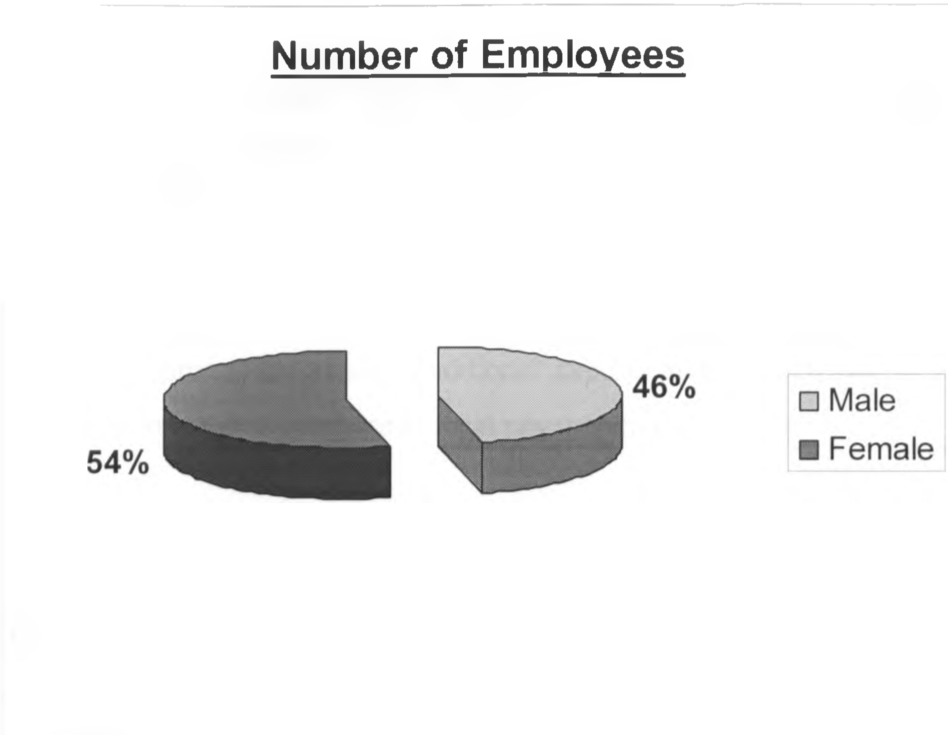


When considering facilitation as an influencing factor, rapid project approval and assistance given in obtaining work permits were rated at 2% each.

Country characteristics presented the largest number of influencing factors to be considered. These include political stability, availability of raw materials, availability of labour, state of the infrastructure within the country and in the zone, the security situation in the country and the location of the EPZs. The availability of labour and that of raw materials were rated the highest in this category, followed by the state of the infrastructure and political stability.

2. Employment Generation

Table 4



Employment generation is one of the main factors that led to the implementation of the EPZ programme in Kenya. It was envisaged that by attracting foreign investment and creating a favourable investment environment within the zones many firms would be set up thus generating a lot of employment for nationals. The firms interviewed have a combined workforce of approximately 10,000 permanent employees. As indicated in Table 4 above, 46% of these are male and the other 54% are female.

The minimum level of education is the primary school certificate. About 10% of firms indicated this as their minimum expectation. However, this is only so for manufacturing roles with 20% of the firms indicating the 'O' level certificate as their minimum requirement. The maximum level of education required by most of the firms is an undergraduate degree. However, 10% of the firms also indicated a master's degree as a requirement.

3. **Foreign Exchange Earnings Through Export of Non-Traditional Export Products**

By attracting mobile capital and technology through the EPZ programme one of the country's expectations was to increase foreign exchange earnings through the promotion of non traditional exports and through use of hard currency in relation to purchase of local raw materials and services.

Of the firms interviewed, 10% are assembling plants, 60% are in manufacturing, 20% process raw materials to finished products, 10% are involved in the development and marketing of the EPZs and 10% export finished products.

Table 6

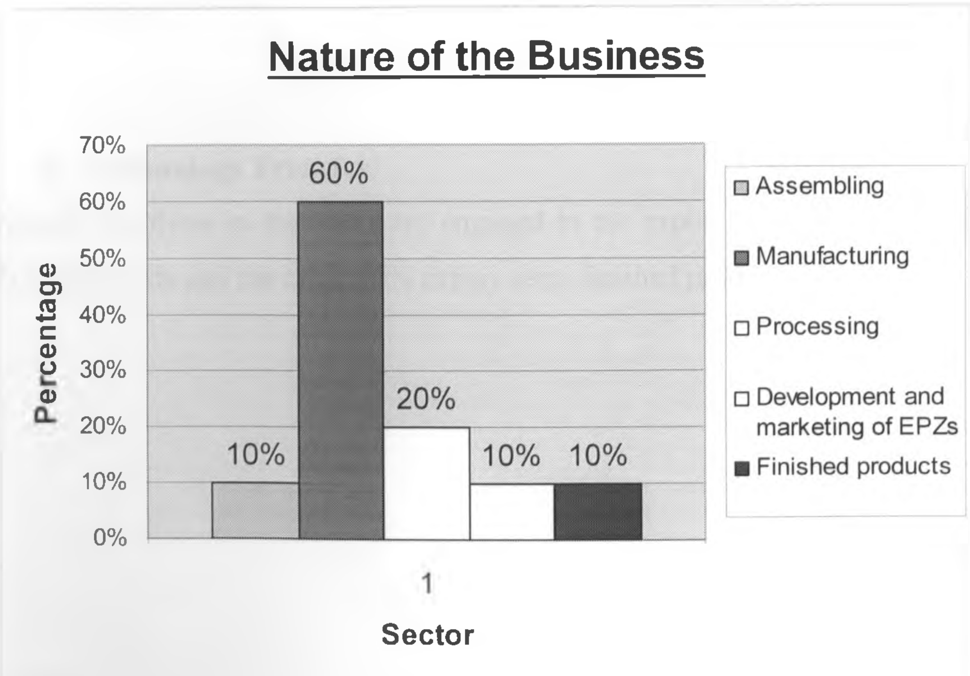
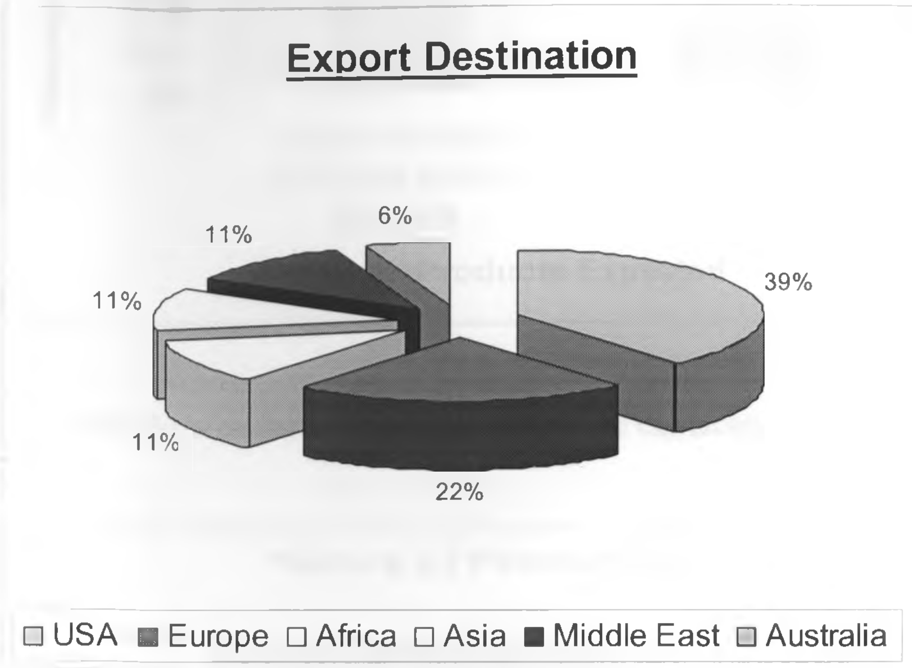


Table 7 below presents the findings that 70% of the products from the EPZ are exported to the United States of America, 40% to various European destinations, 20% to other African countries, 20% to Asian countries, another 20% to the Middle East and 10% to Australia.

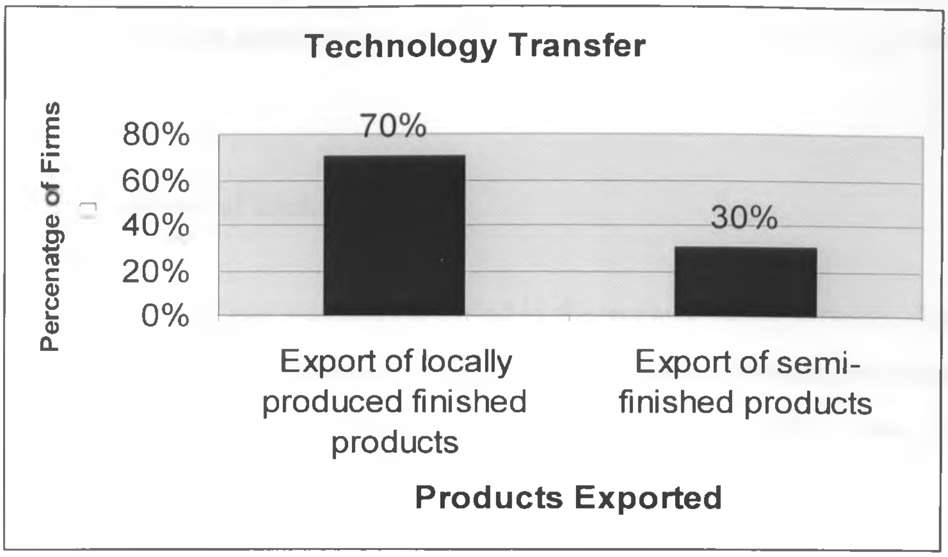
Table 7



4. Technology Transfer

70% of the firms in the EPZs are engaged in the export of locally produced finished goods and the other 30% export semi-finished products.

Table 8



70% of the firms are labour intensive and 30% are capital intensive.

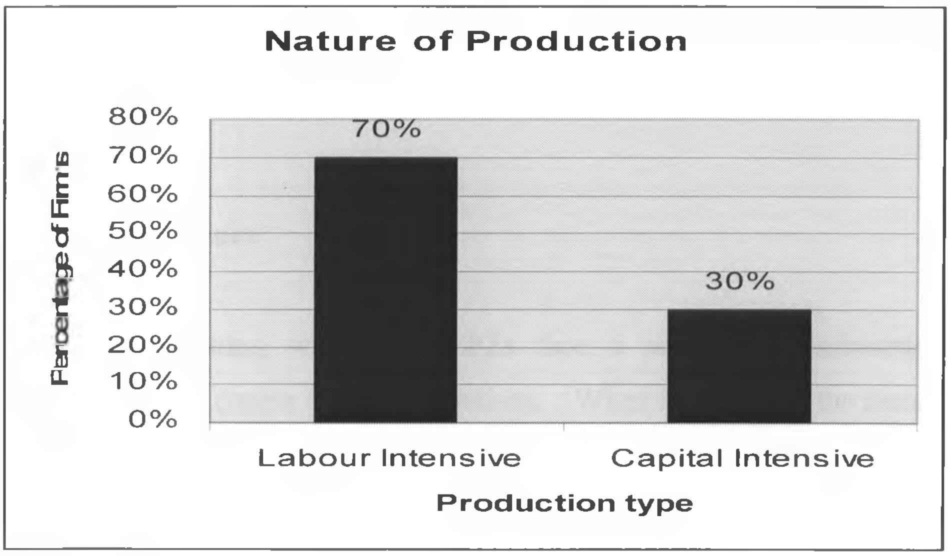


Table 9

Machinery utilised in the production process is made in China, Japan, the united Kingdom, Germany, the Far East namely Singapore and Hong Kong, the United States of America, Italy and other European countries. 50% of the firms source some of their machine parts locally. The technicians and machine operators employed to operate and maintain the machines are trained locally.

5. Creation of Linkages

A wide variety of raw materials are used in the manufacturing process. These include gemstones, fresh flowers, fabric, thread, zippers, buttons, levamisole, oxycyclozanide, PVC, bulb heads, sockets, zinc cans, tin plates, sisal, chip board, steel and adhesive.

Rubies, fresh flowers, sisal and chip board are locally sourced. 17% of the fabric, thread, zippers and buttons used in the garment industry are imported from Mauritius, India, Hong Kong, Singapore, Malaysia, China and Taiwan. Zippers are also imported from Swaziland. 17% of the adhesive and steel used come form the United Kingdom.

6. Other Issues

The firms operating within the EPZs face a number of infrastructural challenges in the course of their operations. When interviewed the managers of the firms state that the expenses incurred due to infrastructural limitations are colossal. The power rationing experienced in 1999 – 2000 coupled with frequent interruptions to electricity supply led to high expenditure in installing private power generators. These were unplanned for expenses which resulted in an increase in the financial expenditure of the firms.

Telecommunication services are said to be high. There are regular disconnections and prolonged delays in reconnecting services.

The poor state of the roads leads to delays in transporting of raw materials to the zones and the finished product from the zones. There are also complaints of wear and tear to vehicles due to the poor state of the roads. A lot of expenses are therefore incurred in the maintenance and repair of these vehicles.

As regards working capital 70% of the firms state that it is relatively easy albeit expensive to obtain working capital in Kenya. The remaining 30% state that it is difficult but possible to get access to working capital.

All the managers interviewed are familiar with the Export Processing Zone Act. They add that the EPZA is always ready to clarify aspects of the Act that they may need clarification to as and when they request.

3.3 Limitations of the Study

- It proved very difficult to secure an appointment with the General Managers or their equivalents in any of the firms to administer the questionnaire.
- Those eventually contacted were reluctant to respond to the questionnaire citing time constraints
- Some respondents were not comfortable divulging certain information, citing confidentiality. Thus certain sections went answered
- Gaining access to the zones without definite appointments from the managers of the firms
- Receiving questionnaires within the stipulated time period

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

The government of Kenya through the Export Processing Zones Authority has developed a generous set of incentives and low costs to entry to attract simple processing and assembly type industries to invest in the Export Processing Zones.

The EPZ firms' activities are mainly processing and assembly work in the electronics, footwear and garments industries. These industries use basic technology and thus require a low skill workforce. Kenya has an abundant supply of labour, which then tends to keep the wages down. High labour turnover is not a problem because replacements are abundant.

Due to the labour intensive nature of the assembly and processing activities, the firms see labour as a cost to contain rather than an asset to develop. They are therefore reluctant to invest in new skills, technology or productivity improvements. They only provide the bare minimum benefits to their employees. It is recommended that the EPZA develops appropriate human resource development strategies that will oblige EPZ firms to improve productivity and upgrade the jobs.

Since the inception of the EPZ programme in Kenya more than 10 years ago, there have been cases of withdrawal from the scheme by firms that had invested heavily in Kenya. These withdrawals have mainly been caused by the inefficient and problematic infrastructure. Whereas the basic infrastructure within the zones is acceptable, the same is not the case around the country. Power rationing experienced in 1998 – 2000 led to huge investments in alternative power sources such as generators. These were expenses that had not been anticipated by the firms. The power interruptions also resulted in reduced productivity due to the prolonged black-outs. It is during this period that a number of firms withdrew from the zones and others that had indicated their interest to invest in Kenya, delayed their decision to do so.

The telecommunication sector is also highly inefficient. Prior to the introduction of the mobile phone technology, a lot of frustration was evidenced due to the delays in phone connection and reconnection and frequent disconnection. Some helplessness was felt as far as communication was concerned. The telephone costs were also seen to be quite high. This is situation that is gradually improving with the reform of the telecommunication sector.

Although the road network within the zone is good, that is not the case within the wider environment. A number of delays have been experienced when transporting raw materials to the zones and the finished products to their exit points. The poor road network has also led to high costs of maintenance and repair of the transport vehicles either owned or hired by the firms. This has led to high costs of transportation that have made the overall operating environment somewhat unfavourable.

The results of the study raise a number of issues that could be addressed in future research. Of key interest would be to determine the extent of marketing the EPZA undertakes to generate investment into the scheme. One may also want to determine what specific measures have been undertaken to reduce incidences of withdrawal from the scheme and the actual contribution of the EPZs in the overall economic development of the country.

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[ix] **'Export Processing Zones: The Social and Labour Issues'** a paper submitted for the African Regional Workshop on the Protection of Workers' Rights and Working Conditions in EPZs

[x] International Tripartite Meeting of Export Processing Zones

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'Implications of Export Processing Zones on the Economy', Richard Bohlin, Director, World Export Processing Zone Association at the XVIII International Conference of the WEPZA, Flagstaff, Arizona, USA 1998

wepza@aol.com

www.ids.ac.uk

www.transnationale.org

www.epza.co.ke

	COMPANY	ACTIVITY / PRODUCT	STATUS	LOCATION
1	Ali Taha EPZ Ltd	Cotton/ Woollen fibre, Electronic products	Setting up	Athi River
2	Birch Investments EPZ Ltd	Garments	Operational	Mombasa
3	De La Rue Security Printers EPZ Ltd	Currency & Security Printers	Operational	Ruaraka
4	East African Gas Co. Ltd	LPG	Setting up	Mombasa
5	East African Molasses EPZ Ltd	Bitumen, Lubricants, Petrochemicals, lease of godowns	Operational	Mombasa
6	Rupa Cotton Mills EPZ Ltd	Cotton Yarn	Reopening	Athi River
7	Equitea EPZ Ltd	Agro Processing - packed tea (Livingstone)	Operational	Mombasa
8	Golden Light EPZ Ltd	Electronic Products (Batteries, bulbs)	Operational	Nairobi
9	Indigo Garments EPZ Ltd	Garments	Operational	Nairobi
10	Insight Digital Graphics EPZ Ltd	Digital Prints	Operational	Nairobi
11	Ivee Aqua EPZ Ltd	Pharmaceuticals	Operational	Athi River
12	JAR Kenya EPZ Ltd	Garments	Operational	Nairobi
13	Kenap EPZ Ltd	Garments	Operational	Athi River
14	Kenya Vegext EPZ Ltd	Agro Processing - Vegetable Tanning	Setting up	Athi River
15	Kenyava Web Design EPZ Ltd	Software Development	Operational	Nairobi
16	Legend Technologies EPZ Ltd	Electronics	Operational	Nairobi
17	Logistics Container Centre (Msa) EPZ	Container Repair	Operational	Mombasa
18	Newcal Technologies EPZ Ltd	Electronics	Seasonally Operated	Athi River
19	Nodor Kenya EPZ Ltd	Darts Boards	Operational	Athi River
20	Norbrook Africa EPZ Ltd	Pharmaceuticals	Operational	Athi River
21	Ol Tanking EPZ Ltd	Bitumen	Operational	Mombasa
22	Pwani EPZ Ltd	Edible Oil	Operational	Mombasa
23	Rayven EPZ Ltd	Electronics	Operational	Nairobi
24	Rosavie EPZ Ltd	Agro Processing - flowers	Operational	Nairobi
25	Transfleet EPZ Ltd	Garments	Operational	Athi River
26	Tristar EPZ Ltd	Garments	Operational	Athi River
27	Indu Farm EPZ Ltd	Agro Processing - Fruits & Vegetables	Operational	Nairobi
28	Sisaltex EPZ Ltd	Sisal Buff	Non Operational	Nairobi
29	Kentex Apparels EPZ Ltd	Garments	Operational	Nairobi

	COMPANY	ACTIVITY / PRODUCT	STATUS	LOCATION
30	Upan Wasana	Garments	Operational	Nairobi
31	Far East Technologies EPZ Ltd	Electronics	Licenced to Operate	Athi River
32	Kappric Apparels EPZ Ltd	Garments	Operational	Mombasa
33	Kilimanjaro EA Trading EPZ Ltd	Wolen Fabrics	Operational	Athi River
34	Themescape Movies EPZ Ltd	Films	Licenced to Operate	Nairobi
35	Muthama Gemstones EPZ Ltd	Gemstones	Operational	Athi River
36	Film Studios EPZ Ltd	Films	Operational	Athi River
37	Ashton Apparels EPZ Ltd	Garments	Operational	Mombasa
38	Sameer Industrial Park EPZ Ltd	Lease of industrial buildings	Operational	Nairobi
39	Rafiki EPZ Ltd	Lease of industrial buildings	Operational	Nairobi
40	Plastic Compounders EPZ Ltd	PVC Compounds	Licenced to Operate	Mombasa
41	Golden Sun EPZ Ltd	Fish Processing	Undeveloped	Malindi
42	Kingorani EPZ Ltd	Lease of industrial buildings		Mombasa
43	Real Industrial Park EPZ Ltd	Lease of industrial buildings	Undeveloped	Nairobi
44	Josem Trust EPZ Ltd	Distilling & Bottling Wine	Undeveloped	Nairobi
45	Coast Industrial Park EPZ Ltd	Lease of industrial buildings		Mombasa
46	Athi River EPZ Ltd	Lease of industrial buildings	Operational	Athi River
47	California Link EPZ Ltd	Garments	Operational	Mombasa
48	Union Apparels EPZ Ltd	Garments	Operational	Mombasa
49	Lihua Garments EPZ Ltd	Garments	Operational	Athi River
50	MRC Nairobi EPZ Ltd	Garments	Setting up	Athi River
51	Embakasi EPZ Ltd	Lease of industrial buildings	Unoccupied	Nairobi
52	Sino Link EPZ Ltd	Garments	Setting up	Mombasa
53	Premium Machinery Distributors	Import and sale of sewing machines	Not Operational	Nairobi
54	Emirates Agencies EPZ Ltd	Garments		Mombasa
55	Protex EPZ Ltd	Garments	Setting up	Athi River
56	Mirage Fashion Wear EPZ Ltd	Garments	Setting up	Athi River
57	Global Apparels (K) Ltd	Garments	Setting up	Athi River
58	Sahara Stitch EPZ Ltd	Garments	Setting up	Athi River

	COMPANY	ACTIVITY / PRODUCT	STATUS	LOCATION
59	Twin Leaves EPZ Ltd	Tea blending & packaging	Licenced to Operate	Mombasa
60	Cybel Agric EPZ Ltd	Veterinary Products	Licenced to Operate	Athi River
61	Sinlane EPZLtd	Garments	Setting up	Mombasa

QUESTIONNAIRE

SECTION 1: GENERAL COMPANY INFORMATION

1 Please provide the following particulars of your organization:

Name: ____________________

Address: ____________________

Location: ____________________

2 What is the home country of your Company?

____

3 How did you get to know about Export Processing Zones in Kenya?
(Tick where appropriate)

Trade Fairs ☐

Newspapers and Journals ☐

Internet ☐

Business Contacts ☐

Others (specify) ____________________

____

4 In which year did your firm begin operations in Kenya?

____

5 How would you rate the following factors in making your decision to invest in Kenya?
(Tick the appropriate response)

<u>KEY</u>

1 Very important
2 Important
3 Somewhat important
4 Not important
5 Totally unimportant

	1	2	3	4	5
TAX INCENTIVES					
1. 10 Year Corporate Tax Holiday	☐	☐	☐	☐	☐
2. Perpetual exemption of duty on company inputs	☐	☐	☐	☐	☐
3. Perpetual exemption of VAT on company inputs	☐	☐	☐	☐	☐
4. 10 year withholding tax holiday	☐	☐	☐	☐	☐
FACILITATION					
5. Rapid project approval and licensing	☐	☐	☐	☐	☐
6. Assistance given in obtaining work permits for all staff	☐	☐	☐	☐	☐
COUNTRY CHARACTERISTICS					
7. Political stability	☐	☐	☐	☐	☐
8. Availability of raw materials	☐	☐	☐	☐	☐
9. Availability of labour	☐	☐	☐	☐	☐
10. Infrastructure in the country	☐	☐	☐	☐	☐
11. Infrastructure in the zone	☐	☐	☐	☐	☐
12. Security situation of the country	☐	☐	☐	☐	☐
13. Location of EPZ	☐	☐	☐	☐	☐

14. What other factors would be important in your decision to invest in EPZs in Kenya?

____

____

____

15. On a scale of 1-5 with (1 being the least and 5 the most important), how would you rank the following incentives in order of their importance to you as relates to your decision to invest in Kenya?

1. 10 Year Corporate Tax Holiday ☐
2. Perpetual exemption of duty on company inputs ☐
3. Perpetual exemption of VAT on company inputs ☐
4. 10 year withholding tax holiday ☐
5. Rapid project approval and licensing ☐
6. Assistance given in obtaining work permits for all staff ☐
7. Political stability ☐
8. Availability of raw materials ☐
9. Availability of labour ☐
10. Infrastructure in the country ☐
11. Infrastructure in the zone ☐
12. Security situation of the country ☐
13. Location of EPZ ☐

SECTION 2: EMPLOYMENT GENERATION

1 What is the total number of employees in your organisation?

____

2 How many employees do you have in each of the following categories?

		Male	Female
a	Kenyan	☐	☐
b	Non Kenyan	☐	☐
e	Managerial / Professional	☐	☐
f	Permanent employees	☐	☐
g	Seasonal / casual / temporary	☐	☐

3 What is the minimum level of education of employees in these categories?

Managerial / Professional cadres:

I Accountants ____________________

ii HR Officers ____________________

iii Marketing ____________________

iv Logistics ____________________

v Manufacturing ____________________

Shop floor workers:

I Machine operators

ii Others (specify): ii ____________________

iii ____________________

iv ____________________

v ____________________

Others:

I Storekeepers ____________________

ii Transport officers ____________________

iii Secretaries ____________________

SECTION 3: FOREIGN EXCHANGE EARNINGS THROUGH EXPORT OF NON-TRADITIONAL EXPORT PRODUCTS

1 What is the nature of your business? (e.g. manufacture/processing/export of raw material or finished products)

____

____

____

2 What was the total quantity of your exports over the last five years(ie 1996-2000)?

Year	Quantity
1996	

1997	
1998	
1999	
2000	

3 Which of the following is the major export destination of your products?

USA ☐

Europe ☐

Africa ☐

Asia ☐

Middle East ☐

Others ______________________

4 What was the quantity of your exports to each of the following markets over the years indicated below?

MARKET	2000	1999	1998	1997	1996
USA					
Europe					
Africa					
Asia					
Middle East					

SECTION 4: TECHNOLOGY TRANSFER

1 How would you describe the nature of your exports to Kenya?

Export of locally produced finished products ☐

Export of semi-finished products ☐

Other (specify) ______________________

2 What is the nature of your operations?

Labour intensive? ☐

Capital intensive? ☐

Other (specify) ____________________

____

3 Where does the machinery you use in your production process come from?

____

4 Do you use any local machinery?

Yes ☐

No ☐

5 Are any of the machine parts sourced locally?

Yes ☐

No ☐

6 Where are the technicians and machine operators employed by you trained?

Kenya ☐

East African Region ☐

Africa ☐

Asia ☐

Europe ☐

North & South America ☐

SECTION 5:CREATION OF LINKAGES

1 What raw materials do you use in the manufacture of your products?

____

____

____

____

2 Where do you get your raw materials from?

Raw Material	Location
______________	____________________
______________	____________________

SECTION 6:OTHER

1 What infrastructural problems do you face as relates to:

(a) Electricity supply: ______________________

____

____

(b) Telecommunication services:

____

____

____

(c) Water supply: ______________________

____

____

(d) Road network: ______________________

____

____

2 How would you describe the ease of obtaining working capital locally?

Relatively easy ☐

Difficult but possible ☐

Impossible ☐

3 (a) Are you familiar with the Export Processing Zone Act?

Yes ☐

No ☐

(b) Are there any sections of this act that you recommend for change?

Yes ☐

No ☐

(c) Which sections would you recommend changes to and what changes would you recommend to the particular sections?

____

____

____

____

4 Any other comments that you may have:

____

____

____

____

____