

**THE IMPACT OF THE LOCATION OF EXPORT PROCESSING  
ZONES ON THE LOCAL COMMUNITIES: THE CASE STUDY OF  
ATHI RIVER**

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# DECLARATION

I, the undersigned, declare that this project is my original work and that it has not been presented in any other university or institution for academic credit.

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This project has been submitted for examination with my approval as the candidate's university supervisor.

**Signature.....**

**Date.....**

**DR. JOSHUA KIVUVA**

## **DEDICATION**

I dedicate this work to my wife Margaret K. Muia, son Roy Munyao, and daughters Diana Ndunge, Esther Mwikali, and Sylvia Nduku.

I also dedicate this work to my late father, Isaiah Munyao Nditu and My late Mother, Elizabeth Ndunge Munyao who gave me the gift of life and quality education.

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I personally take responsibility for any error or omission or commission in the study.

## **ABSTRACT**

Export Processing Zones (EPZs) not only have an impact on the domestic economy of host countries but also on the local communities where they are located. This study therefore set out to examine and investigate the impact of the location EPZs on the local communities in Athi River Constituency. The study argues that the location of EPZs attracts the establishment of various amenities (initially by the government) as a way of creating an enabling environment for investment for the EPZs.

The location of EPZ came with a takeoff package that was non-excludable in nature which benefited the local communities. The study also argues that the creation of an enabling environment in the EPZs caused an influx of population which opened up the area for further development and attracted other communities (service providers) to provide for their emerging demands.

The study concludes that the location of EPZs in Athi River largely benefited local communities through the takeoff package of development, through the influx of population due to the presence of the zones in the area, and through the creation of new investment, business and employment opportunities emanating from emerging demands of the local communities.

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# LIST OF ACRONYMS

ACET	African Centre for Economic Transformation
AGOA	African Growth and Opportunity Act
APA	American Psychological Association
BRC	British Retail Consortium
CMC	Cooper Motor Corporation
C-PTAT	Customs Trade Partnership against Terrorism
EAC	East African Community
EBA	Export Business Accelerator project
EFI	Efficient Fuel Injection
EPZ	Export Processing Zone
EPZA	Export Processing Zones Authority
EPZs	Export Processing Zones
ERS	Economic Recovery Strategy for Employment and Wealth Creation
FDI	Foreign Direct Investment
FDIs	Foreign Direct Investments
FSMS	Food Safety Management Systems
GDP	Gross Domestic Product
GMP	Good Manufacturing Practice
GOK	Government of Kenya
HACCP	Hazard Analyses Critical Control Point
IDA	International Development Agency
ILO	International Labour Organization
ISO	International Standards Organization
ITMS	Integrated Trade Management System
KAM	Kenya Association of Manufacturers
KCA	Kenya College of Accountancy
KEBs	Kenya Bureau of Standards
KIA	Kenya Institute of Administration
KPA	Kenya Ports Authority

KPLC	Kenya Power and Lighting Company Limited
KRA	Kenya Revenue authority
KSG	Kenya School of Government
LaRRI	Labour Resource and Research Institute
MAWASCO	Mavoko Water and Sewerage Company
MNC	Multi-National Corporation
MNCs	Multi-National Corporations
NEMA	National Environmental Management Authority
NGOs	Non Governmental Organizations
NHIF	National Health Insurance Fund
NICC	National Chamber of Commerce and Industry
NICC	National Chamber of Commerce and Industry
NSSF	National Security Social Fund
PLCs	Public Liability Companies
PRSP	Poverty Reduction Strategy Programme
QMS	Quality Management System
R&D	Research and Development
SAPs	Structural Adjustment Programmes
SEZs	Special Economic Zones
TDC	Technology Development Centre
UNCTAD	United Nations Conference on Trade and Development
V2030	Vision 2030
VAT	Value Added Tax
VVTI	Variable Value Timing with Intelligence

# CHAPTER 1

## Background of the Study

### 1.0 Introduction

Since the Export Processing Zones (EPZs) were introduced to manufacture for exports developing countries have used them to solve many of their pressing problems: unemployment; limited exports; limited revenue and foreign exchange earnings; limited, and at times, obsolete technology and technology transfers (Armas and Sadni-Jallab, 2002); and, shortage of local entrepreneurship skills. The introduction of EPZs was also expected to bring about technological spill-overs, increased competition, help in the development of local and indigenous entrepreneurial base; increase use of local raw materials, and, sub-contracting of local suppliers and service providers (Matambalya, 2007). This was meant to enable host countries enjoy the economics of scale, which would transform them and propel them to developed status (Madani, 1991). Further, EPZs were to be key instruments for empowerment through increased foreign trade especially in non-traditional exports (Battacharya, 1998).

This was expected to be the case for countries in Asia, Latin America and Africa. In Asia, EPZs have concentrated on employment creation, technology transfer, the utilization of local raw material inputs and sub-contracting to local enterprises. For example, in Bangladesh, EPZs were designed to link the country to the global supply chain; attract export oriented investments; and community empowerment through job creation; diversification and expansion of exports. To attract more EPZs to the continent, Asian countries invested heavily in human and physical capital which was an important factor leading to Asia's economic success (Akyuz and Gore, 2001). This was also the case in Bangladesh, Korea, Malaysia, and Philippines.

In Latin America, EPZs are concentrated in Mexico, Brazil and the Dominican Republic and targeted employment creation and technology transfer. For example, in the three countries, EPZs employment accounted for over 90% of the total employment in 1986.

In Africa, EPZs are concentrated mainly in Egypt, Tunisia, Mauritius and Kenya, and were meant to increase employment, foreign trade especially in non-traditional exports, technology transfer and the utilization of local raw materials. In 1986, for example, EPZs employment in Egypt, Tunisia and Mauritius represented over 95% of total employment (Madani, 1999). Of the EPZs in Africa, Mauritius is the most successful and has been used as a model. EPZs here enabled a small isolated island develop an industrial base that has virtually wiped out unemployment in the country.

Mauritius adopted an official, liberal Foreign Direct Investment (FDI) policy with the establishment of the EPZ in 1971 (Ancharaz, 2003). According to Subramanian the success of EPZs in Mauritius are the result of duty free access provided to all imported input, a variety of tax incentives was provided to firms operating in the export processing zones, which had the effect of subsidizing exports. This ensured that the export sector's competitiveness on world markets was not undermined by domestic taxes that could have raised the cost of inputs used in export production and managed to maintain neutrality of incentives between the export and import-competing sectors. This was achieved through a high level of intervention on both imports and exports. On the one hand, imports were restricted through high trade barriers while on the other, to offset this intervention, extensive and selective intervention occurred on the export side. In this sense, it appeared to follow the approach of Korea, Taiwan, and Japan rather than that of Singapore and Hong Kong (Subramanian, 2009).

Developing countries were so convinced of the benefits associated with the introduction of EPZs that they were willing to provide EPZ investors with generous incentives most notable being: tax holidays and provision of the necessary infrastructure. Specifically, developing countries enticed EPZ investors with years of corporate tax holiday, 100% investment allowance on initial investment, exemption from custom and excise duties; waivers on import duties on machinery, equipment and other industrial inputs, exemption on local trade, rent, tenancy controls and production, protection from competition and, provision of infrastructural facilities.

Despite generous incentives, the operations of EPZs have produced mixed results and the levels of success have varied from county to country and among different EPZs. While countries like Malaysia and Mauritius have had great successes with EPZs, others like Egypt, Tunisia and even in Kenya have not been as successful. As a result, in many of these countries, the incentives provided ended up costing host countries the meagre resources they were meant to create. Host countries ended up spending much more than the EPZs brought with them, making critics question whether it was a worthwhile expenditure.

## **1.1 Statement of the Problem**

Since EPZs were introduced in 1990 through an Act of Parliament, EPZ Act Cap 517, Laws of Kenya. Kenya's EPZs have targeted increasing exports, (especially for non traditional exports), foreign exchange earnings, Foreign Direct Investments (FDIs), employment, technology transfer, skill spillovers, utilization of local raw material inputs, value addition, and, sub-contracting to local enterprises for services and supply of inputs. Like elsewhere in the developing countries, to attract them, Kenya provided EPZ investors with a wide range of incentives, among them: a 10-year corporate income tax holiday; followed by a 25% rate for the next 10 years; 10 year exemption from all withholding taxes; exemption from import duties on machinery, raw materials, and other industrial inputs; exemption from stamp duty and VAT on raw materials and machinery; 100% investment allowance on plant, machinery, equipment and buildings; exemption of the products from export taxes and levies; remission of import duty and VAT on raw materials used in the manufacture of export goods; and, remission of excise duty on fuel oil and kerosene.(Ken Invest Publication: 2000)

Despite the generous tax incentives, the performance of Kenya's EPZs has been dismal, with the exception of a Dartboard manufacturer and several garment enterprises enjoying easy access to the American market through the African Growth Opportunity Act (AGOA) whose future is in doubt. Kenya's EPZs have also not employed a huge number of people and despite the introduction of EPZs in Kenya, the country continues to attract low FDI, at only Kshs. 22 billion (US\$ 244 million). The EPZ in Athi River by 2012 had

43 operating companies which had employed 13,226 persons. The total export from the zone in 2012 was Kshs 12,934 million ((Tax Justice Network-Africa& Action Aid International: 2012).

Further, it is estimated that Kenya loses over Kshs 100 billion (US\$ 1.1 billion) a year from all tax incentives and exemptions provided to EPZ which amount to about 3.1% of Kenya's GDP (Tax Justice Network-Africa& Action Aid International: 2012). Most of these losses came from VAT exemptions. Government figures also show that losses from trade-related tax incentives, including those provided in the EPZs, were at least Kshs 12 billion (US\$ 133 million) in 2007/08. Still other figures, from the East African Community (EAC) Secretariat, show that Kenya lost US\$ 566.9 million in 2008 from import duty exemptions alone.

This raises a number of questions why the government continues to invite EPZs and provide them with incentives even when the benefits are limited. What this means is that there are other benefits that the country and local communities accrue with the presence of an EPZ in an area. Some of these things include: infrastructure development like roads, systems of communication, amenities like electricity, communication infrastructure, supply of water, mushrooming of town, and flux of cheap skilled labour, rudimentary technology; all of which open up the area to investors as well as proving the necessary "takeoff" factors for the community in the process increases the value of land, makes the area more attractive to investment. The purpose of this study therefore is to examine the extent to which the location of EPZs in a particular area benefits the local communities. Specifically, the study answers the following question.

1. To what extent has the location of EPZs in Athi River influenced development of amenities for the local communities?

## **1.3 Objective of the Study**

The objective of the study are to examine the benefits that have accrued to the local community as a result of the location of EPZs Athi River. Specifically, the study seeks to:

- i. Examine the extent to which the location of EPZs in Athi River has influenced the development of amenities for the local communities.

## **1.4 Justification of the Study**

Studies on EPZs in Kenya and East Africa in general have been inconsistent. This has made it quite difficult to correctly quantify the entire impact and full contribution of the location of an EPZ in an area to the local community. Most of the studies (Jayanthakumaran, 2003; Jenkins, Esquivel, & Larrain, 1998; Spinanger 1984; Warr 1989 and 1990) carried out excessively rely on the econometric analysis based on a purely cost-benefit analysis, which tends to downplay the social and other non-quantifiable impacts of EPZs. Econometric indicators and data used to assess EPZ performance does not capture the whole spectrum of social and other indirect economic benefits to the local communities or tends to exaggerate the costs and downplay the benefits. This study will try to fill this gap by examining further the benefits accrued from the location of EPZ in Athi River to the local communities.

The researcher chose Athi River because it was the first EPZ zone to be established in Kenya and was provided with generous incentives. Therefore it was expected to produce high returns at both the national as well as at the local community level. The study will inform policy makers on the evaluation of proposed and potential EPZ projects to determine all the benefits accrued to such projects before approval. The study will also inform government technocrats on the importance of not purely relying on econometric analysis during evaluation of performance of EPZs. The technocrats should also investigate the social and non-quantifiable impacts and benefits which are occasioned by the location of the EPZs to the local community.

The researcher also chose Athi River due to its cosmopolitan nature of the society. This will offer a diverse cross section of the local communities. The study will therefore examine the extent to which the location of EPZs in Athi River has influences the development of amenities in the area.

## **1.5 Scope and Limitation of the Study**

The study is limited to Athi River, Mavoko Municipality because Athi River Export Processing Zones are the oldest in Kenya. The Athi River EPZ was established in 1991, immediately after the enactment of the EPZ Act, Cap 517 of 1990 Laws of Kenya. The study focused on the EPZ in Athi River because it was developed by the government unlike most other EPZs in Kenya.

Although, there is a lot of information available on the EPZ sector, this study will limit itself to the information which would help in assessing the impact of the location of the EPZs on the local community in the area.

Limited resources and time constraints also informed the researcher to identify the Athi River EPZ due to its proximity to Nairobi where the researcher resides. Other limitations include fear among the target respondents in providing information especially by thinking that the information is meant to victimize and prejudice their operations. All participants will be assured of full confidentiality of the information gathered and that it will only be used for academic purposes.

Securing the respondents time to fill in the questionnaires and be interviewed due to their busy schedules is also expected to be a challenge. Prior arrangements and appointments will be made with the participants for the interviews and when it is not possible to fill the questionnaires on the spot, arrangements will be made to collect them later.

## **1.6 Definitions of Concepts**

**1.6.1 Export Processing Zone:** means a designated part of Kenya where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the customs territory but are duly restricted by controlled access and wherein the benefits provided under the EPZ Act, Cap 517,



Laws of Kenya. Conceptually an EPZ is characterized as a geographic area within a territory of a country where economic activities of certain kinds are promoted by a set of policy instruments that are not generally applicable to the rest of the country.

**1.6.2 Export Processing Zone Enterprise:** a corporate body that include a developer or an export processing zone operator, which has been granted a license under the EPZ Act.

**1.6.3 Amenities:** A desirable or useful feature or facility of a place that contributes to physical or material comfort, easy and pleasant to live in. It also increases attractiveness or value, especially of a piece of real estate or a geographic location. Amenities are of two types: those that are services oriented and those that are infrastructural nature.

**1.6.4 Service Amenities:** Service amenities include water, banks, educational institutions, health facilities and others

**1.6.5 Infrastructure Amenities** These Include roads, electricity, and sewerage and drainage.

**1.6.6 Local communities:** A group of people living in the same locality, under the same jurisdiction and sharing a number of characteristics. The study identifies two broad categories of communities in Athi River. These are the primary communities and the secondary communities.

**1.6.7 Primary Communities:** These are the ones that the original amenities were meant to serve. This includes the Export Processing Zone which was the original target for the benefits. They also include property and business owners whose value of property has appreciated.

**1.6.8 Secondary Communities:** These are the ones which have emerged in Athi River as a result of the location of the EPZ in the area. These include second generation property owners, investors and business community, informal traders and service providers.

**1.6.9 Manufacture:** Includes (a) the conversion of organic or inorganic material by manual, mechanical, chemical or biochemical means into a new product by changing the size, shape, composition, nature or quality of such material; and (b) assembly of parts into pieces of machinery or other products.

## **1.7 Literature Review**

The contribution of EPZs to the overall development in the host economy continues to elicit controversy (Kardoosh, 2004) while their effectiveness in developing countries has been debated for decades. Those in support of EPZs, for example, (Haywood, 2000) assert that the zone concept is so “powerful, that more and more countries are recognizing a new paradigm of free zones.” While the old free zone was often described as a static, labour-intensive, exploitative enclave, the new zone paradigm is a dynamic, investment-intensive, management-driven, enabling, and integrated economic development tool” (Haywood, 2000). EPZs have also been identified as one of several possible factors helping developing countries to increase non-traditional exports (Rhee and Belot, 1999).

According to (Madani, 1999), there are four competing views on the role of EPZ in an economy. One considers it as an integral part to further economy wide reforms, where EPZs are said to have a specific life span, losing their significance as countries implement systemic trade, macroeconomic and exchange rate reforms. A second view

sees EPZ in terms of a safety valve. They provide much-needed foreign currency to accommodate import needs for the host nation and create jobs to alleviate some of the national unemployment or underemployment. A third view is that EPZ can be used as laboratories to experiment with market economy, outward oriented policies. Finally, all these views still consider the EPZ as a source of technological transfers and human capital development.

However, this static analysis takes no account of potential distribution effects due to revenue transfers. Net estimated benefits include the net gain of the host country with regard to employment, foreign exchange gains, a more intensive use of local primary goods and equipment, as well as, in some cases, fiscal revenues. The costs are largely of an administrative and technical nature (expenses linked to the maintenance and the operation of EPZ infrastructure).

In the voluminous literature on this subject, three strands of thought stand out: classical theorists based on the Cost-Benefit Analysis; the neo-classical theorists; and, the new growth theorists.

### **1.7.1 Classical Scholars**

The classical scholars of EPZs are based on conventional Cost-Benefit analysis that claims that it is possible to identify and quantify the benefits and costs of any project. The scholars underline the positive returns generated by EPZs, mainly: foreign exchange earnings; and, employment (Jayanthakumaran, 2003; Jenkins, Esquivel, & Larrain, 1998; Warr, 1989) pointing out that the benefits of EPZs outweigh the cost incurred by the host countries (Spinanger 1984; Warr 1989 and 1990). EPZs have also been used as a strategy for kick-starting industrialization leading to the creation of more job opportunities; generated income; attracted more foreign capital (Engman et al 2007). Studying four zones in Malaysia, Indonesia, Korea and the Philippines, (Chen,1993), (Jayanthakumaran and Weiss, 1997) and (Kardoosh, 2004) concluded that three of them achieved positive internal rates of return while the Bataan Zone in the Philippines showed negative returns.

(Cling and Letilly, 2001), contend that EPZs have led to technology transfer; increased foreign exchange; and, capacity building.

To Schrank (2001), EPZs reconcile the otherwise conflicting interests of developing country officials who need to generate jobs and foreign-exchange revenues, foreign manufacturers who need to import essential inputs duty free and make profits and local manufacturers who are unable to compete in world markets. In his view, EPZs are designed to attract export-oriented light industry and to shield the domestic industry from unfair competition. These classical theorists show the extent to which these benefits outweigh the costs or failures of EPZs. Some of these costs or failure include: infrastructure expenses, public services provided, access to preferential financing and administrative costs, marginal employment (Warr, 1989); low FDI; absent linkages with the domestic economy; and, limited foreign exchange contribution (Baissac, 2003).

Warr (1989) conducted a cost-benefit analysis measuring the net benefit from the presence of a zone as opposed to the gain that could occur if those resources were used elsewhere in the economy. He calculated a benefit and cost stream for several years and discounted this using an estimated social discount rate. The benefits that were considered included net foreign exchange earnings, employment generation, revenue raised from renting or selling factory space, domestic material sold and taxes raised. The main costs considered were tax holidays, incentives and cost of infrastructure. The author concluded that foreign exchange and employment generation were the most important sources of benefits to the economy while infrastructure and administrative costs were the main cost factors.

### **1.7.2 Neo-classical Scholars**

They assert that the establishment of an EPZ in a country is problematic (Moran, 2000) because it distorts local economies (Hamada, 1974), and has a negative welfare effect on the country by increasing its inefficiency by distorting production away from its comparative advantage (Hamada, 1974). In his seminal study based on a Heckscher–Ohlin model, Hamada demonstrated that the establishment of an EPZ leads to specialization that runs contrary to the host country's real comparative advantages and tends to reduce

national well-being (Hamanda, 1974). Kaplinsky (1993) argues that in the Dominican Republic, EPZs led to stagnant growth while Moran (2000) observed that EPZs have very problematic records.

Jayanthakumaran (2002) presents a number of overarching objectives for established EPZs. In Singapore, EPZs were used to attract investment in an economy already free of trade restrictions. Transition economies such as Malaysia, Korea, Chinese Taipei, and Thailand used EPZs as a catalyst to shift from inward to outward-oriented policies. While EPZs in Korea and Chinese Taipei evolved and integrated well in the domestic economies.

Jayanthkumaran (2003) found that “EPZs generated only limited number of backward linkages to the host county’s economy. Tekere (2000) also concluded that “there are virtually no successful examples of EPZs in Africa other than Mauritius and that as second best development strategy, EPZs have become irrelevant and outlived their viability” other neoclassical economists consider that the creation of EPZs improves a country’s well-being, Miyagiwa, (1986); Young & Miyagiwa, (1987).

### **1.7.3 The New Growth Scholars**

The new growth scholars argue that the neo-classical approach does not take into account the zone’s possible catalytic and spill-over effects on the host country. This theory reaffirms that economic, social and political institutions have a key role to play in the development process, Aggarwal, (2005). Three tendencies may be distinguished in this school. First, there is a long and distinguished line of theorizing that emphasizes the role of FDI as an important vehicle for technology transfer. Apart from capital (financial as well as material), foreign companies bring in advanced production technology, skills, and management for domestic firms and potential or actual entrepreneurs to learn from and copy. In light of the human capital enhancement, Johansson demonstrates the catalytic effects of the zones and therefore advocates amending the originally negative neo-classical assessment of the impacts of EPZs on the host country to a more community oriented assessment. (Johansson, 1994).

The new growth theory stresses on the effects of the potential externalities of EPZs on the host economy, such as learning effects, human capital development, and demonstration effects, Johansson, (1994); Johansson & Nilsson, (1994). Devereux and Chen, (1995) argue that EPZs are likely to be welfare-improving under a much wider variety of circumstances than previously believed. The long-term success of EPZ-led development rests on the ability of host countries to seize the foreign trade demand in order to direct resources to higher-productivity areas. Theoretically, an increase in profits, higher productivity and revenue earnings can then translate into higher living standards, assuming workers manage to capture a portion of the surplus, (ILO, 2008).

According to Engman et al, (2007), EPZs play a useful role in a country's socio-political and economic development: they spearhead for reform when integrated in the overall national strategy; reduce anti export bias of high tariffs; facilitate the creation of an export industry; technology transfer; improve a country's trade balance; and, complemented with other development policies. EPZs are particularly useful for countries that undertake progressive trade liberalization and industrialization strategies. While this may still hold in some countries, others have designed more forward looking policies, managed to better integrate the EPZ in the national economy, and in the end use the EPZs as a tool for national reform and development.

#### **1.7.4 The African Experience**

With the exception of Mauritius, and Madagascar, the performance of EPZs in African is on the whole negative. In 1995, Namibia passed its EPZ Act. Four years later, The Labor Resource and Research Institute (LaRRI) carried a study to assess the socio-economic impact of Namibia's EPZ program. This study revealed that Namibia had come short of the expectation in terms of the EPZ program. The government anticipated creating 25,000 jobs by the end of 1999. The actual number of jobs created at the time of the study was 400. The study carried out by LaRRI unravelled poor labour conditions that could lead to future conflicts. LaRRI, (2000). This prediction was confirmed in 2002-2003 when RAMATEX, a Chinese owned textile company producing for the US market from

Namibia had two strikes within months of each other. The reasons were poor working conditions and poor salaries, typical conditions that prevail in EPZs.

A newsletter for the Rockefeller Foundation prepared by the African Centre for Economic Transformation (ACET) concluded that West African EPZs were characterized by low absolute regression and per capita exports, 10 to 15 times smaller than in non-African EPZs. It appears that most West African EPZs failed to shift to the exponential growth path that typically occurs between 5 and 10 years of operation, with some zones even experiencing declining growth. As a result the zones have a very low density of firms compared to those in other emerging economies/markets.

Mauritius adopted an official, liberal foreign direct investment (FDI) policy with the establishment of the EPZ in 1971, (Ancharaz, 2003). The EPZ experiment in Mauritius has been a resounding success. It has helped transform the Mauritian economy, (Subramanian, 2009). Since 1982, output has grown by 19 per cent per annum on average, employment by 24 per cent, and exports by about 11 per cent. In the early part of this century, the EPZ sector from a base of zero in 1971 now accounts for 26 per cent of GDP, 36 per cent of employment, 19 per cent of capital stock, and 66 per cent of exports. According to Subramanian there are a number of factors that account for the success of EPZs in Mauritius. These are: duty free access was provided to all imported inputs. This ensured that the export sector's competitiveness on world markets was not undermined by domestic taxes that could have raised the cost of inputs used in export production; a variety of tax incentives was provided to firms operating in the export processing zones, which had the effect of subsidizing exports.

This subsidization was a key element helping to offset the impact of the implicit tax on exports created by the restrictive trade regime; the labour market for the export sector was effectively segmented from the rest of the economy (and in particular the import competing sector). Different labour market conditions prevailed at least until the mid-to-late 1980s. Employers had greater flexibility in discharging workers in the EPZ sector (for example, no severance allowances had to be paid before retrenching workers and advance notification of retrenchment to a statutory body was not required) and the

conditions of overtime work were more flexible; and, although legal minimum wages were the same in the EPZ sector as in the rest of the economy, minimum wages for women were fixed at lower levels, (Hein, 1988); (Wellisz and Saw, 1993).

In summary, Mauritius managed to maintain neutrality of incentives between the export and import-competing sectors. The neutrality of incentives was achieved through a high dose of intervention on both imports and exports, (Subramanian, 2009). On the one hand, imports were restricted through high trade barriers; on the other, to offset this intervention, extensive and selective intervention occurred on the export side. In this sense, it appeared to follow the approach of Korea, Taiwan, and Japan rather than that of Singapore and Hong Kong, (Subramanian, 2009).

The introduction of a special scheme for free zone companies in Madagascar in 1990 followed the decision to opt for an export-led growth strategy under the structural adjustment policies,(SAPs), adopted in the late 1980s in compliance with Bretton Woods Institution recommendations, (Jean-Pierre Cling, et al, 2005). The success of the Zone Franche was initially due to French investors; attracted by a French speaking environment where a large number of their compatriots had already set up businesses. Madagascar has the largest French community in Africa. Yet investors gradually became more diverse. By 1997, French investors (companies in which France has a majority holding) accounted for 46% of jobs in the Zone Franche.

### **1.7.5 The Kenyan Case**

The British colonial government in Kenya viewed local social and economic development as crucial, (Vaitsos, 1978). As a result, the economy and society revolved around the state's initiatives to enhance and support the interests of people with influence, (Vaitsos, 1978). Since the State had long controlled fiscal, monetary, trade and tariff policy matters, company formation, licenses, and exclusive privileges, it was able to grant companies exclusive rights over prime land, while assuring that local labour would be available to work on these estates, (Leys, 1975); (Zwanenberg, 1975); (Lee, 1967). The State was also able to provide tariff protection and trade policies that would allow



the processing of some agricultural commodities only for local consumption, (Leys, 1975); (Zwanenberg, 1975); (Lee, 1967).

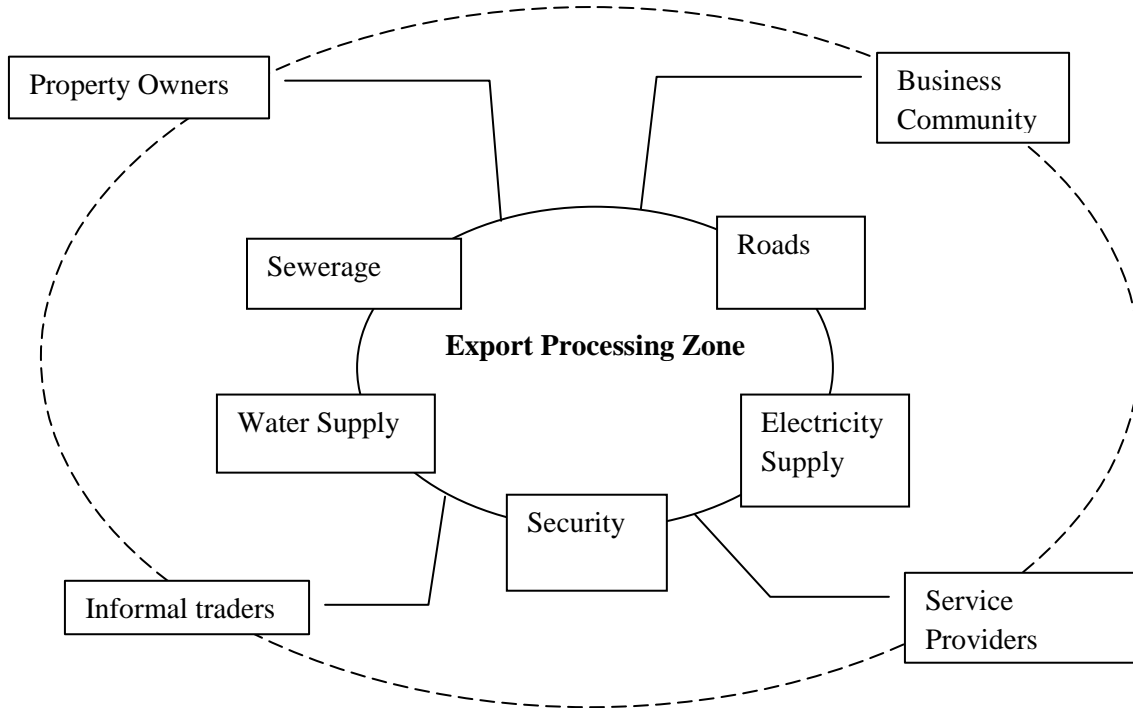
In the 1970's, controls on quantitative restrictions (QRs), high tariffs on competing imports, overvalued exchange rates, importation and licensing, domestic prices and wages were introduced, (Ng'eno, Nyangito, Ikiara, Ronge & Nyamunga, 2003). By the second half of the 1970s, an undersized Kenyan domestic market prevented further growth and caused a huge trade deficit, (Ikiara & Ndung'u, 1999); (Ronge & Nyangito, 2000). The conditionality for the country's assistance initiated the trade liberalization process, and replacement of import-substitution with export-led industrialization policies, (Ng'eno, Nyangito, Ikiara, Ronge & Nyamunga, 2003).

The major development strategies within the industrial sector are spelled out in Sessional Paper entitled African Socialism and its Application to Planning in Kenya published in 1965, Sessional paper No. 1 of 1986 on Economic Management for Renewed Growth, Poverty Reduction Strategy Paper (PRSP), Economic Recovery Strategy (ERS) structural adjustment Programmes, Sessional Paper No. 1 of 1996 on Industrial Transformation to the Year 2020, and the Eighth Development Plan for the period 1997–2001, whose Theme was 'Rapid Industrialisation for Sustained Development' and the Kenya's Vision 2030 within the context of the industrialization policy pursued since independence. These reforms seemed to mark an ideological shift in government policy away from the state to growth.

In order to stimulate exports, the government implemented export promotion incentives such as the EPZs. The introduction of these forms of export compensation, especially with the advent of liberalization and globalization, was intended to move the Kenyan economy towards a more open trade regime, with increased market access for her products and services in the global market (Republic of Kenya, ERS, 2003). The challenges encountered in Kenyan EPZs have resulted in their reduced competitiveness in the textiles market, as well as a reduction in export and sales earnings capacity (EPZA, 2006). Some of the issues faced by the EPZs are frequent policy changes and operational procedures that are implemented without adequate consultation. Additional problems

include high production and operation costs, severe market competition, and sluggish pace of labour and employment law reforms, unavailable long term industrial loans to support the sector.

## 1.8 Conceptual Framework



The concept relating to this study considers the EPZ and its takeoff amenities (roads, electricity supply, sewerage and drainage, water supply, and security) as the Independent variable. The benefits accrued from the EPZ and its takeoff amenities package to the local communities are considered as the Independent variables. The communities are categorized as first, the primary communities who include the original property and business owners who were already in the area before the EPZ was located in Athi River and the Export Processing Zone community which was the original target for the benefits from the original amenities developed by the government.

The second is the secondary communities who migrated to the area as a result of the location of the EPZs in Athi River. These include second generation property owners, investors and business community, informal traders and service providers.

For EPZs to be located anywhere, there are conditions that governments must meet to attract them. These conditions include the development of infrastructural and service amenities. These amenities include roads, water supply, electricity supply, sewerage and drainage facilities. The location of the EPZs in Athi River also influenced the development new amenities in the area which were all expected to occasion some benefits to the local communities.

## **Theoretical Framework**

The purpose of theory is to enable one to better understand or grasp a social relationship, structure or phenomena. A theory plays an important role in science because it is the framework upon which facts are organized. Theories enable one to better grasp social reality as well as offer explanation. A good theory therefore enables one grasp reality and makes predictions.

A number of theoretical frameworks could be used in this study. One of the frameworks that could have been used is Warr's Cost Benefit Theory. This theory calls for calculations of all costs and benefits associated with the zones. It involves discounting and calculation of net present values of streams of revenues and costs for the government.

This theory's treatment of EPZs formation is a second best policy, whose social welfare implications are often ambiguous, in more traditional and simplistic models, the creation of EPZs in a tariff-ridden small open economy tends to decrease national welfare, but no more than FDI elsewhere in the host nation.

There are, however, some limitations to the theoretical treatment discussed above. First, the analysis does not consider distributional issues that may be important for social welfare considerations. Second, the treatments is static in nature, and ignores things like gradual transfer of technology, improvement of domestic labour, managerial skills spill

over's with the benefits of outward orientation, learning effects for domestic firms and most significant is that it downplays the social and other non-quantifiable impacts of EPZs. This is because the econometric indicators and data used to assess the performance of EPZs does not capture the whole spectrum of social and other indirect economic benefits to the communities or tends to exaggerate the costs and downplay the benefits. What this means is that there are other benefits that the country and local communities accrue with the location and presence of an EPZ in an area.

It is in the backdrop of these weaknesses in the Cost Benefit theory that this study will instead use the New Growth theoretical framework. The main reason for adopting the New Growth theories is because unlike the earlier theories of EPZs it is still relevant until now and can still be used to interpret phenomena. New growth theories stress the possible external effects from EPZ-activities on the host economy. These externalities include labour and management on-the-job training and learning by doing, demonstration effects, catalyst factor and impact the rate and level of human capital development in host countries which is significant and cannot be overlooked. Taking these externalities into account is an evident demonstration of the potential gains to be associated with EPZs.

According to Johansson, (1994), the new growth approach provides three key additions to the neo-classical analysis. It points out that:

- i. Domestic firms lack the “capacity to package” technical, marketing and managerial know-how with the internal and external resources available to them. This packaging is provided by FDI and in the zones.
- ii. Domestic firms seldom have access to international distribution channels on their own. But, international or joint venture companies do and can “show the ropes” to fledging domestic exporters.
- iii. Entry into international markets would be difficult without the inroads created by connection with an established EPZ networks with wide international business dealings. Once these elements are added to the traditional analytical approach,

Johansson (1994) argues that EPZs may be beneficial to a country because of their *spillovers* and their *catalytic* impact.

For example, workers trained within EPZs may transmit their knowledge and experience to subsequent employers; domestic enterprises may copy production and organizational methods applied by foreign firms in the EPZ, as well as benefit from distribution networks established to serve these foreign EPZ enterprises; local entrepreneurs get more exposed to the export business and are encouraged to seek their own export markets, and so on (Romer, 1997)].

## **1.9 Hypothesis**

- i. The location of EPZ in Athi River has influenced the development of amenities for the local communities.

## **1.10 Methodology**

### **1.10.1 Research Design**

Research design involves a blueprint for the collection, measurement and analysis of data. This section is an overall scheme, plan or structure conceived to aid the researcher in answering the raised research question. In this stage, most decisions about how research will be executed and how respondents will be approached, as well as when, where and how the research will be completed. Therefore in this section the research identifies the procedures and techniques that will be used in the collection, processing and analysis of data. Specifically the following subsections will be included; research design, target population, data collection instruments, data collection procedures and finally data analysis. Orodho (2003) defines a research design as the scheme, outline or plan that is used to generate answers to research problems. This research problem was studied through the use of a descriptive research design. Descriptive research design is chosen because it enables the researcher to generalise the findings to a larger population. This study was therefore able to generalise the findings to the firms within the EPZ.

### **1.10.2 Target Population**

Target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well defined or set of people, services, elements, events, group of things or households that are being investigated. The study focused on local communities in the neighbourhood of Athi River Export Processing Zone. The target population of this study was the staff working in the various firms within the Athi River EPZ complex, the general public, members of the communities who live within the locality of the EPZs, Government officers working in Athi River and members of staff of the EPZA who all belong to the different communities.

### **1.10.3 Sample Size**

The sampling plan describes how the sampling unit, sampling frame, sampling procedures and the sample size for the study. The sampling frame describes the list of all population units from which the sample will be selected, (Cooper & Schindler, 2003).

The sample size was drawn from staff working in the various firms within the Athi River EPZ complex, the general public, members of the communities who live in the neighbourhood of the EPZs, Government officers working in Athi River and members of staff of the EPZA.

The study used purposive sampling to identify key informants for the study. This is because the key informants are in a better position to give a representative view of the communities. The study also used random sampling in identifying respondents from the local communities in order to generalize the finding of the larger population.

**Table 1: Sample Size**

<b>Sections</b>	<b>Sample</b>
CEOs	4
Supervisors	6
Production line workers/	5
EPZA managers/Supervisors/ Government officers	7
The local communities in EPZ neighbourhood (EPZ community, Business and Property Owner's Community)	48
Total	70

#### **1.10.4 Sources of Data**

The study collected both primary and secondary data for the purpose of investigating the impact of the location of EPZs in Athi River to the communities in the area. Secondary data was obtained from Journals, Authors reports, books, Government publications, pamphlets and Performance and Annual reports of the Export Processing Zones Authority. Primary data on the other hand was be collected through the use of questionnaires and key informant interviews. Data was collected from the local communities of Athi River area

#### **1.10.5 Data Collection Instruments**

With respect to the impact of the location of EPZs in Athi River to the communities in the area, this study utilized questionnaires and interviews. The questionnaire designed in this study comprised of two sections. The questionnaire consisted of questions which focused on the objectives of the study. The study also used interviews for the key informants. An interview guide was designed.

#### **1.10.6 Data Collection Procedure**

This study collected qualitative data using a self-administered questionnaire and interviews. Qualitative research offers a distinctive opportunity to develop analytical perspective that speaks directly to the practical circumstances and processes of everyday

life while assessing the macroscopic perspectives within which they are located. The strategies used in this inquiry included these aspects. Data pertaining to the macro-sociological and economical level was obtained from secondary sources by making extensive use of secondary data from a wide number of sources including academic publications, official statistics, reports from government, reports from the Export Processing Zones Authority, EPZA, as well as press articles. The empirical research used qualitative research instruments in order to collect rich and descriptive information. The information which was obtained was thus deemed to present both elements of reliability and validity to support the realities on the impact of the location of the EPZs in Athi River to the local communities in the area.

The enquiry applied a variety of research methods and a variety of research participants from a multiplicity of perspectives in order to achieve a holistic picture of the impact of EPZs' location in Athi River to the local community in the area. The researcher dropped the questionnaires physically at the respondents' place of work. Unstructured interviews were conducted in the neighborhood of the EPZ complex. Nevertheless, where it proved difficult for the respondents to complete the questionnaire immediately, the researcher left the questionnaires with the respondents and picked them up later. Each questionnaire was coded and only the researcher knew which person responded. The coding technique was only used for the purpose of matching returned, completed questionnaires with those delivered to the respondents.

#### **1.10.7 Data Analysis and Presentation**

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was grouped into various categories depending on the kind of impact the location of EPZs in Athi River have had according to different respondents. Data collected was qualitative and was analyzed by descriptive analysis. The findings have been presented in descriptive form.



## **CHAPTER 2**

### **Export Processing Zones: A Brief History**

#### **2.0 Introduction**

An Export Processing Zone is one of many trade policy instruments used to promote non-traditional exports (Bhattacharya, 1998). As a policy means of achieving greater economic openness and growth, the concept of Export-Processing Zones (EPZ) has gained noticeable significance in most countries (ILO, 1998). EPZs have grown considerably in size and number. Conceptually, an EPZ may be characterized as a geographic area within the territory of a country where economic activities of certain kinds are promoted by a set of policy instruments that are not generally applicable to the rest of the country. The types of zone activities vary from bonded warehouse, export processing and assembling, border or port trade, and high-tech research and development (R&D), to trade-related transportation or financial services. Despite these variations, export-oriented manufacturing activities have been the main focus of most zones, where production tends to be dominated by foreign firms.

The original idea behind the creation of Export Processing Zones was to allow employers to import materials to be worked on and then re-exported without having to pay duty. Modern EPZs started in the early 1960s with a zone round Shannon Airport in Ireland which was threatened by the loss of employment in the refueling of aircraft on transatlantic routes. It was seen as a cheap way of creating jobs without spending scarce taxpayers' money and avoiding cumbersome reimbursing system of taxes on goods intended for export. However from the beginning this experiment had major drawbacks in that it required the sealing off of the zone or of designated factories, often behind high fences, to prevent untaxed goods being smuggled into the rest of the economy. As the EPZ concept spread around the world, governments found that they had to add further incentives to attract more investors to their enclave had to subsidize factory buildings, telecommunication links, energy supplies and most worrying of all, guarantee that the labor force would stay cheap and uncomplaining.

Nevertheless, EPZs have been identified as useful instruments for economic development especially during the first phases of industrialization and implementation of export-led growth strategies. However as countries continue to achieve higher levels of economic development and income, the relative significance of EPZs in economic terms declines with globalization and as markets open up trade increases many parts of the developing world are experiencing unprecedented rates of industrialization that according to critics generate a “race to the bottom” (Wheeler, 2001). Critics, however see EPZs as drain on developing countries’ economies. This is because EPZs require costly infrastructure investments and tax subsidies to create “sweat-shop islands” where local social and environmental protection regulations are ignored (Jauch, 2002). The extant scholarly literature has extensively examined labour conditions in EPZs’ firms but has paid little attention to their environmental protection practices, national and international labour regulations.

Since their development in 1960 in Ireland, EPZs as typical export-oriented undertakings have had potential social economic benefits that may accrue to host countries (Madani, 1991). These include technological spillovers, increased investments, increased competition, high factor productivity, economies of scale and scope, and the transformation of the economic structure from inward-oriented towards outward-looking. The developmental orientation of EPZs has its roots in their ability to complement or supplement domestic capital formation because a diversified and solid base for export economy is a necessary condition for competitiveness. Moreover, developing countries in particular lack a diversified and solid base for an export-driven economy. The EPZ development model stands to enable these countries to circumvent this challenge, because EPZs are by design export-oriented. In this way, a foreign exchange earning strategy through EPZs is superior to a foreign exchange savings strategy through import substitution (Matambalya, 2007).

Export Processing Zones have been considered to be catalysts for export promotion in host economies. This may arise due to the fact that the attraction of foreign firms into EPZs may encourage local firms to export over time as a result of imitation, competition

and even learning (Armas and Sadni-Jallab, 2002). This interaction between foreign and local firms stands to bring about technology transfer, which most developing economies lack, for their future development. As a result, EPZs help to stimulate the development of a local/indigenous entrepreneurial base by means of practical learning, sub-contracting and formal education/training (Matambalya 2007). EPZs can also benefit the local economy when local firms become suppliers to EPZ firms. Domestic firms can thus develop their capacity to produce quality products, and consequently their international competitiveness. In this way, employment through the creation of new jobs can be enhanced because, in theory, every EPZ job creates one non-EPZ job (Matambalya 2007).

Since the EPZs were introduced to manufacture for exports, countries have used them to solve many of their pressing problems like unemployment; limited exports and foreign earnings; limited and at times obsolete technology and technology transfer; limited revenue earnings; and the shortage of local entrepreneurship skills. In addition, it is assumed that the introduction of EPZs will bring about technological spillovers; increased competition; and, improved productivity enabling local economies to enjoy the economics of scale; which would transform their economies (Madani, 1991). Further, EPZs have also been used as mechanisms of empowerment through increase of foreign trade especially in the form of non-traditional exports (Battacharya, 1998); technology and skill transfer (Armas and Sadni-Jallab, 2002); openness and growth ; increased supply chain ; development of local/indigenous entrepreneurial base ; increased use of local raw materials; and ,value addition; and, sub-contracting of local suppliers (Matambalya, 2007).

This has been more so for countries in Asia, Latin America and Africa. In Asia, EPZs have concentrated on employment creation, technology transfer, the utilization of local raw material inputs and sub-contracting to local enterprises for services and supply of inputs. Investment in human and physical capital has been noted as one of the most important factors leading to Asian economic success when compared with the African EPZs (Akyuz and Gore, 2001). This was the case with the introduction of EPZs in

Bangladesh, Korea, Malaysia, and Philippines. For example, in Bangladesh, EPZs were designed to link the country to the global supply chain; attract export oriented investments; and community empowerment through job creation; diversification and expansion of exports. In Latin America, EPZs are concentrated in Mexico, Brazil and the Dominican Republic and targeted employment creation and technology transfer. For example, in the three countries, EPZs employment accounted for over 90% of the total employment in 1986. In Africa, EPZs are concentrated mainly in Egypt, Tunisia, Mauritius, Madagascar and Kenya mainly to increase foreign trade especially in the form of non-traditional exports; creation of employment; facilitation of technology transfer, the utilization of local raw material inputs and sub-contracting to local enterprises for services and supply of inputs; and Foreign Direct Investments, FDIs. In 1986, EPZs employment in Egypt, Tunisia and Mauritius represented over 95% of total employment. The case of Mauritius is a model example, because it enabled a small isolated island state in the Indian Ocean to develop an industrial base that has virtually wiped out unemployment in the country. Kenyan EPZs were introduced in 1991.

## **2.1 Export Processing Zones in Kenya**

The Export Processing Zones (EPZ) program in Kenya was established in 1991, with the enactment of the Export Processing Zones Act (CAP 517, Laws of Kenya) in 1990. The scheme, managed by the EPZ Authority, promotes export oriented industrial investment within designated zones. EPZ investors enjoy attractive fiscal incentives coupled with simplified operating procedures and superior infrastructure. Additionally, the EPZ Authority provides excellent facilitation and after-care services to new and existing investors. Thus investors are assured of lower operation costs, faster set up and smoother operations.

The objective of establishing EPZs in a host country is always to attract investment that would in many cases not materialize. In summary, Countries expect such investment to; create jobs and raise standards of living; transfer new skills and expertise to local human resources; boost the export sector, particularly non-traditional exports; earn foreign exchange; create backward and forward links to increase the output and raise the

standards of local enterprises that supply goods and services to zone investors; introduce new technology; invigorate less-developed regions; stimulate sectors regarded as strategically important to the economy, e.g. electronics, information technology, R&D, tourism, infrastructure and human resource development; directly or indirectly benefit the communities in the area of the EPZs location and even to *kick-start* the economy as a whole. Kenya's EPZs were introduced in 1991 through an Act of Parliament, Cap 517 of 1990, Laws of Kenya and was targeted to increase exports, especially for non traditional exports; foreign exchange earnings; Foreign Direct Investments (FDIs); employment ; technology transfer; skill spillovers; utilization of local raw material inputs; value addition; and, sub-contracting to local enterprises for services and supply of inputs; all of which were regarded as important benefits to the country and the communities in the neighbourhoods of the EPZs.

All licensed EPZ companies enjoy the following incentives, which are established by the EPZ Act: - 10 year Corporate Tax Holiday and 25% tax rate for 10 years thereafter (except for commercial enterprises), 10 year Withholding Tax Holiday on on-resident remittances (except for commercial enterprises), Duty and VAT Exemption on raw materials, construction materials, machinery and other business inputs, Stamp Duty Exemption, 100% Investment Deduction on capital expenditure within 20 years

The EPZ Authority issues three main types of licenses and permits as follows: First, EPZ Zone Developer/Operator License for those engaged in developing infrastructure and buildings in new zones to be occupied by the EPZ enterprises. Second, EPZ Enterprise Licenses for companies directly involved in export-oriented business activities. These include EPZ Manufacturing (or Processing) License, and EPZ Commercial Activities License including bulk breaking, trading, re-labeling, grading, repackaging (EPZ enterprises engaged in commercial activities are not, however, entitled to the 10 year Corporate Tax holiday and must export 100%). Third, EPZ Export Services License for export related services including brokerage, consultancy, repair and information services, but excluding commercial activities and financial services. The approval of the Minister for Industry must be obtained for EPZ enterprises to sell to the customs territory.

After the initial enquiry, the potential EPZ investor submits a short project proposal giving information on the investor's background, the intended activity, the product and production process, the desired location, target markets, proposed level of investment, how this investment will be financed, proposed employment generation, technology transfer and skill training. On receipt of this and provided that the proposal is in line with desired EPZ activities, the investor receives application forms for completion (with the assistance of EPZA staff) and submits them to the Authority with a non-refundable application fee (currently US\$ 250).

Criteria against which the EPZ enterprise licenses are evaluated include job creation, technology transfer and skill training, development of new export products and new export markets, new productive investment in buildings, land, machinery, working capital, and backward linkages with the Kenyan economy.

EPZ enterprises are required to export over 80% of their output. Any sales to the Domestic Customs Territory must be approved by the Minister responsible for industry and will attract import duties and taxes as they are treated as normal imports into Kenya. In addition, a duty surcharge of 2.5% on domestic sales is applied. The EPZ Commercial License is granted in consultation with the Kenya Revenue Authority and has no sales to customs territory.

The investor is advised of the acceptance of the project within 30 days and is provided with a letter of approval in principle, giving terms for the license. The investor then registers a locally incorporated EPZ company for the sole purpose of undertaking export production. The annual license fee is currently US\$ 1,000 paid to the Export Processing Zone Authority which issues a license to the new EPZ Company. The firm may now commence its activities: open bank accounts, import machinery, hire staff and occupy premises within a zone.

Most of the existing zones are industrial parks and cater for a group of enterprises that lease or buy property within the zone and use the provided infrastructure and common services. Currently more than 103 EPZ enterprises are operational in Kenya representing a variety of activities including: manufacture of cotton yarn, manufacture of dried

flowers, processing of fresh produce, security printing, manufacture of moulded plastic goods, manufacture of torch bulbs and batteries, value addition of tea, manufacture of sisal cort boards, repair and maintenance services, construction of factory buildings, manufacture of apparel and other textile goods, manufacture of pharmaceutical products and call centre and back office operations

## **2.2 Criteria for Approval of EPZ Business Services Permits**

An EPZ business service means a trade or business conducted in an EPZ by an entity which is not an EPZ enterprise. Any person may apply for an EPZ business service permit for eligible services, to be carried out within an Export Processing Zone. For interested applicants they fill application form providing information on the applicant, legal status; desired activity, location/space preferred ownership, jobs to be created, evidence of relevant prior business experience and professional qualifications of staff to be hired. The applicant also submits a business plan showing amounts to be invested and expected business outturn, along with copies of professional, business or occupational licenses with an application fee.

The Authority reviews the completed application and renders its decision within 30 days of application. Upon payment of the annual fee the EPZ business service permit is issued, valid for a 12 month period. The permit is not transferable. Activities eligible for this business service permit include, Commercial banking, Clearing and forwarding, Catering and restaurant, Staff recruitment and payroll services, Postal and telecommunication bureau, Office service bureau, Transportation services (freight and passenger), Installation, repair and maintenance, Fitness club, sports club and gymnasium, Medical and related services, Laboratory, testing and quality certification services, Security services, Business consultancy services (e.g. marketing, training, legal), Insurance services, Foreign trade mission (commercial trade offices), International disaster relief agencies, International non-governmental organizations.

Available Export Processing Zones in Kenya include: Sameer Industrial Park, a subsidiary of Firestone E.A. Ltd. which was the first export processing zone to be established in Kenya. By December 2008, 34 Export Processing Zones were in existence. They are located in Mavoko/Athi River, Isinya, Kilifi, Kimwarer, Mazaras, Mombasa, Nairobi, Thika and Voi. Of the 34 zones, 2 are developed and managed by the public sector while the rest are privately owned and managed by licensed EPZ developers/operators. Athi River EPZ is the largest zone and is publicly owned. The other publicly owned zone is the Kipevu Public EPZ in Mombasa. The zone hosts the Mombasa EPZA office and a number of EPZ enterprises who have leased land at the zone and have constructed factory buildings from which they are operating. The zone has plots available for lease to EPZ enterprise seeking land to construct their premises.

## **2.3 Export Processing Zones Authority**

The formation of the Export Processing Zone Authority (EPZA) is provided for in the Export Processing Zones Act, Cap 517 of 1990. The EPZA is a parastatal organization consisting of a board of directors drawn from the public and private sectors, a chief executive and professional and administrative staff. The staff is organized under five departments: corporate services, marketing, customs, investors' services and research and planning. The board comprises of a chairman appointed by the president, one representative each from the Kenya Association of Manufacturers (KAM), the National Chamber of Commerce and Industry (NCCI), four members from the private sector appointed by the Minister of Finance, permanent secretaries in the ministries of Finance, Industrialization, Governor of the central Bank, Commissioner of Customs And Excise, Commissioner of Lands, Managing Director of IPC and the Chief Executive of the EPZA.

The EPZA has three objectives: to expand non-traditional manufacturing exports from Kenya; to generate employment and provide labour force quality through upgrading of skills; and to stimulate domestic and foreign investment in Export-oriented industries. The project goals for the EPZA include generation of employment, private investment,



foreign exchange earnings, economic diversification, backward and forward linkages and technology transfer.

The government allows the EPZA to manage the EPZ programmes independently. The EPZA is mandated to encourage private developers, evaluate plans and make recommendations, advice developers and supervise their development. The Authority is responsible for ensuring that environmental degradation is not accelerated by the establishment of the parks by controlling the work of both the developers and users of the industrial zones. For instance, the requirement that there should be no sewerage connections in the Changamwe EPZ, limits the kind the kind of investment that can be located there. It is the work of the EPZA to ensure that investors interested in various industrial parks do not tamper with the environment through pollution. (EPZA, 2012)

The EPZA also licenses private developers and operators, In accessing the project proposals, the EPZA requires the licensee to submit a short proposal detailing the intended activity, product and production process, desired location, target markets, proposed employment generation, technology transfer and training, proposed level of investment and how the investment will be financed, (GOK,1991). The criteria upon which investors' applications are assessed and licenses issued by the EPZA include the ability to create jobs, technology transfer and skill training, development of new export products and export markets, availability of working capital and the establishment of backward and forward linkages with the Kenyan Economy, (EPZA, 1996).

## **2.4 Athi River Export Processing Zone**

The Athi River Export Processing Zone was gazetted on 23 November 1990 after the approval of the EPZ Act Cap 517 the same year. In 1991, it was the first publicly developed zone and covers 339 hectares of land including 292 hectares of the main site, on LR. No 18474 in Athi River (Mavoko). The zone was developed at a cost of US S 30 million with a World Bank (IDA) line of credit (80%) and with contribution from the Government of Kenya (20%). The zone was designed to provide infrastructure and services for export oriented industries within the zone and ancillary services to the wider

community in Mavoko and Kitengela. In this regard, the project is more than an industrial park; it is an urban development project with various facets.

The site was selected because it had a number of advantages - the land was suitable for drainage and sewerage works; the site was easily accessible by two major highways (Nairobi-Mombasa and Nairobi-Namanga); was close to the Jomo Kenyatta International Airport; was adjacent to the main Nairobi- Mombasa railway line; was close enough to both Athi River town and Nairobi city and also had adequate underdeveloped land in the neighborhood for future planned development. Phase 1 of the zone was completed in 1997 covering 93 of the 292 hectares of the main site. The Athi River Zone has three levels of infrastructural development and these are: Zone infrastructure, off-site infrastructure and ancillary developments.

The gazetted zone covers 339 hectares, of which 292 hectares is in the main zone and 47 hectares is for supporting developments adjacent to the zone. In addition, the EPZ Authority developed two off-site locations where ancillary service facilities namely water storage tank and sewerage treatment lagoons are situated.

The zone has the following on-site infrastructure: 6.7 km of roads with wearing asphalt surface, 5.5 km of foul sewerage, 21.8 km of storm water drainage, 411 streetlights, 6.2 km water mains 100-600 mm diameter, Office block with 4 floors and roof top restaurant, Ready-built Industrial buildings for rent, 1 hectare Serviced Industrial Plots for Lease, Fire station, Health clinic, Zone Administration Office, In-house Customs and Kenya Ports Authority Offices, Zone Security and Police Post, Power substation and power distribution network, and Zone staff canteen.

The zone has three offsite infrastructure which include water supply comprising of 19 km treated water trunk main, rein-forced concrete water reservoir of 8,500 cu m capacity, booster pumping station and ancillary works, 12.9 km of 250 mm diameter rising/falling mains, elevated steel water tank of 18 cu m capacity, 5 km distribution mains. Second is the widening of the Athi River-Kajiado-Namanga road. Third is a Sewerage treatment works comprising of 3.5 km of trunk sewer, 15.5 km of box culvert, 3 aerial crossings, and 150,000 cubic meter sewerage stabilization ponds/lagoons.

The zone also has ancillary developments which were planned with private sector participation which include; 32 additional industrial buildings of 1200 sq. m each (Complete) and Technological Development Centre; and a Vocational Training School (Complete).

The EPZ at Athi River was designed to facilitate the activities of licensed export oriented companies holding the EPZ enterprise license (manufacturing, commercial or services).

The zone can thus cater for three main categories of zone tenant:-

- Light industrial investors such as those in garment assembly, electronics assembly, handicraft manufacture, food processing and packaging, plastic moulding, gemstone processing, paper *conversion*, furniture manufacture. These can be accommodated in the pre-built industrial buildings which are essentially an industrial shell with ablution facilities, office space, reception area, and showroom.
- Tenants occupying serviced plots with a nominal size of 1 hectare but subdivisible into quarter hectare plots, with access roads, storm drainage, telephone connection, sewerage and power available for connection. Local *investors* who are familiar with local construction practices and with industries requiring (customized premises favour these plots).
- Tenants leasing office space (space is available within the EPZ zone administration block for lease to EPZ service enterprises and to other service providers).

A few industrial buildings developed by EPZA remain available for rent. Two private EPZ firms have since constructed a variety of industrial buildings at the zone for rent. While most of these buildings are already occupied a number of units are still available for occupation.

The initial development of the zone was financed by the public sector. *However* since the basic infrastructure is in place and investors *have* already taken up the developed

premises, there are now opportunities for the private sector to undertake zone related developments profitably. These are in six main areas: - Operation of the Athi River EPZ Dispensary (already leased to a private medical/health *service* provider); Developments of Housing near the zone, for middle and low income EPZ workers. 28 hectares of land was availed by the EPZ Authority for this purpose (ongoing); Operation of Canteen facilities within the zone (4 units completed and already leased out to private operators); Construction of additional industrial buildings for rent by small enterprises; Operation of a Bank - space is provided to the Business Centre for this purpose and leased to a bank; Additional Business and Social *Services* - 8.6 ha, which is a general commercial area for petrol station, shops, market, hotel, entertainment areas.

## **2.5 Conclusion**

In examining the extent of the impact of the location of the Export Processing Zone to the local communities in Athi River, the study focused on three levels of infrastructural development given as pre-requisite. These three levels included the zone infrastructure, off-site infrastructure and ancillary development. The study examined how these levels of infrastructure impacted on the local communities in Athi River.

# CHAPTER 3

## Export Processing Zones and Local Communities

### 3.0 Introduction

This chapter presents the data analysis and findings on the impact of the location of Export Processing Zones (EPZs) on the local communities of Athi River. In assessing the impact of the location of EPZs on the local communities, the study examines the amenities that were established in Athi River area either to attract EPZs to the area or amenities established to serve them. These amenities were pre-requisite for the EPZ to start its operation in Athi River. These amenities include roads, electricity supply, water supply, and sewerage and drainage system. The study grouped these amenities together and referred to them as the takeoff package for development. This is because these amenities created an enabling environment for investments and manufacturing for EPZ Enterprises.

The chapter discusses the impact of this amenities takeoff package for development of the EPZ Enterprises to the local communities. The main arguments of the chapter are three: the location of EPZ came with a takeoff package that was non-excludable in nature. Second, the influx of population due to presence of EPZs has opened up the area for further development and created new business opportunities. Third, the location of the EPZ in Athi River has attracted secondary communities to provide for emerging demands.

This study examines the benefits that the non-excludable features of the takeoff package for development and the influx of population due presence of the EPZ have an impact to the local communities. The study conceptualized local communities as a group of people living in the same locality and under the same jurisdiction. The study categorised the local communities into primary communities and secondary communities. Primary communities include EPZs communities and property owners' community. The secondary communities include second generation property owners, investors and business community, informal traders and service providers. The benefits that the local

communities have enjoyed due to the location of the EPZ are wide; the study discusses these benefits to the local communities in detail.

### **3.1 Export Processing Zone Serving Amenities (Takeoff Package)**

In order to create an enabling environment for the EPZ, the government had to establish various amenities which were to serve the Enterprises within the zone. These amenities were put there purposively to either serve the needs of the EPZs or attract more industries and other investors. These amenities include roads, electricity supply, water supply and sewerage and drainage system. This study refers to these amenities as the “*takeoff package for development*”.

These amenities are both infrastructural and service in nature. The chapter also argues that in the course of establishing these amenities, other amenities were established to complement the takeoff package. These included zone administration office, zone security and police post and the Technology Development Centre (TDC). The study refers to these other amenities as ancillary amenities.

The chapter argues that these infrastructural and service amenities accrued benefits to local communities due to their non-excludability in nature. Therefore the study examined the benefits arising from these amenities established to attract the EPZs and serve the needs of the EPZs.

**Table 2: Status of the takeoff package for development**

<b>Amenity</b>	<b>Status of the Amenity</b>	<b>Summary of Benefits</b>
Roads	New roads within and around the EPZ site. Modernization and expansion of the Athi River-Namanga (15 km) and Nairobi-Mombasa roads.	<ul style="list-style-type: none"> <li>• Transportation of raw materials, products and workers</li> <li>• Increased connectivity with the EAC region (Tanzania) and other parts of the Country (Mombasa).</li> <li>• New business opportunities (motor cycle operators, logistics and transportation, tours and travel companies)</li> <li>• Increased safety on the roads (flyovers)</li> </ul>
Water supply	Installation of the water supply included a 24 inch pipe from Nairobi with a big storage tank in Mlolongo area Water supply from Kilimanjaro.	<ul style="list-style-type: none"> <li>• Fresh water for domestic use</li> <li>• Industrial and commercial use</li> <li>• Clean water for human decency</li> <li>• Clean water for a healthy community</li> <li>• Water is life</li> <li>• Better living standards</li> </ul>
Sewerage and drainage system	15 kilometre sewerage facility with 8 lagoons for sewer and effluent treatment on a 1000 acre land in Northern side of the Mavoko Municipality (Kinanie area).	<ul style="list-style-type: none"> <li>• Disposal of waste effluents</li> <li>• Improvement of hygiene</li> <li>• Control of flooding</li> <li>• Clean environment</li> <li>• Less communicable diseases</li> <li>• Better living standards</li> </ul>
Electricity supply	KPLC Company had been given land initially to construct a substation to provide electricity to the EPZ but upgrade its supply from 19 Megawatts in 2009 to 23 Megawatts in 2013.	<ul style="list-style-type: none"> <li>• Domestic use</li> <li>• Industrial use</li> <li>• Street lighting</li> <li>• Enhanced security</li> <li>• Better living standards</li> </ul>
Technological Development Centre	In 2000, the EPZA undertook a joint project between the Ministry of Labour (National Industrial Training Authority, NITA) and Korea government (Daewoo) to establish the Technology Development Centre (TDC). The centre was created to provide training, knowledge and skills to workers employed in the EPZs about the advanced industrial production Technologies in the EPZ manufacturers.	<ul style="list-style-type: none"> <li>• Training</li> <li>• Skills development</li> <li>• Entrepreneurship development</li> <li>• Increased access to employment opportunities</li> <li>• Increased investment opportunities</li> <li>• Improved income generation activities</li> <li>• Increased local entrepreneurs</li> </ul>
Zone administration office	The EPZ Authority is a State Corporation, under the Ministry of Industrialization and Enterprise Development.	<ul style="list-style-type: none"> <li>• Provision of essential services</li> <li>• Zone security</li> <li>• Zone maintenance</li> </ul>
Police post	Internal security the EPZ has contracted a security company which is charged with the daily security operation and logistics within the zone. External security there is a police post next to the EPZ.	<ul style="list-style-type: none"> <li>• Enhanced security</li> <li>• Decreased crime rate</li> <li>• Favourable living environment</li> <li>• Favourable business environment</li> </ul>

Table 2 above shows the amenities that were established to serve the EPZ in Athi River. These amenities given their non excludability characteristic have not only benefited the EPZ communities but also property owners' community.

The study argues that the amenities established to attract more EPZ Enterprises in the zone came as a takeoff package for development. The government facilitated the establishment of these amenities in the zone with the aim of creating a conducive and favourable environment for EPZ investors. The World Bank (2006) acknowledges the importance of infrastructure to development, by considering that "poor infrastructure impedes a nation's economic growth and international competitiveness". The study therefore looks into how the amenities (Table 2); despite having attracted the EPZ investors have benefited the local communities.

The study also argues that these EPZ serving amenities have transformed Athi River area to be investor friendly and a strategic business location for both for local, national and foreign investors. The amenities existence in Athi River has not only given the zone a takeoff for development but also benefited its neighbourhood and the local communities. The above statement highlights that, as well as these amenities being a pre-requisite for EPZ operations; they have enhanced the competitiveness for Athi River zone to attract both local and foreign investors. The study also discusses the various benefits accrued from the location of the EPZ in the area to the local communities.

### **3.1.1 Export Processing Zones**

The EPZs consist of the EPZ Enterprises, investors and workers. In trying to create an enabling environment for EPZ investments the government established various amenities to serve the EPZ. These amenities included roads, water supply, electricity supply, sewerage and drainage, zone administration office and industrial buildings, zone security and police post. The amenities were purposively put in place to attract EPZ investors. The EPZs were able to take advantage of this takeoff package to operationalize their manufacturing facilities and immediately start their intended production for export.



The EPZs were the target beneficiaries for the infrastructural and service amenities established in the zone. The study discusses how these development packages attracted the EPZs with specific reference to EPZ enterprises, investors and workers. The nature of EPZ Enterprises determines what kind of environment they require. The presence of the reliable fresh water supply and sewerage and drainage system in Athi River has attracted industries such as the manufacturers of pharmaceutical products like infusion fluids, water for injection, eye, ear, and nose drops, textiles, garments and wattle extract for leather tanning. Most of these industries require constant and reliable supply of water, electricity, proper sewerage and drainage systems. With the Athi River zone having all these amenities, most of industries strategically located themselves in the zone.

The investors as part of the EPZs also identified Athi River zone as viable choice for various investments. This was well informed from the enabling environment that the government has created by providing the takeoff package for development. The package transformed the zone drastically from its previous savannah grassland status to an industrial estate. The industrial estate has a reliable supply of water and electricity, proper roads, and sewerage and drainage systems. This made it possible for EPZ investors to conveniently start up their manufacturing processes within a short time. This instant start of production facilitated the relocation of some EPZ investors from other Countries to Athi River and hence taking advantage to continue serving their clientele.

The EPZ workers also benefited from the EPZ serving amenities which enabled the Enterprises to establish a secure and safe working environment. The EPZ workers have good working conditions which include reliable water and electricity, proper sewerage and drainage system for disposal waste water, good transportation system for easy movement and security. These communities were the initial targets for these amenities and their benefits range from job opportunities, better working conditions, good transportation, electricity and water supply and sewerage systems.

The rest of this study discusses specific benefits accrued from the EPZ serving amenities to the EPZs. First, the modernization and expansion of the Athi River-Namanga and Nairobi-Mombasa roads has improved the networks of roads, which have helped to built

connection between the regions and EAC countries. The roads networks in Athi River area are no longer isolated and unreachable as it was before the location of the EPZ. The Nairobi-Namanga and Athi River Mombasa road have enabled Athi River to become centric and has enhanced its ability to engage with different parts of the Country. The road infrastructure before the establishment of the Export Processing Zone was a single lane tarmac road from Nairobi through Athi-River to Namanga having murram outlets into Athi River town and its environs. The position of the EPZs was earlier bushy savannah grassland on the Kapiti plains. To attract EPZs the government undertook the construction of access roads in and out of zone and expand the Nairobi to Namanga and Athi River to Mombasa road. This construction of access roads in the EPZs was done in 1992/1994.

This expansion has also played an important role in the geographical distribution of economic growth by providing more investment and employment opportunities for people. Nearly most Enterprises choose to be located in places where accessibility to their suppliers, customers and employees is easy. Therefore, the locations of EPZs are often located in areas with good roads or motorways connections and networks. The Athi River EPZ was suitably located in a geo-centric location to Namanga and Mombasa. This has seen the increase in road freight companies in the last decade. This industry has become one of the largest job creators of Athi River's economy, accounting for 50 companies and 2,000 jobs (EPZs Annual Report 2012).

Second, was the sewerage and drainage infrastructure which was developed in the 1994 to manage waste water and sewerage from the EPZ Enterprises within the zone. The sewerage line and treatment works were constructed and initially managed by the EPZ Authority. The drainage facility also collects storm water during the rainy seasons to avoid flooding. The EPZ Sewerage facility is among the most modern in Kenya on a 1000 acre plot, on the northern side of Mavoko Municipality, 15 kilometres away from the Town centre. The sewerage system was one of the ways by which the EPZA created an enabling environment in the Zones to attract investors especially manufacturers so as to operate in a manner which protects and conserves the environment and also facilitate the EPZ enterprises to be compliant to National Environmental Management Authority

(NEMA) and Kenya Bureau of Standards (KEBs) regulations. The sewerage and treatment works has attracted many industries such as the Leather life (EPZ) Limited, Savannah cement company, Ivee Aqua EPZ ltd and the textile companies within the EPZ. Other industries outside the EPZ include the Bamburi Cement, National and Simba Cement. These industries require water and drainage system for their operations and hence the EPZ Authority had to provide it.

According to key informant 2<sup>1</sup>, the sewerage and drainage system have been very beneficial for companies and industries that use water for their production. During production waste water and other effluents are produced. Industries have drainage lines that connect to the main sewerage system for disposal. This method of disposal has saved industries incurring extra cost of waste water and effluents management. For local communities, the disposal of waste water into the sewerage system has reduced environmental pollution that can be harmful to their health. Residents, property owners and business community occasionally enjoying walking and living in a flood free area due to a well established storm drainage facility. Considering that Athi River is located on a plain (Kapiti plains), its surface area is generally flat and the soil composition being black cotton soil makes it prone to floods especially during rainy seasons. However the development of storm drainage facility in the EPZ has assisted in the management of this flooding problem. The sewerage and drainage system together with the storm drains have cumulatively reduced waterborne diseases among the local communities through the management of waste and storm water. Previously, before the construction of the drainage facility by the EPZA, stagnant water used to be breeding sites for mosquitoes which cause malaria. Currently, malaria cases have reduced considerably in the area.

The sewerage infrastructure also collects waste water from the industries, rainfall floods and polluted surface water from construction wastes dumpsites through the storm drains to the treatment facility. The storm drains were also constructed to reduce flooding in the Zone due to its location in a flat terrain in the Kapiti plains and water flow is a major problem. This drainage system has benefited both the communities and the export

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<sup>1</sup> Senior Manager (EPZA) interviewed on the 30<sup>th</sup> July 2013

processing zone from stagnation of water within Athi River and this has reduced waterborne diseases, floods, and damage of roads. This management of waste water and effluents from industries and households reduces pollution of the river Athi, the Mavoko town and its environs. This is a significant benefit to all the communities in the area.

According to the respondents<sup>2</sup>;

The storm drainage facility by the EPZA has assisted in the flow of water especially during the rainy season, where water floods the area making it impassable for both vehicles and people. Also it has provided a solution for the industries and business operations within Athi River to channel their waste waters into the drainage without polluting environment and hence complying with NEMA and KEBs regulations. There used to be a lot of stagnant water during and after the rainy season. These used to be many breeding sites for mosquitoes which cause malaria. Since now there is no stagnant water because of the drainage facility done by the EPZA, malaria cases have reduced in Athi River.

The EPZ communities have also enjoyed the sewerage and drainage system which has enabled the Enterprises to operate with ease and also provided them with avenues for waste disposal.

Third, the installation of reliable supply of water to the EPZ has attracted industries that would not have been established there due to their type of production process that requires water such as the manufacture of textiles and wattle tanning extract. These industries have been able to conveniently produce their product due to the reliable water supply. The EPZ communities have also benefited from the reliable supply of electricity from the power substation at the EPZ site.

Fourth, the electricity sub-station was a joined project between the EPZA and the Kenya Power and Lightening Company (KPLC) which aimed at serving the emerging demand of the EPZ industries. This joint initiative not only gave reliable energy supply to the EPZ industries but also enhanced security within the zone. This was done through the

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<sup>2</sup> Members of local communities interviewed on the 8<sup>th</sup> August 2013

installation of street lightings around and within the EPZ. With proper lighting and road access, the EPZ environment became more secure.

Electricity supply is a key production input in any commercial and industrial or residential operation. The location of EPZs in Athi River required as a pre-requisite quality and reliable supply of electrical energy for the operations of the industries. EPZA undertook a joint project with Kenya Power and Lighting Company to provide the required quality and reliable electricity supply. The EPZA donated a parcel of land measuring approximately 11.48 hectares under the Registration of Titles Act (Cap. 281) while Kenya Power and Lighting Company Limited (KPLC) developed the electricity substation in Athi River. The purpose of the substation was to step down the electricity voltage from the main Grid for distribution to smaller substations, from where the electricity is distributed to industries, businesses, homes and social institutions among others in Athi River, and its environs.

The KPLC has had to supply power reliably so as to meet the increasing needs and demands of end-users and therefore required to expand and improve its infrastructure of transmission lines and substations on an ongoing basis. The substation was built on EPZ land with the understanding that it will satisfy EPZ needs and also be used to serve the residents and business community in Athi River and its environs. The upgrading of the substation in Athi River has increased the security and quality of supply of electricity to the surrounding industries, businesses, homes and social institutions among others.

According to KI4<sup>3</sup>;

The electricity substation was previously established to satisfy the EPZs electricity needs but with time the demand has increased necessitating the KPLC Company to upgrade its supply from 19 Megawatts in 2009 to 23 Megawatts in 2013. Since 2000 to 2010, there has been major increase of commercial and residential housing in the area, with the clientele base increasing from 4,000 to 45,000. This has made KPLC to open an office in the area to provide services to them.

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<sup>3</sup> Manager (KPLC Kitengela Office) interviewed on 31<sup>st</sup> July 2013

EPZs have been associated with training, skills spillovers and technology transfer to local communities in the host country. The findings of the study further confirm Sinclair (2001) argument that an EPZ is an institution of learning where the host country's local communities can adopt technology and skills without incurring a fixed cost. The Athi River EPZ was involved in the establishment of a technical training institute by providing land. In 2000, the EPZA undertook a joint project between the Ministry of Labour (National Industrial Training Authority, NITA) and Korea government (Daewoo) to establish the Technology Development Centre (TDC). The centre was created to provide training, knowledge and skills to workers employed in the EPZs about the advanced industrial production Technologies in the EPZ manufacturers.

The Centre has fully equipped workshops and Laboratories with modern facilities, modern computer equipment, sports and recreational facilities and boarding facilities suitable for seminars and workshops. Currently, the centre offers learners a variety of career focused diploma and certificate courses in electrical, mechanical, and automotive engineering, electronics, Information Communication Technology (ICT) and business fields. EPZ companies are offered tailor-made courses to suit their needs like garment manufacturing, fashion design, machine operation and so on.

Since 1992, EPZ was undertaking in-housing training which was both time consuming and expensive. The creation of the technological transfer institute was necessary. The training institute has three models of training in their programme: For the newly recruited employee training (Fresh recruits), on-job training (those already working), and self-sponsored (individuals who intend to join the EPZ industries in future or start their business). The communities in the neighbourhood can thus undertake self-sponsored courses in the Technology Centre in anticipation of employment security in the EPZ Companies or those who want to acquire skills to start their own businesses.

According to a key informant 5<sup>4</sup>, the technology development centre has been very useful to the communities in the area and has trained over 2,000 employees for various

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<sup>4</sup> Principal (Technology Development Centre) interviewed on 31<sup>st</sup> July 2013

industries, conducted on-job trainings under request even for outside clients such as DT Dobie, Toyota Kenya and others. It has also trained individuals who become self-employment or entrepreneurs. The centre is currently undergoing expansion. The expansion has been necessitated by the increasing demand for the kind of training the centre offers.

According to the respondent, the technological training institute has enabled industries near the EPZ access trained employees for line production. The institute undertakes customized trainings that equip workers with skills and knowledge in various job categories. The TDC has the following departments in charge of various courses. The information technology department has diploma in information communication technology, business studies department has diploma in business management, supply chain management, human resource management, sales and marketing and the electrical and automotive engineering department has certificate in electrical installations, motor vehicle & electronics engineering. The institute also has a fashion design department which has certificate courses in tailoring and dressmaking, soft furnishing, machine operation, accessories design and fabric decoration.

According to a respondent,

After employment I was taken for an electrical and electronics training at TDC which I attended for 6 months in two sessions. The first three months I undertook electrical courses and then went back to work while the other three months I undertook electronic courses.

The TDC has also reduced the inconvenience of in-house training/on job training that industries used to undertake before the centre was established. The centre has created an available pool of skilled workers that are quickly accessible. Under in-house training the TDC has tailor made courses such as mechanical engineering for CNC milling, CNC lathe work, turner or machinist and general fitting. Other tailor made courses include welding & fabrication for TIG and MIG welding, gas and arc welding; electrical & electronics engineering for PLCs, microprocessors, motor-rewinding, equipment testing and trouble shooting, internal wiring, radio and television repair and maintenance; and automotive engineering for VVTI, EFI, engine analysis, HI-pro scanning, automatic

transmissions, suspension, wheel balancing, brakes, fuel systems and electronic ignition system. These tailor made course are give under companies request for newly employed staff or as refresher course and also as an upgrade of the skills of employees. Companies like the CMC motors, Toyota Kenya and DT Dobie have benefited immensely from these courses.

According to a KI6<sup>5</sup>;

The centre has made it easy for recruitment, whereby we have ready and qualified individuals to employ thus reducing the cost of training and time taken to select candidates for recruitment. In house training is a very expensive undertaking especially where trainees break down equipment in the process of training and also man-hours lost during such a break down. A trained worker increases efficiency and requires minimum supervision.

It has been noted that even self employed automobile mechanics and artisans can undergo some of the training offered to improve their skills. Those who want to start their own business sponsor themselves and undertake the training. This is another significant benefit to the local communities. This has been made possible due to the location of the EPZ in the area. The study thus confirms Matambalya (2007) argument that EPZs help to stimulate the development of a local/indigenous entrepreneurial base by means of practical learning, sub-contracting and formal education/training. EPZs also benefit the local economy when local firms become suppliers to EPZ firms.

EPZA annual performance report (2012), records that 39 enterprises trained local employees in various industrial disciplines compared to 36 in the previous year. The training provided include: machine operation & quality assurance, setting corporate & personal targets, technical cashew nut processing methods, apprenticeship, Good Manufacturing Practice (GMP), Hazard Analyses Critical Control Point (HACCP), basic food handling, procedure & hygiene, British Retail Consortium (BRC) on food safety, chemical safety, human resource management, ISO, implementation of ISO 2200: 2005 (Food Safety Management System), upgrading of supervisory skills, mass production,

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<sup>5</sup> Registrar (Technology Development Centre) interviewed on the 8<sup>th</sup> August 2013



labour laws, QMS internal auditor training, health & safety, environmental care, performance management, customer care skills, team building, tax compliance for accounts & human resource, CSI bar coding & BRC version 6, energy management, steam boiler operation, testing & grading tea, financial reporting, shipping & logistics, Kenya Revenue Authority ITMS, technical cashew nuts processing methods, first aid, fire fighting, fire marshal, fire drill, team building, setting of personal & corporate targets, Customs Trade Partnership Against Terrorism(C-PTAT) & security awareness, training of trainers and HIV/AIDS awareness among other trainings. The skills learned were expected to eventually diffuse into the local market and have positive impact in new techniques geared towards increase in production and efficiency, skills spillover and technology transfer.

The zone office oversees and facilitates gradual diversification and expansion of sectors and market activity from the predominant garment/apparel exports to the US, so as to achieve average 40% contribution by this sector in terms of number of enterprises, investment, and total turnover in 2009, down from 62% in 2003. Also it has to harness ICT as a strategic resource to meet the vision, mission and objectives of the Authority so as to improve research capacity and delivery of services by 2007, and to maintain international standards in library and information management. (EPZA Annual report 2012).

The agency is needed to develop human resource policies comparable with those of leading investment promotion agencies, to attract, nurture, develop and retain staff who are committed to EPZA's vision, values and objectives. The policies have benefited EPZs workers who have gained in terms of salaries remuneration and working conditions. The monthly average wage for local employment within the EPZ has been on steady increase over the years, particularly after the industrial disharmony of early 2003 (Annual Report, 2012). The average monthly wages has increased from Kshs 8,404 in the year 2008 to Kshs 10,585 in the year 2012, representing 26.0% increase. (EPZA Annual report 2012).

According to a respondent;

The EPZA has continuously engaged the EPZ companies on issues pertaining to better working conditions and improved salaries for the workers with respect to labour law. The impact on the local communities is that of employment opportunities and hence income earnings from the employment which could have multiplier effects. The income earned could be used in many ways.

The location of the EPZA offices in Athi River has improved the effectiveness and efficiency of the EPZs Enterprises. The EPZA being the management authority of economic zones it has tried its best to provide an enabling environment to attract and maintain investors in the Athi River zone. The authority ensures that there is constant and reliable supply of water, reliable supply of energy, the sewerage and drainage infrastructures, well maintained street lights and roads. The authority also regulates and collects revenue on the services rendered to the industries. The revenue collection of the Athi River zone has recorded a higher return rate compared to other economic zones in Kenya (EPZA Annual Report, 2012).

### **3.1.2 Property owner's**

The property owners' is also another beneficiary of the location of the EPZ. The property owners' include land, commercial and residential buildings owners. This community constitutes one of the original communities of Athi River area. This community benefited in two main ways; from the non-excludable feature of the amenities takeoff package and the influx of population due to the presence of the EPZ. The non-excludability nature of the takeoff package for development led to the appreciation of property value in the area greatly. The cost of land pre 1990 was approximately 50,000 per acre but after 1992 when the EPZ was established the value of land increased to 1 Million per acre. As the government created an enabling environment for investment through the establishment of amenities, the land also appreciated drastically.

The presence of modern roads, proper sewerage and drainage systems, reliable energy and constant supply of water resulted to significant appreciation of property value. Currently, the price of an acre in Athi River is between 5-25 Million. This appreciation of property value has been determined by its closeness and accessibility to these amenities.

The appreciation of property value also change the investment scenario, from small scale to large scale investments. This scenario was characterised with large capital and infrastructure investment. Previously the area had small retail businesses (shops, hotels, hardware's and so on) but currently the area is characterised by supermarkets, modern hotels and distributor hardware's. The hotel and hospitality industry has been on the increase in the area. The presence of these amenities takeoff package has enabled local and national investors to establish modern hotels and restaurants of good quality. This has provided visitors with avenues for comfort and enjoyment during travel considering Athi River is a transit town between Namanga-Nairobi and Mombasa-Nairobi.

The amenities takeoff package also transformed the location from a rural area to an urban centre, from a working class to a middle class society, from a pastoralist and agricultural centre to a business, commercial and industrial centre. As result to this transformation a middle income class emerged. This middle income class were attracted by the infrastructural amenities established to serve the EPZ. These changes also gave the business and property owners' an opportunity to invest in modern real estate and housing, wholesale and retail business, and industrial production.

The influx of population due to presence of EPZs also opened up the area for further development especially for property owners. This change attracted more middle income class consumers in housing and real estate from Nairobi who are seeking alternative and affordable housing. Also the EPZ workers provided a market for housing and real estate. This emerging demand of housing benefited the property owners' who either went into the real estate business or sold their land to new investors. Some of the large housing estates that have been established to serve the middle class include the Great Wall Estate, 360` Estate, Gamblers Estate, Safaricom Sacco Estate, Nation SACCO Estate, Elan park estate and Muthama Flats.

According to 2009 Census report, Machakos District recorded 11, 280 households having access to the main sewer. This number applies to two major divisions that is Machakos and Athi River. Athi River at the moment has a modern sewerage line serving Mlolongo, Kinanie, Lukenya and Athi River Town. The sewerage and drainage facility in Athi River constructed by EPZA is the best in Machakos County and amongst the best in the Country. The Census report (2009) did a comparative analysis of sewerage and drainage systems in the Country. The survey covered Kisumu, Mombasa, Nakuru, Nairobi, Machakos and Eldoret. Machakos was identified as one of the best service providers of sewerage management. This was factually because of the EPZA sewerage facility in Athi River Town which by then was a division of Machakos. This has attracted investors in real estate, hotel and hospitality industries, and manufacturing industries to the Athi River economic zone.

The sewerage and drainage facility has also improved sanitation in Athi River. The sanitary situation is particularly difficult in slums where the majority of the residents resort to pit latrines that are over-used and inadequately maintained. Many are forced to use 'flying toilets', meaning that excreta are tossed out into the open grounds and streets in a plastic bag. Most slums lack a sewerage system and waste management is very poor. However, the Mavoko Municipal Council has provided sewer lines in most areas of Athi River Town and its clustered settlements. This has reduced the health hazards. Dumpsites next to residential areas usually cause health problems and deplorable living conditions. The municipal council collects refuse and garbage in Athi River including the EPZ area. It has managed to secure a central waste-dumping site located some 20 km from Mavoko.

As the population in the area increases, the demand for sewerage services also increased. Industries, residential and commercial estates emerged and the EPZA was becoming overwhelmed with the increased clientele and as a result of this, the government established a company to manage the provision and use of the sewerage in Athi River in 2002 under the Water Act of 2002, Cap 372 Laws of Kenya.

Mavoko Water and Sewerage Company (MAVWASCO), was formed to manage the provision of both the water and sewerage supply to local communities while the EPZA maintained its mandate to manage the provision, use and utilisation of the amenity by the EPZ companies. Since 2002, MAVWASCO has extended the Sewerage coverage area up to Daystar University at a cost of Kshs 157 million. Currently, 15% of the 693 kilometre square area which is under the jurisdiction of Mavoko Municipality is served by the Sewerage facility. The EPZA has constructed a 15 kilometre sewerage facility with 8 lagoons for sewer and effluent treatment on a 1000 acre land in Northern side of the Mavoko Municipality (Kinanie area). The EPZ sewerage facility is available for use by the local communities. Majority of the Residential and Industrial facilities are currently using the facility. This is a very useful facility for all the communities in Athi River and its neighbourhoods.

According to a KI3<sup>6</sup>;

Before the EPZA sewerage facility was constructed, the Town used to stink because of overflowing pit latrines and septic Tanks especially during the rainy season. The Town does not stink anymore. Floods have become a thing in the past. Mosquitoes and malaria cases have reduced considerably. We are happy with the sewerage and drainage project constructed by EPZA. The town is now clean and better to live in than before.

The property owner's community that were also practising livestock farming previously influenced by the presence of Kenya Meat Commission changed to modern agricultural practices like *greenhouse* farming due to the availability of water and reduction for grazing land.

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<sup>6</sup> Chief Executive Officer (MAVWASCO) interviewed on the 30<sup>th</sup> July 2013

## **3.2 Conclusion**

The findings of the study show that the location of the EPZ has had an impact on the local communities. The EPZ establishment came with an amenities takeoff package for development which transformed the area to be investor friendly. This takeoff package included the establishment of a sewerage and drainage system, upgrading of the electricity substation, water supply and expansion and modernization of the roads. These amenities were mainly infrastructural and service in nature thus making them non excludable to the EPZ alone.

The location of the EPZ in Athi River contributed to an increase in population of the area thus attracting other communities to come to serve their emerging demands. The increase in population from the local communities created a demand for services. These demands for services in turn attracted secondary communities.

# CHAPTER 4

## Secondary Communities

### 4.0 Introduction

This chapter discusses the secondary communities attracted to Athi River due to the increasing demand for services by the local communities. The location of the EPZ in Athi River contributed to an increase in population of the area thus attracting other communities to come to serve their emerging demands. The different local communities include EPZs and property owners'. This increased population created demands for various services which attracted another category of communities of service providers. The main arguments of this chapter are two: one that secondary communities have emerged as a result of the demands of the local communities in Athi River. Secondly, that those secondary communities emerged to serve demands of the local communities that have moved to Athi River as a result of the location of the EPZ.

The chapter also argues that the influx of population due to presence of EPZs has opened up the area for further development. This increased population is attributed to emerging employment and investment opportunities arising from the location of the EPZ. This population influx included the EPZs communities and property owners' community.

The rest of the chapter discusses the secondary communities that have been attracted to provide for the demands of the local communities in Athi River. These secondary communities include Second Generation Property Owner's, investors and business community, informal sector and service provider community.

### 4.1 Second Generation Property Owners

The study identified this community as the new investors who bought property from the original owners. The presence of EPZ occasioned appreciation of property in the area and this induced the original property owners to sell their property to the second generation property owners. The location of the EPZ in Athi River attracted infrastructural

development in the area. This infrastructural development of roads, water and sewerage facilities, the increase in reliable electricity supply network and health facilities, has attracted investment in the housing. The housing projects in Kenya have been attracted to areas where accessibility to provision of services of services such as electricity, roads, water and sewerage are available. Therefore Athi River having access to these services has attracted real estate developers, property developers and industrial estate.

The investors have also been encouraged to invest in the area by the increased demand of housing facilities. This demand is coming from two categories that is the working class (EPZ workers) and middle class income persons (from Nairobi). The working class in Athi River having gained meaningful employment, they seek better housing for their families. The real estate and property developers are therefore constructing houses that meet the needs of the emerging working class (EPZ workers, business community) as potential clientele. These housing estates include the Sheshe Estate, Kisima Estate, Elan Park Estate, Green Park Estate and Sidai Estate.

On the other hand, the middle class income persons from Nairobi city want to become home owners due to the increase in living standards in Nairobi in terms of house rent. The increase of house rent in the city of Nairobi has forced the middle class income persons to opt for other cheaper alternatives of residential houses outside the city and Athi River happens to be a best choice of a large number of them. Thus the real estate and property developers have come up with affordable housing schemes that target this middle class. They provide opportunities for the middle class to own homes in areas where security and provision of basic needs are accessible. These two categories (working and middle class) have immensely contributed to the improved housing in Athi River and its environs.

## **4.2 Investors and Business Community**

The business community included local, national and foreign investors with manufacturing and commercial businesses, small enterprises, micro-finance institutions, hotels, restaurants and any other licensed business with a specified area of operation such



as salons, electronics and hardware shops and many others. The location of the EPZ in Athi River also created new investment opportunities outside the zone. The EPZ community which included the industries, investors and workers all provided a consumer population that demanded for various services. These emerging demands also attracted various small scale and medium businesses in the area.

This business opportunities attracted both local and national investors. The local investors included small and medium enterprises such as salons, electronic and hardware shops, fast food facilities, restaurants, bars, transport, logistics, clearing and forwarding and others. These local investors provided services for the increasing population resulting from the location of EPZ.

The national business investors included medium and large enterprises and institution that have other branches in other locations or areas. These investors and institutions moved to Athi River to provide services to the local communities. Some of these enterprises and institutions included Kenya Power & Lighting Company (KP&LC), National Security Social Fund (NSSF), National Health Insurance Fund (NHIF), Banks, supermarkets and others.

The business community has also benefited from the amenities takeoff package initially developed for EPZ. One of these amenities is the modern road. The road infrastructure is a key driver to the transportation of goods and commuting in daily life. Roads are often the popular means of transportation for goods and people from place to place such as work, schools and factories by their private vehicles or public buses. The construction of modern roads in Athi River has considerably improved the movement of the vehicles. The more modern the motorways are made, the more easily and faster people and goods can be transported. This has attracted more businessmen to invest in Athi River and also encouraged new residents especially from Nairobi to move to Athi River.

The development of road infrastructure has also contributed to the increase of road transport-related businesses such as insurance, logistics and transportation companies which have resulted to increased levels of employment in the sector. Insurance for

vehicles and goods in transit is mandatory as per the Traffic Act. Therefore the increased transportation business in Athi River has attracted insurance companies to the area.

The development of economy requires efficient transportation of goods and products from manufacturing facilities to the market. Thus logistics for this operation becomes an important element in ensuring this efficient transportation. This has attracted businessmen to invest in facilities that assist in the loading and off loading of goods and products, clearing and forwarding services as well as logistics and transportation services. The good networks of roads in Athi River have resulted in the tremendous increase of car ownership, tour and travel industry and freight transport. The transport business such as taxis, tour and travel industries, matatu passenger operations, truck and lorry transportation are all flourishing. The Athi River-Namanga, Athi River-Nairobi and Athi River-Mombasa roads have become a very valuable assets to the business community. In providing the business community in Athi River with the mobility they require, as facilitated the government to collect significant tax revenues. These taxes from this sector include the fuel levy, import/export duty, weight bridge levy and public service vehicle licence fee.

The Technological Development Centre (TDC) also impacted on the business community significantly. It has become a centre for technological transfer and skills development to the EPZs workers, young people seeking jobs at the EPZs, larger business communities (DT Dobie, Toyota Kenya, CMC motors) and those seeking self-employment. The centre harbours machineries that are uniquely selected similar to those that serve the industries. New employees in the industries are enrolled for specialized courses depending on their job description under the sponsorship of their employer. For those seeking future employment in the EPZs, large business community and self employment, they sponsor themselves for training in the fields of interest. In gaining this knowledge and skills, individuals have been able to transform their life's' and those of the local communities at large. The training has enabled them gain meaningful employment to support their livelihoods and contribute to the growth of Athi River's economy. According to a respondent,

By getting training on fashion design and tailoring from the technological development centre I have been able to start my own tailoring business. The business has been successful for I design good clothes for my clients who appreciate my skills. The business has enabled me to support my family and afford to take my children to private schools.

The improvement of infrastructure around the EPZ has attracted investors and opened business opportunities in Athi River. Clean water supply and sewerage facilities, reliable supply of electricity, better housing, good road networks, good security networks, increased population and commercial buildings has attracted investors such as supermarkets, hotels and informal traders. The increased population has been one of the major attraction and key player for a ready market for these investments.

In Athi River there are currently several supermarkets evenly distributed to provide for this increasing population. These supermarkets include Eastmart, Tuskys, Naivas, and Self-services Supermarket. These supermarkets have emerged to provide service to the increasing demand from the residence in Athi River.

The hotel and hospitality industry has also grown tremendously. This can be attributed to the Athi River to Namanga highway that gives makes it to be a transit town, where buses and transport vehicles stop over night for people to slip. Also the increase population in Athi River has created a demand for recreational facilities for families and these included swimming pools, restaurants and bars. These include Connections Hotel, Antheana Hotel, Nomads Hotel, Kaputei Hotel, Esidai Hotel, Foster Hotel and others. The establishments have created avenues for relaxation for local communities and at the same time provided employment.

Through the location of the EPZ, Athi River has gained an investor friendly environment attracting informal trader and small scale entrepreneurs to establish business and various trades. The presence of better roads, improved security presence and street lights has given investor comfort knowing that their investments are secure.

The increase of population has created a high demand for education in Athi River especially the employment of young men and women in the EPZs. These young men and

women have families or immediately after employment start families which contributes to the high birth rate in the area. This young children require care so as the parents can go to work. Therefore most of the parents working in the EPZ opt to leave their children in a day-care, preparatory school, or a pre-unit. This high demand for baby care services is evident by the number of institutions in Athi River.

Also the increases in number for the middle class in Athi River, has challenged educational providers to improve or establish better institutions that give quality education. These improved institutions have benefited the communities in Athi River as the middle class demand for quality education.

This increased birth rates since the establishment of the EPZ has also created a progressive demand for primary and secondary education. Considering the time when the EPZ was started the number of households within Athi River has increased making the demand for primary and secondary education necessary for the new generation. There are great inequalities existing in teaching standards and facilities between government-run and private schools. In Athi River there are eight government-run primary schools and only one secondary school in contrast to the 40 private schools demonstrating that private education is a lucrative business in Athi River.

The EPZ workers themselves have also created a demand for college and university education. Increased demand for highly qualified professionals, competitiveness for promotion and better job opportunities, has necessitated individuals to seek better and higher education to prepare themselves for the future. Therefore universities and colleges have emerged to meet this demand within the Athi River. These universities include Daystar University, Kenya College of Accountancy (KCA) and East Africa University College, Path Institute and others. Strathmore University has also acquired land next to Daystar University and construction work has already started.

## 4.3 Informal Sector

The informal sector has also benefited from the location of the EPZ in Athi River. The informal sector includes “jua kali<sup>7</sup>” traders, hawkers or any other unlicensed business operators without formal identities. This sector emerged to serve the needs of the increasing population of Athi River due to the presence of the EPZ. As the EPZ industries create job opportunities, it also brings an influx in population within Athi River. This population influx has attracted the emergence of informal traders who provide goods and services to the local communities. A good example of the informal traders is those selling food outside the main entrance of the EPZ. These food vendors provide services to the EPZ workers who have little time in their homes to prepare food.

Another example of the informal traders is the merchandize vendors who carry their wares from place to place to the convenience of target buyers. Other categories of informal traders include roadside carpenters, metal fabricators, vegetable vendors, and garment hawkers.

According to the respondent<sup>8</sup>:

The presence of the EPZ has brought a lot of people in the area. We are able to sell more than we used to sell before the EPZ came here. I am able to pay fees for my children, pay rent and also clothing for my family. Without the EPZ, I don't know what I would be doing to support my family.

## 4.3 Service Providers

The study has identified service providers has those communities that have come to serve the emerging demands of the increased population due to the location of the EPZ in Athi River. These service providers included Mavoko Water and Sewerage Company, Kenya Power & Lightening Company, financial and banking sector, health sector, government agencies, transport, clearing and forwarding communities.

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<sup>7</sup> Jua Kali Traders include artisans, vendors, and informal retailers.

<sup>8</sup> Vegetable vendor

In providing an enabling environment within the economic zone in 1990, Export Processing Zone Authority (EPZA) provided water supply to serve the EPZ site. This was a way to attract more investors to the Athi River economic zone. It is through the EPZ that communities in Athi River and its environs have been able to benefit from the water supply infrastructure. The EPZ Authority's water project in Athi River has brought additional water supply package for the local communities in the Athi River/Mavoko and Kitengela areas. Initially, arrangements were made to get water from Kilimanjaro to supply the Athi River region. Supply pipes were laid down up to Athi River. However, controversy over the use of the water by the Maasai and Kamba communities along the areas where water pipe passed through made the water supply unreliable. The two communities were in conflict each demanding a fair share in the use of the water and the conflict escalated to the extent that each community sabotaged the water pipe to gain access to water supply. The Government through the EPZA had to seek different source of water to supply the EPZs. The city of Nairobi water supply department had to provide the alternative source of water.

The installation of the water supply included a 24 inch pipe from Nairobi with a big storage tank in Mlolongo area which has been made available to supply water to the communities in the neighbourhood initially through the EPZA and later through the Mavoko Water and Sewerage Company (MAVWASCO). The EPZ Authority has been in charge of water and sewerage supply in Athi River. However the increased demand for the services in 2002 saw the establishment of an independent body to manage and oversee provision of water and sewerage services to communities. The water Act cap 372 of 2002 was formulated and passed by parliament. It is this Act which stipulated the establishment of MAVWASCO. This water supply amenity by EPZA has made Athi River and Mavoko town to have the best water supply facility in the whole of Machakos County.

The increased population in Athi River as a result of new job opportunities created by the establishment of EPZs has also increased the demand for water supply. The increased demand for water and sewerage services by communities and other business within Athi River and its environs has been overwhelming for EPZA whose main focus was the

export processing zone. The government has there formed an independent body (MAVWASCO) to oversee the supply of these services to the communities. Currently there is a transition to handover those clients (communities) that were under the EPZA grid to MAVWASCO. However EPZA will continue to manage the water supply to the EPZ companies. According to a key informant (KI2),

The Mavoko Municipalities and the communities living in Mavoko would be having an acute shortage of clean water if it were not for the establishment of an Export Processing Zone in Athi River.

Before the establishment of the EPZ in 1992, communities in Athi River and Mavoko neighbourhood used to rely on the River Athi and bore holes for their water supply. As the Athi River/ Mavoko town continued to grow with more industries coming up in the area, the river continued to be polluted. Pollution for the Athi River is also been on the increase from the tributaries originating around Nairobi and beyond. It is also worth to take note of the fact that most of the bore holes in the area were salty in nature thus consumption of water from them was limited to homestead chores rather than drinking and commercial use. According to a respondent;

We could not use salty water from bore holes for commercial purposes because it causes rusting and corrosion of galvanized iron pipes, taps and breakdown of machinery. The river water we used has also been polluted by the upcoming industries. We used to buy water from City Council of Nairobi which was costly for business.

The provision of clean drinking water by the EPZA reduced communicable diseases like Typhoid, Dysentery, Diahorrea, Amoeba, and Cholera which were very prevalent in the area.

Provision of adequate and reliable electricity in Athi River has been attributed to the location of EPZ in the area. The Kenya Power and Lighting Company Limited (KPLC) has had to supply power reliably so as to meet the increasing needs and demands of end-users and therefore required to expand and improve its infrastructure of transmission lines and substations on an ongoing basis. The substation was built on EPZ land with the understanding that it will satisfy EPZ needs and also be used to serve the residents and business community in Athi River and its environs. The upgrading of the substation in

Athi River has increased the security and quality of supply of electricity to the surrounding industries, businesses, homes and social institutions among others.

According to respondents;

Since the establishment of a KPLC office in the area we have been receiving fast and effective service for new connections and billing. Previously, we had to travel all the way to Nairobi.

The communities, business and industries have all benefited from the presence of the substation in the EPZs area. According to 2009 Census report, there are 117,873 households in Machakos District with Athi River having 45,482 (39%) households with electricity. This high number of households with electricity shows the impact that the location of the EPZs has had on Athi River and the communities in the area. This is a significant benefit to the local community which would be missed in a purely cost benefit analysis in the normal econometric analysis of the benefits accrued from EPZs in an area.

The location of EPZs in Athi River brought about new job opportunities, adequate water supply, reliable electricity supply, better road networks, better housing facilities and conducive business environment. This increased population comprises of workers with gainful employment at the EPZs as well as self employed entrepreneurs, small scale businessmen/women and informal traders, middle class from Nairobi, foreign investors and business individuals all seeking to provide goods and services to the EPZs as well as the communities which migrated to Athi River. This population which comprises of different communities brought about new demands in Athi River area and its environs. One of the major demands created was financial institutions services. With such a population which has access to resources and which requires such financial services to maintain and manage their resources therefore created an enabling environment for financial institutions to develop and thrive. Such financial institutions include banks, co-operate societies, micro-finance banks and SACCOs.

Financial institutions globally always strategise to capture this growing financial business opportunities within a ready population with resources. Each of these institutions targeted a specific group within Athi River but ended up benefiting all the



local communities. First, the banks targeted the increases cash flow within the area from business entrepreneurs, industries/companies and EPZs workers. They also aimed at the newly employed generation (young men and women) for the EPZs and start up businesses within Athi River and its environs as potential customers. The area has seen the establishment of Equity bank, Co-operative bank, Family Bank, Bank of Africa, Kenya Commercial Bank, and Consolidated Bank. These establishments are evident to the increased number of individuals seeking banking services to manage their resources.

Second, Co-operative Societies, micro-finance banks and SACCOs targeted the EPZs workers as a way to establish and encourage and nurture a saving culture amongst the community. With the emerging population having gainful employment to support their needs and save for future investment or emergencies these financial institutions have found a ready market for their product packages. These product packages are savings, mortgage and credit in nature. The population in Athi River having the ability to earn and control their resources has enabled them to take advantage of the financial product packages offered by these financial and banking institutions. These financial institutions include Rafiki micro-finance, Musoni Next Generation Microfinance, Kule-Dairy Co-operative, and Kenya Women Trust Fund. Other financial and monetary related institutions include Western Union, M-pesa, and Airtel, orange and so on.

Health is a key component in any society and with the increase of Athi River population, there has been an increase of health facilities as well. This increase of health facilities can also be attributed to the increased demand of better health care by the lower and middle class in Athi River. The emergence of a new middle class from the EPZ and from Nairobi has attracted major health institutions to serve this populace. The middle class have a preference to certain institution when it comes to service delivery. Also being members of health insurance covers that ascribe to these major hospitals has motivated these institutions to establish branches in Athi River as way to bring service closure to its clients. These institutions include the Aga Khan University hospital, Gertrude Children Hospital, and Nairobi Women's Hospital.

The health industry in Athi River has not only increased because of the middle class but also the ever increasing population of job seekers to the EPZ, hotel and hospitality industries, educational centres, supermarkets, banks and micro-finance institutions and other emerging industries. These health institutions have emerged to cater for the working class and these include Shalom hospital, Mutonguni hospital and St. Pauls Hospital. All these classes of health institutions have contributed to the health population of Athi River. For without a health population development would be stagnating. The local communities have benefited from these health institutions immensely.

The increase in population in Athi River due to the location of the EPZ has also caught the attention of government which has established some of its agencies to provide services to its citizens. The government is a provider of public goods which are non-excludable in nature. This is one of the functions why governments exist in society. Athi River having a constant increase of population due to new opportunities arising from the location of the EPZ, the government had to recognize it under the Constitution 2010 (Independent Electoral and Boundaries Act). Athi River was therefore been upgraded from a division to a district on its own (Athi River district) in 2011/2012. This upgrading came with some additional advantages such as administrative units, opening of some government agencies to provide services and resource allocation.

Previously Athi River district was a division in Kathiani Constituency but after the new boundaries demarcation by the Independent Electoral and Boundaries Commission (IEBC), it was upgraded to a district. This new administrative unit had three divisions which are; Athi River, Katani and Lukenya. Currently, Athi River is a Sub-county of Machakos County. This was effected after the March 2013 general elections that operationalized the County governments. The upgrading of Athi River's administrative units also had a positive impact where the government had to establish some of its agencies to manage and provide services to the people. Some of these government agencies that have been established include the judiciary, sub-county commissioner's office, gender & social services, immigration, youth affairs and cooperatives offices. All these agencies provide various services to the communities in Athi River. For instance, the judiciary to serve justice, cooperative to manage and register micro-finance

institutions, health facilities to provide health services, youth affairs to encourage and facilitate youth empowerment in the areas and Gender and Social Services to look for the welfare of the communities in Athi River.

The upgrading and establishment of government agencies in Athi River also meant that the government was to allocate more resource to the area to facilitate these function and services. The government has therefore provided funds towards construction and operationalisation of these facilities and also deployed personnel to provide services to the communities in Athi River. The local communities can now boast of being as part of government because they enjoy services. This enjoyment has reduced the time and money that local communities used to spend in seeking some of these services such as issuance of identification cards, registration of community based organizations, seeking justice from the law courts, police services and even empowerment training centres for the youth. These government agencies have benefited local communities in Athi River by providing services. For instance the establishment of Mavoko law courts in Athi River, local communities have benefited in accessing justice at low cost and convenience. Previously, communities seeking justice travelled all the way to Machakos law courts. This was cumbersome, time consuming and costly. But with the presence of Mavoko law courts communities are now enjoying better and efficient services. According to the KII:

Mavoko law courts have made the work of police officers, business communities and residents easier. The police used to travel to Machakos law courts to attend hearings and this disadvantaged both police and family members of arrested individuals. Also the Mavoko law courts are now collecting more revenue from bonds and bails.

The location of the EPZ in Athi River has also had a spillover effect in attracting private and public investors to provide clearing and forwarding services to the EPZ. The EPZs operating in an importing and exporting industry requires a facility to provide for an efficient clearing and forwarding of goods raw materials to and from the EPZ through the sea port of Mombasa. The congestion of the Mombasa port gave rise to the need to establish an inland dry port. An Inland dry port is a custom clearance facility where goods from the nearest sea port to the inland can be moved straight from the sea port to the dry port without undergoing customs clearance and inspection at the sea port. The

process of customs clearance and inspection is then undertaken at the inland dry port which is usually located strategically near the exporters/importers business location. For an EPZ, a dry port in its neighbourhood facilitates both imports to and exports from the EPZ. A dry port facility reduces cargo congestions at the sea ports as well as reducing the time for customs inspection and clearance. Pepe Company was therefore established in Athi River to provide a dry port facility for customs inspection and clearance services for EPZ goods. The company is the only one of its kind in Kenya and was established to facilitate clearance of EPZ goods from the sea port of Mombasa. The company handles incoming imports and outgoing exports for the EPZs. It also provides offices for KRA /customs officials.

Goods are transported from the Mombasa port to Athi River dry port (Pepe), where they are off loaded, inspected and cleared by customs /KRA officials. The company has been accessed with a railway lane for the easy transportation of goods. The dry port is also accessible by the wider business community operating in Athi River/Mavoko Town, who is not within the EPZ. This is yet another amenity established as a result of the location of the EPZ in Athi River but available and accessible for use by the wider business community operating in Athi River and its environs.

The first modern railway station in Kenya was constructed to serve Athi River area. The Syokimau railway station was one of the flagship projects under the vision 2030. Vision 2030 is the current Kenya government's policy paper (Blue print) on development. The railway station operates two train trips every morning (7.00 & 9.00 AM) from Syokimau to Nairobi and another two Train trips from Nairobi to Syokimau in the Evening (5.00 & 7.00 PM). The train serves the communities living in Syokimau, Mlolongo, and Athi River town. There are Shuttle buses which pick the passengers in the morning from designated pick-up points and in the evening they drop them back. Those with cars leave them at the railway parking yard which was specially designed for that purpose. A daily parking fees is chargeable for each car parked. The development of this amenity or project by the Government to serve the EPZ region area has been praised by the communities living in Athi river area because it has resulted to significant savings and benefits to the communities'.

The train fare charges are low compared to normal Bus and *Matatu* fare charges between Athi River and Nairobi. Those with cars save in terms of petrol, car maintenance, tear and wear high parking fees chargeable by Nairobi City Council, inconveniences of traffic jams and considerable savings on expensive petrol. Persons living in Athi River and working in Nairobi were earlier compelled to wake up as early as 4.00 AM in order to go through the heavy traffic jams and get to work on time at 8.00 AM. The train encounters no traffic jams and takes only 30 minutes from Syokimau Railway station to the Nairobi Railway station. A vehicle plying between the two railway stations during the same time which is usually characterised by very heavy traffic jams in the morning takes approximately 2 hours. This is partly due to the fact that there is heavy traffic at the Jomo Kenyatta International Airport with planes on local and international flights landing and taking off at the Airport and hence many vehicles ferrying passengers to and from the city centre of Nairobi using the same Mombasa to Nairobi Highway. In addition to the increasing population in the area, the Syokimau railway station has provided a convenient mode of transport to the residence and travellers. The community is expected to further benefit when the railway service is further extended to Athi River town centre to conveniently serve the larger Athi River community.

## **4.4 Conclusion**

This chapter argues that the influx of population due to the presence of the EPZ created demand for various services thus attracting service providers. These service providers are referred to as the secondary communities. The chapter argues that the secondary communities were attracted to Athi River to serve the emerging demand of the local communities. These secondary communities included the informal traders, second generation property owners, investor and business community and service providers

# CHAPTER 5

## Summary, Conclusion and Recommendations

### 5.0 Summary

The Export Processing Zones (EPZs) has impacted not only the Gross Domestic Products (GDPs) of host countries but also benefited the local communities. This study was an attempt to examine the impact of EPZs on the local communities especially those living around or near their locations. Globally, the EPZ have promoted manufacturing for export targeting foreign exchange earnings, Foreign Direct Investments (FDIs), employment, technology transfer, skill spillovers, utilization of local raw material inputs, value addition, and, sub-contracting to local enterprises for services and supply of inputs. In Kenya the EPZA promotes export oriented industrial investment within designated zones. EPZ investors enjoy attractive fiscal incentives and an already developed infrastructure by government as a pre-requisite. These infrastructures have necessitated the development of various amenities to facilitate their operations. This include roads, power electricity stations, water supply systems, sewerage and drainage infrastructure, administrative and security offices. The amenities were developed to create an enabling environment to attract industries and Enterprises to invest within the EPZs. This study referred to these amenities as the takeoff package for development.

This amenities takeoff package for development is beneficial to both the EPZs and also to the local communities living around or near the EPZs. The study categorized the local communities as EPZs communities, business community and property owners' community. The findings of the study indicate that due to the non-excludability nature of the amenities takeoff package, the communities in the area automatically gained access and used some of these amenities without restriction. These amenities provide the local communities with "takeoff" factors that open up the area for development. Although these developments are not captured in a "purely cost benefit analysis", during an evaluation of the EPZs' performance at national level in a host country, this study has established that the benefits to the local community is significant.

The impact of the location of the EPZ in Athi River to the local communities has been beneficial. Despite the initial conceptualization that EPZs provide job employment, technological transfer and increase of export production of host countries, it also benefits the local communities of their location. The findings of the study show that the EPZs established amenities (takeoff package for development) are non-excludable in nature and their location influences/attracts the establishment of other communities as service providers to local communities.

The emergence of service providers in Athi River was because of two main reasons; one that service providers emerged as a result of the demands of the local communities in Athi River. Secondly, that those service providers emerged to serve demands of the local communities. These two factors contributed to the emergence of service providers to serve the demands of the local communities. The service providers include financial, hotel and hospitality, educational, real estate, health, government agencies, transport, clearing and forwarding communities.

## **5.1 Conclusions**

The findings of the study have informed the researcher that the location of the EPZs in Athi River came with an amenities takeoff package for development that benefited the local communities due to their non-excludability nature. The study also argues that the non-excludable nature of the amenities takeoff package for development and the influx of population due presence of the EPZ have an impact to the local communities. The study concludes by agreeing with the statement “that the location of the EPZs has had an impact to the local communities in Athi River”.

The findings of the study have led to the following conclusions:

- First, the location of EPZs generally attracts more investors to its environs. In the process of establishing an enabling environment for EPZs, governments develop infrastructural and service amenities that are non-excludable in nature (takeoff package for development). These amenities are initially meant to serve the EPZs but also end up serving communities in the area.

- Second, the presence of EPZ in a location also influences other investors to develop. The environments where EPZs are located are economically suitable for other investments to thrive. The means of production (labour, capital, raw materials) are easily accessible. The Athi River zone location is accessible to the means of production and with the governments facilitation there has been an emergence of various industries. These industries have taken advantage of amenities established to serve the EPZ to develop and expand their production. Examples of such industries in Athi River include the Bamburi Cement, Simba Cement, Rhino Cement, Savannah Cement, SAJ Ceramics, Devki Steel Industries and others.
- Third, Export Processing Zones (EPZs) not only benefit the host countries but also local communities. Host communities not only benefit from the non-excludable amenities that serve the EPZs but also from the influx of population. The increase of population creates a demand or market for various services which attract other communities to emerge as providers (service providers). These communities specifically serve the needs of local communities in those areas.
- Lastly, the location of EPZs contributes to the increase of population and improves the investor environment of local communities. The EPZs create job and investment opportunities that encourage rural-urban and urban-urban migration. These migration results to population influx of other communities and also provides a ready market for various service industries. This population after acquiring jobs and businesses in the EPZs create a new demand and needs for housing, healthcare, education, security and even banking services. These needs and demands for these services attract more investors to provide.
- The location of EPZs in Athi River largely benefited local communities through the amenities established to serve the EPZs due to their non-excludable nature and the influx of population due presence of the EPZ.



## **5.2 Recommendations**

The study has established that the location of the EPZ in an area results into several benefits to the local communities and opens up an area for further development. The study makes the following recommendations:

- The government should establish more EPZs in other areas of the country which are convenient for EPZ investment. This is because EPZs not only contributed to the development of host countries Gross Domestic Production (GDP) but also to the development of local communities.
- That assessment and evaluation of the performance of EPZs should not only be based on a purely Econometric analysis but also take into consideration the non-tangible benefits which accrue to local communities.
- There should be a deliberate effort to link the amenities meant for the EPZ to also serve local communities. This will facilitate faster development and opening up of different parts of the country for development.

## **5.3 Area of further study**

This study aimed at establishing the impact of the location of Export Processing Zones to the local communities in Athi River. The study specifically examined the extent to which the location of EPZs in Athi River has influenced the development of amenities for the local communities. The study identified the benefits that have accrued to the local community as a result of the location of EPZs Athi River. More research needs to be carried out to establish the wider spectrum of non tangible benefits that accrue to local communities due to the presence of an EPZ an area like technology transfer, local entrepreneurship development and so on.

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# **Appendix I: Letter of introduction to Respondents**

**UNIVERSITY OF NAIROBI,  
DEPARTMENT OF POLITICAL SCIENCE,  
P.O.BOX 30197-00100,  
Nairobi.**

**Dear Respondent,**

## **RE: REQUEST TO COLLECT DATA FOR A MPA PROJECT**

I am a post graduate student at the University of Nairobi pursuing a Master of Public Administration degree.

Pursuant to the pre-requisite course work, I am currently conducting a research project on the impact of the location of export processing zones to the local communities in athi river. The focus of my research will be on extent to which the location of the EPZ in Athi River has influenced the development of amenities for the local communities. This will involve use of questionnaires administered to staff working in the various firms within the Athi River EPZ complex, the general public, members of the communities who live within the locality of the EPZs, Government officers working in Athi River and members of staff of the EPZA who all belong to the different communities.

I kindly seek your assistance and authority to access information for the research at your firm/company/organisation through questionnaires and interviews. The information collected will be used exclusively for academic purposes and will be held in strict confidence. Your assistance is highly valued. Thank you in advance.

Yours faithfully,

**Gregory Muia Munyao  
MPA Student  
UNIVERSITY OF NAIROBI**





# Appendix II: Questionnaire

## EPZS IMPACTS TO THE LOCAL COMMUNITY

1. Do you think EPZs has benefited the local community?

a. Yes                    [ ]                    No                    [ ]

2. If yes state how the local community has benefited as a result of the introduction of EPZs.

.....  
.....  
.....  
.....

3. In your opinion, would you say the location of EPZs in Athi River has contributed to the development of the local community?

.....  
.....  
.....

4. How has the location of EPZ benefited you as a member of the local community?

.....  
.....  
.....

5. Do you think the location of the EPZ has assisted the youth on training?

.....  
.....  
.....

6. Explain your own view of the technological transfer to the workers in the EPZ companies

.....  
.....  
.....

7. Do you think the presence of the EPZ has assisted the local community to establish their own business in the neighbourhood?

.....  
.....

8. What are some of the developments that have been brought about by the presence of the EPZ?

.....  
.....

9. Would you say that the location of the EPZ has influenced the development in the area?

Yes [ ]                      No [ ]

1) If yes, kindly explain,

.....  
.....  
.....

10. Are there known EPZ workers who have started their own business?

.....  
.....  
.....  
.....

# Appendix III: Key Informant Interview Guide

1. How long have you lived/worked in Athi River
2. Establish skills acquired
  - i. Has the presence of the EPZ influence the development of skills among local communities
3. Establish benefits to local communities
  - i. Has the location of EPZ benefited local communities
  - ii. What are some of the benefits that local communities enjoy due to the presence of the EPZ
4. Establish the extent of amenities development
  - i. Has the location of EPZ influenced development in the area
  - ii. Name some of these developments
5. Has the presence of the EPZ influenced your operations



## Appendix IV: List of Key Informants (KI)

Key Informant Code	Company	Date of Interview (2013)
KI 1	Assistant Sub-county Commissioner	30 <sup>th</sup> July 2013
KI 2	Senior Manager (EPZA)	30 <sup>th</sup> July
KI 3	CEO (MAVWASCO)	30 <sup>th</sup> July
KI 4	Manager (KPLC Kitengela Office)	31 <sup>st</sup> July
KI 5	Principal (TDC)	31 <sup>st</sup> July
KI 6	Registrar (TDC)	31 <sup>st</sup> July
KI 7	Officer Commanding Station (OCS) Athi River	8 <sup>th</sup> August 2013
KI 8	Assistant Chief (Athi River)	8 <sup>th</sup> August
KI 9	District Health Officer (Athi River)	8 <sup>th</sup> August
KI 10	District Cooperative Officer	8 <sup>th</sup> August
KI 11	District Gender and Social Officer	9 <sup>th</sup> August
KI 12	District Youth Officer	9 <sup>th</sup> August
KI 13	Mavoko Ward Representative	9 <sup>th</sup> August 2013
KI 14	Town Clerk Mavoko	9 <sup>th</sup> August