The Effect of Macro Economic Factors on Financial Performance of Export Processing Zones in Kenya

(A Case Study of Export Processing Zones in Mombasa)

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Abstract: Export processing zones have been in existence for decades but have attracted renewed attention in recent years. However, their success in promoting trade across countries is mixed. The main objective of the study was to investigate the effects of macroeconomic factors on the performance of EPZ in Mombasa. The specific objectives were to determine the extent to which the exchange rate control policies, the social economic issues, Kenya's export-led growth strategy and the Government policy affects the performance of EPZ in Mombasa.

This study adopted descriptive design. Primary data was collected using semi- structured questionnaires. The researcher mailed the questionnaires to the respondents with a request to return after completing the same. Secondary data was sourced from the economic survey (2009) compiled by Kenya Bureau of statistics. Purposive sampling was used as the researcher targeted respondents who are knowledgeable in the area of study. Mainly this included the Chief Executive Officers of the EPZA, the EPZ, the Kenya investment Association (KIA). Qualitative and quantitative data was operationalized, categorized and then finally coded. Descriptive statistics was used in analysis. From the findings the study found out that there is a strong positive correlation between macroeconomic factors and growth in exports in the EPZ. The EPZ therefore view the economic factors as very important hence the specific macroeconomic variables have a positive effect on the growth of exports in the EPZ. The study recommended that the Government should aim at diversifying its exports to foreign markets as well as improving competitiveness of EPZs by providing special concessions on energy costs, improving labor relations by setting minimum wages and by improving the transport infrastructure and easing congestion at the ports. The Government should also lower VAT for business within the EPZ. Further, the Government should lay effective and efficient structure to compete like India and china by reviving collapsed industries such as textile by developing cost-effective cotton textile sectors that provide fabric inputs to the garment industry.

Keywords: Effect of Macro Economic Factors, Financial Performance, Export Processing Zones.

I. INTRODUCTION

1.1 Background of the Study:

Stanlake (2000) asserts that exchange rate is the rate at which a country's currency is exchanged for the currencies of other countries. It also refers to the price of one currency in terms of another. Exchange rate can also be used as an instrument of monetary policy, although it has been controversial since the inception of the Central Bank. Frequency changes in the shillings exchange rate would adversely affect investment because of the associated uncertainty. Free Market mechanism operates through the interaction of forces of demand and supply. The demand for the foreign exchange is derived from the demand for imports. The more essential the import of goods, machinery and services are, the more will be the demand for the foreign exchange. The supply of the foreign exchange depend on hosts of factors which include; volume and value of visible and invisible exports, the quantum of foreign loans and grants, direct foreign investment and portfolio investment by foreigners (Manab, 2003).

Equilibrium exchange rate is determined by the interplay of the demand for foreign exchange and the supply of the foreign exchange. The exchange rate varies with varying supply and demand conditions, but it is always possible to find an equilibrium exchange rate which clears the market and creates external equilibrium. Real effective exchange rate (REER) policy seeks to ensure balance of payments equilibrium and persistent differences between foreign receipts and payments over a long period indicate that the exchange rate and domestic policies are not compatible with developments in the external sectors. Mudida (2012) assert that changes in the exchange rate can have a powerful effect on the economy, but these effects take time to show through. There are time lags between a rise or a fall in the exchange rate, and changes in variables such as inflation, GDP, exports and imports. Gross Domestic Products (GDP) at purchased prices is the sum of the gross value added by all residents' products in the economy plus any product taxes not included in the valuation of output. It is calculated without deducting for depreciation of fabricated assets or for depletion and degradation of natural resources. Value added is the net output of an industry after adding up all outputs and subtracting intermediate inputs. The origin of value added is determined by international standard industrial classification (ISIC, 2002).

Dollar conversion is required in order to produce national accounts aggregate that are measured in the same standard monetary units, the value of output must be converted to a single common currency. The bank conventionally uses the US dollar and applies the average official exchange rate reported by the International Monetary Fund (IMF) for a particular year. An alternative conversion factor is applied if the official exchanged rate is judged to diverge by exceptionally large margin from the rate effectively applied to transactions in foreign currencies and trade products (Manab, 2003).

The creation of International Monetary Fund (IMF) represents a major effort at international monetary cooperation. Its main objective is to promote exchange rate stability and orderly exchange agreements and avoid competitive devaluations. It also helps re-establish multilateral system of trade and payments, eliminating foreign exchange restrictions and facilitate the expansion & balanced growth of international trade. When prices fall, exports increase and imports decline resulting to favorable Balance of Payments (BOP). Consequently, the demand for domestic currency increases in the foreign market and its exchange rate rises. On the contrary, a rise in domestic prices leads to decline in exports causing a negative impact on the economic growth and on the other hand, an increase in imports results in unfavorable Balance of Payments (negative Trade Balances). As a result, the demand for foreign currency increases and that of domestic currency falls, thereby lowering the exchange rate of domestic currency. The transactions in foreign exchange is in the form of either earnings, or spending or saving or any other types of inflow and outflow, ultimately reflects the state of equilibrium and disequilibrium in the Balance of Payments.

Balance of Payments is merely listing all receipts and payments in international transactions of a country, in this sense; BOP is an application of double-entry book keeping. Exchange rate fluctuation also affects the performance of the following; Balance of Trade (BOT) which is the difference between exports and imports of a certain country at any point in time. Balance of Services (BOS) which is the difference between export services and import services. Balance of unrequited Transfers (BOUT) which is the difference between the unrequited receipts and unrequited payments. Balance of Currents Account (BOCA) which is represented by the difference between exports of goods, services, unrequited receipts and imports of goods, services, unrequited payments.

When tariffs and quotas do not help in restoring the balance of payment equilibrium, countries very often resort to the exchange control. Under exchange control, payments for imports and other international payments are determined solely by the government. The basic objective is to ensure optimum utilization of the foreign exchange i.e. optimum earnings, spending and saving foreign exchange. The effectiveness of foreign exchange control lies more in the fact that it controls flight of capital. This is specifically important when a country's currency is under speculative pressure. In such cases, tariffs and quotas would not help and therefore being a direct control on exchange would be able to prevent flight of capital or what is known as hot money (William, 1980). There may be various types of exchange control. Under one type of exchange control, known as exchange pegging, the government intervenes to keep the rate of exchange at a particular level.

1.1.1 Export Processing Zone (EPZ):

One of the Kenya's key strategies in its economic development efforts is the achievement of an export led growth. It is felt that an export led growth would bring more investors and earn the country the much needed foreign exchange which would in turn enable it procure more goods and services that are critical to its overall socio-economic development drive. Increase inflows of foreign currency to the country from the country's exports would lead to increase in investments which would further leads to creation of new jobs in the county. In addition the country's revenue base would be

expanded, leading to collection of more revenue to help meet the challenges in running the machinery of the government. Prosperity would be visibly noticed in the country's economy.

It is against this background that Kenya established the Export Processing Zones (EPZs) program in 1990, with the enactment of the export processing zones Act (CAP 517 of the laws of Kenya). The program, managed by the EPZ Authority (EPZA) promotes export oriented industrial investment within designated zones. EPZ investors are provided with fiscal incentives together with simplified operating procedures and good infrastructure. Furthermore, the EPZ Authority gives facilitation and after care services to new and existing investors who are also assured lower operational costs, faster set up and smoother operations. The government of Kenya has also put in place appropriate export support structures and incentives have been made available to exporters. Export promotions have been introduced in order to further the operations of the exporting industry. Appropriate infrastructures have been installed and standards have been put in place. (Government Session Paper, 2003)

Kenya inaugurated her Export Processing Zones program in 1990 as part of the Export Development Program (EDP) being undertaken by the Government to transform the economy from import substitution to a path of export led growth. EPZs are designed to further integrate Kenya into the global supply chain and attract export-oriented investments in the zones, thus achieving its economic objectives of job creation, diversification and expansion of exports, increase in productive investments, technology transfer and creation of backward linkages between the zones and the domestic economy. The program has contributed significantly to achieving these objectives with over 40 zones in place, close to 40,000 workers employed and contribution of 10.7 % of national exports. Over 70% of EPZ output is exported to the USA under AGOA. EPZs continue to provide investors with a predictable, attractive and efficient modus operandi for tackling regional and global markets for goods and services. Attractive tax incentives, a facilitating operating environment, good physical infrastructure and day-to-day support by EPZA staff have all resulted in over 80 firms from all over the world deciding to make the Kenya EPZs their home (Tekere, 2000).

Many of these have made additional investments and expanded their operations, as a manifestation of their initial success. The EPZ Authority is the first port of call for any investor wishing to invest in Export Processing Zones. It has been tasked by the Government to promote zone development and the carrying on of export-oriented activities in these zones. It's highly streamlined investment facilitation framework allows an investor to set up operations without unnecessary delays. Its business is to help Kenya develop into a value-added, technology driven and export-oriented economy. EPC (2001) posit that in the past few decades EPZ has experience an uphill task in trying to achieve its objectives of developing the country or nation in a value added, technologically driven and export-oriented economy. This is due to the unstable inflation rate that has been rising sharply resulting to unfavorable balance of payments or balance of payment deficit.

The Government initiated an extensive tax reform and also established several export schemes in the early 1990's as a strategy to encourage diversified export-oriented manufacturing. The schemes provide varying incentive package such as Export Processing Zones (EPZs), which are administered by the Export Processing Zones Authority (EPZA) and provide companies located in the zones with a number of incentives. Among the incentives provided are a 10 year corporate tax holiday and a flat 25 % corporate tax for 10 years; exemption from both stamp duty and VAT and facilitation on issues of work permits. The firms involved in EPZ operations may locate in already developed industrial parks or may choose to designate their premises to EPZ after meeting certain conditions laid down by the EPZA; Manufacture Under Bond (MUB), administered by the Investment Promotion Centre (IPC), exempts from Duty and VAT, those exporters who import machinery and raw material in manufacturing goods for export; Export Promotion Programmes Office (EPPO) is a duty drawback scheme, administered by the Treasury (EPC, 2001).

1.2 Statement of the Problem:

Exchange control policies set by IMF to promote exchange rate stability and maintain orderly exchange arrangements among members; have failed to achieve this major objective and conversely resulted in competitive exchange depreciation and Balance of payments disequilibrium. The structural adjustments of the exchange rate in order to supplement the domestic adjustment mechanism have bore no fruit and as such this may not take the nation out of the woods. Exporting industries in developing economies are facing underpinning challenge as a result of the rapidly changing foreign exchange instability and recent currency fluctuations which has significantly affected their exports to American markets (Manab, 2003).

The establishment of an International Monetary Fund was the outcome of a conference held at Bretton Woods, New Hampshire, in the summer of 1944. The main purposes for which the IMF was set up were to provide exchange stability, temporary assistance to countries falling of the foreign exchange and international sponsoring of measures for curing fundamental causes of disequilibrium in the balance of payments. The IMF is a pool of central banks reserves and national currencies which are available to the members under certain conditions. Being a strategy that is deemed to jump start economic growth in the global markets, exchange rate impacts is worth examining to determine where it fall short of its expectations (Manab, 2003).

The study previously taken by the Kenya bureau of statistics Kenya national bureau of statistics economic survey (2009) and other empirical studies reveal that the exchange rate in Kenya has been at its highest peak for the last couple of years. This has made our currency to be more expensive as compared to international foreign currencies, resulting to less export as most customers will opt to import from other countries whose currencies are cheaper. In Kenya now, most exporting companies have completely closed down causing a very serious negative impact on our economy and unfavorable balance of trade. This has forced the country to operate in unfavorable balance of payments, where its imports are more than exports.

Consequently, the overall development of this country has been crippled making Kenyan to be a country to be shunned by most international investors that would otherwise boost our economy with their investments. The trend of unemployment also has risen sharply following the closure of these companies who couldn't sustain their market share because of unfavorable exchange rate. The exporting companies and industries contribute much to the country's stable economy and if the issue isn't analyzed and controlled in good time, then the future financial stake will unfortunately be questionable. In its pursuit of its export led growth strategy in its economic development, Kenya established the Export Processing Zones in 1990 with sole objectives of producing items for the export market. The Government of Kenya has instituted support systems that include incentives to exporters and export promotions. The infrastructure in EPZs has improved and standards such as ISO 9000 are in place. (www.epzkenya.com). the main purpose of this study was therefore to investigate the effects of exchange rate on Kenyan exports through EPZs to the American markets.

1.3 Objectives of the Study:

1.3.1 General Objective:

The main objective of the study was to investigate the effects of macroeconomic factors on the financial performance of E.P.Z in Kenya.

1.3.2 Specific Objectives:

i. To determine the extent to which the exchange rate control policies affect the financial performance of EPZ in Mombasa

ii. To establish the extent to which the social economic issues affect the financial performance EPZ in Mombasa.

iii. To establish the extent to which Kenya's export-led growth strategy has affected the financial performance of EPZ in Mombasa.

iv. To establish how the Government policy affects the financial performance of EPZ in Mombasa.

1.4 Research Questions:

i. To what extent has the exchange rate policy has facilitated Kenya's Exports to American markets?

ii. What are some of the social economic issues faced by EPZ organizations in Mombasa?

iii. What challenges are encountered by EPZs in achieving Kenya's export-led growth strategy?

iv. How does Government policy on EPZ affect financial performance of EPZ?

1.5 Significance of the Study:

The study will be important to the Government of Kenya, to the management of EPZs, EPZA, to firms operating in EPZ, to investors, researchers and academicians.

1.5.1 The Government:

To the Government of Kenya, the findings of the study will help the government in evaluation of its exports-led economic growth policy and know the challenges involved in delivering this strategy. The government will use the information to adjust and adopt its processes with a view to contributing to the success of the factors that facilitate exports of firms in the EPZs.

1.5.2 E.P.Z firms:

To the management of EPZ Authority, the success of EPZ scheme is premised on the availability of reliable markets for products of the EPZs and all the support systems in the export process. The reliable markets and the support systems would also play a catalytic role in attracting the investors to the EPZs in the realization that their products will find ready markets. This study will assist the management of Authority to appreciate the complementary role played by AGOA and therefore joint in lobbying for the extension of the Act.

1.5.3 Investors:

To the investors, the study will assist them local and foreign, current and prospective, in understanding the role played by the EPZ and the opportunities provided by favorable exchange rate. The study will assist the Government of America in evaluating the success exchange rate control in facilitating export and development strategy in Africa. One of the areas the US Government may have to consider is to strengthen IMF strategy of control and possibly encourage the provision of more items that could impact on the growth of the Kenyan economy on a wider scale, for example agricultural products.

1.5.4 Researchers and Academicians:

To the researchers this proposal will be insightful and a basis to understand and carry further research work on the various macro factors affecting the financial performance of E.P.Z in Mombasa, to the academicians it will be resource material to understand the variables affecting the export and financial performance of E.P.Z.

1.6 Scope of the Study:

The scope of the study was EPZ in Kenya. Data is to be collected from the organization operating in the EPZ in Kenya, the EPZ Authority, the Export Promotion Council (EPC), and the Investment Promotion Centre (IPC). The target group is the export processing zones employees, who will be given self-administered questionnaires. (See appendix 1). This study only focuses the macro economic factors that affect the export performance EPZs in Kenya.

II.   LITERATURE REVIEW

2.1 Introduction:

This chapter presents literature that has been reviewed for the purpose of the study. This study will adopt three main theories: purchasing power theory, Balance of payments approach theory and monetary approach theory. Literature is mainly on the EPZs, the export drive in general and in particular, the support that the government provides to the export effort, the infrastructure associated with export trade, the promotion of exports and the observance of standards and specifically ISO 9000 on exports.

2.2 Theoretical Framework:

2.2.1 Purchasing Power Parity Theory:

Purchasing power parity is an economic theory that estimates the amount of adjustment needed on the exchange rate between countries for the exchange to be equivalent to each currency's purchasing power. The exchange rate adjusts so that identical goods in the two different countries bear the same price when expressed in the same currency, (Gustav 1918). Purchasing power parity (PPP) is an economic theory that states residents of one country should be able to buy the goods and services at the same price as residents of any other country over time. Why do economists say that? Because, ultimately, competition in international trade allows people to shop around for the best price, everyone's purchasing power will become equal, or reach parity. PPP is based on the law of one price. This states that once the difference in exchange rates is accounted for, then everything would cost the same (Rogoff, 1996).

Purchasing-power parity theory tells us that price differentials between countries are not sustainable in the long run as market forces will equalize prices between countries and change exchange rates in doing so. You might think that my

example of consumers crossing the border to buy baseball bats is unrealistic as the expense of the longer trip would wipe out any savings you get from buying the bat for a lower price. However it is not unrealistic to imagine an individual or company buying hundreds or thousands of the bats in Mexico then shipping them to the United States for sale. It is also not unrealistic to imagine a store like Wal-Mart purchasing bats from the lower cost manufacturer in Mexico instead of the higher cost manufacturer in Mexico. In the long run having different prices in the United States and Mexico is not sustainable because an individual or company will be able to gain an arbitrage profit by buying the good cheaply in one market and selling it for a higher price in the other market (John, 2000).

The underlying principle of PPP is a concept called "the law of one price." This is an economic assumption based on the notion that, all else being equal, the same goods in a global market should have the same price. The law of one price relies on the theory that goods of comparable quality and value to consumers will ultimately be driven by market prices to equilibrium. This assumption isn't entirely safe for a series of reasons. Barriers to trade, inherent transportation costs, taxes and the inability of certain services to be imported and exported can all affect purchasing power parity. This theory is significant to the research in that it explains in the short run exchange rates will affect the prices of commodities for export but in the long run market forces will result into equilibrium of commodity prices and exchange rates, other factors like government policy on E.P.Z and export led growth strategy will act as competitive tool to ensure financial and export performance of E.P. Z (Mankiw, 2011).

2.2.2 The Balance of Payments (BOP) Approach Theory   :

The balance of payments approach explains what the factors are that determine the supply and demand curves of a country's currency. The balance of payments is a method of recording all the international monetary transactions of a country during a specific period of time. The transactions recorded are divided into three categories: the current account transactions, the capital account transactions and the central bank transactions. The aforementioned categories can show a deficit or a surplus, but theoretically the overall payments should be zero, which rarely happens (Norman, 2003).

As stated earlier, a currency's price depreciation or appreciation (the change in the value of money), directly affects the volume of a country's imports and exports and, consequently, a likely fluctuation in the exchange rates can add to BOP discrepancies. For example, a likely depreciation will increase the value of exports in home currency terms. Conversely, the imports will become 'more expensive' and their value will be reduced in home currency (the larger the imports demand elasticity the greater the decrease). Consequently, we can argue that unless the value of exports increases less than the value of imports, the depreciation will improve the current account. More specifically, we can finally assess the impact of the currency's depreciation on the current account only by considering the price sensitivity of imports and exports. The Marshall Lerner Condition shows that if the sum of the price elasticity of demand for imports and exports is greater than one, then a fall in the exchange rate will improve the current account of BOP.

$Hx + Hm > 1$

Hx: Price elasticity of exports volumes

Hm: Price elasticity of import volumes

The J curve effect illustrates that in the short-term a depreciation of the currency can initially worsen (from A to B) the current account balance before it improves its position (figure P2). This is due to the low price elasticity of demand for imports and exports in the immediate outcome of an exchange rate change (Davidson, 2009).
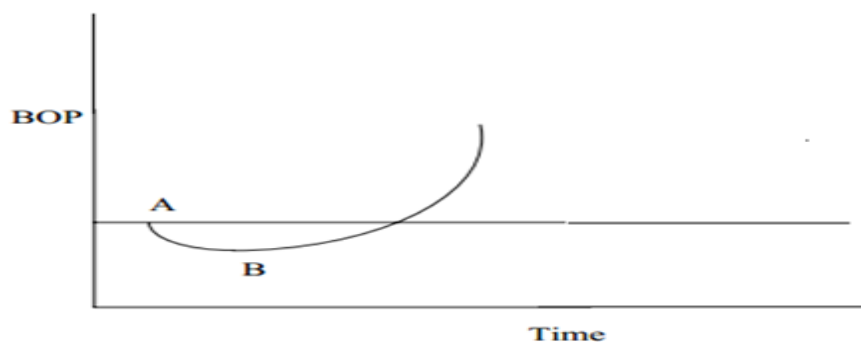

Figure 2.1: The J Curve Effect

2.2.3 The Monetary Approach Theory :

In this approach attention is given to the stock of currencies in comparison to the Willingness of people to hold these stocks. According to the monetary theory, exchange rates adjust to ensure that the quantity of money in each currency supplied is equal to the quantity demanded ,Parkin and King, (1992).Both Quantity Theory of Money (QTM) and Purchasing Power Parity (PPP) have been used in support of the afore mentioned theory. The QTM states that there is a direct relationship between the quantity of money and the level of prices of goods and services sold. In other words, more money equals more inflation.

In a domestic framework, the following equation has been formulated

$$MV = PY$$

M: Money supply/demand

V: Velocity of circulation (the number of times money change hands)

P: Average price levels

Y: GDP

Finally, we can conclude that an increase in the money supply leads to inflation, which in turn results in the decrease in the value of money or purchasing power? Consequently, if we also consider this in an international context, we will appreciate the following implications: Firstly, a rapid increase in the money supply, which as stated earlier means inflation, will put into effect the PPP resulting in the depreciation of the currency's exchange rate. Secondly, a higher interest rate will also result in the currency's depreciation because of the positive relationship between interest rates and money circulation. Finally, if the GDP grows faster than overseas GDP, the demand for money will increase. Assuming there is a given supply of money, the exchanged rate will decrease, which is in direct contrast to the PPP approach, (Harry, 1972).

2.3 Conceptual Framework:

The conceptualization of the study is based on two strategies that have similar objectives of facilitating exports to American markets. The two strategies are; EPZs implemented in the 1990s to facilitate growth of an export led economy in the country and exchange rate control policy so as to encourage exports from Sub Saharan Africa countries and as such result to Balance of Payments equilibrium. This will facilitate overall growth of the economies that are driven by exports. The independent variables are as stated and the dependent variable is the exports from Kenya to American markets. The relationship of the variables is depicted in figure 2.2 below.
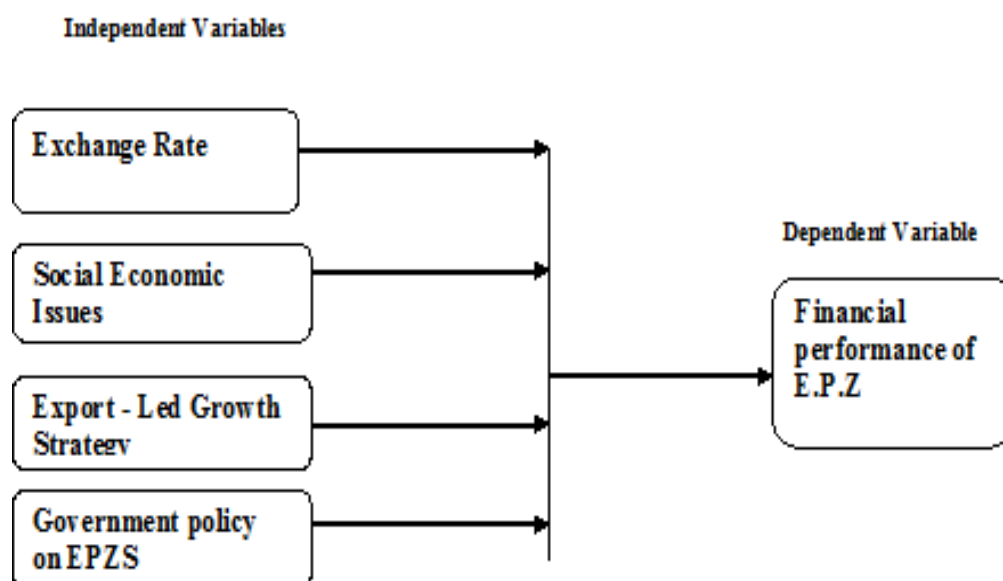
Source: Research Data (2015)

Figure 2.2: Conceptual frame work

2.4 Empirical Reviews of Macro-economic Factors:

2.4.1 The Exchange rate:

The exchange rate of an economy affects aggregate demand through its effect on export prices, and policy makers may exploit this connection. Deliberately altering exchange rates to influence the macro-economic environment may be regarded as a type of monetary policy. Changes in exchanges rates initially work their way into an economy via their effect on prices. For example, if 1usd exchanges for Kshs85 on the foreign exchange market, a Kenyan product selling for 10usd in the US will sell for KshsS850 in New York. If the exchange rate now appreciates, so that 1usd buys kshs87, the Kenyan product in New York will now sell for 870 assuming that demand in New York is price inelastic, this is good news for Kenyan exporters because revenue in USDs will rise. However, if demand is elastic in New York, the effect of the appreciation of the Kenyan shillings would be damaging to Kenyan exporters.

If the Kenyan also imports goods from the USA, the rise in the exchange rate would mean that a $10 US product is now cheaper in London, falling from kshs870 to kshs850. Importers do relatively well from the appreciation of the us dollars, in that the cost of imported raw materials or finished goods falls. Therefore, whenever the exchange rate changes there will be a double effect, on both import and export prices. Changes in import and export prices will lead to changes in import and export volumes, causing changes in import spending and export revenue (Economic council 2014).

Exchange rates can be manipulated so that they deviate from their natural equilibrium rate. To stimulate exports, rates would be held down, and to reduce inflationary pressure rates would be kept up. While the Bank of England does not specifically target the exchange rate, the Monetary Policy Committee (MPC) will take exchange rates into account. Clearly, the MPC would prefer a relatively high rate, as this reduces the price of imports and works against inflationary pressure. However, the MPC must keep an eye on export competitiveness, and, if rates rise excessively, Kenyan exports will become uncompetitive (Julian, 2000).

Effects of a reduction in the exchange rate: Assuming the economy has an output gap, a reduction in the exchange rate will reduce export prices, and, assuming demand is elastic, export revenue will increase. A fall in the exchange rate will also raise import prices, and assuming elasticity of demand, import spending will fall. The combined effect is an increase in aggregate demand and an improvement in the Kenyan balance of payments, Cost push inflation: A fall in the exchange rate is inflationary for a second reason - the cost of imported raw materials adds to production costs and creates cost-push inflation. Evaluation of exchange rate policy

The main advantage of manipulating exchange rates is that, because a large share of K output is traded internationally, changes in exchange rates will have a powerful effect on aggregate demand. For example, lowering exchange rates, called devaluation, can: Raise aggregate demand increase national output (GDP), Create jobs, amplified through the multiplier effect, In addition, assuming the demand for imports and exports are price sensitive (price elastic), devaluation will lead to an improvement in the balance of payments - although this can also lead to inflation. Alternatively, raising exchange rates (revaluation) can, help reduce excessive aggregate demand Keep inflation down although the export sector may suffer and jobs might be lost. On balance, Kenyan policy makers in recent years have preferred to allow the financial markets to determine exchange rates, rather than manipulate them for policy objectives (Saleemi, 2010).

2.4.2 Social Economic Issues:

The paradigm shift from labour-intensive products to technology- intensive products in EPZs has brought about immense reduction in the number of employees in the EPZ sectors. Not surprisingly, in the proportion of plants producing labour-intensive products declined from 74% to 50.4% in Kenya, while the proportion of workers producing technology-intensive products increased from 48% to 74.5% in the period 2010-2014. Evidence suggests that this is a reflection of similar restructuring of the host economy as a whole. As a result of different types of economic restructuring, the drop in the EPZ employments in the three economies in which zones had once been significant source of Jobs.

Overall outputs of the EPZ organizations largely depend on the hard work and efficiency of the employees in the production department as well as other departments. This values and strengths of employees are very crucial in the sense that when integrated with machines efficiency the output production will be immense, thus enabling more exports to be made in order to meet the demands in the American markets. Economic Survey (2009) on the contrary states that when employees aren't motivated to work hard either due to very little remuneration which doesn't commensurate their work, poor working environments, or where safety precautions are not embraced, then there is likelihood that they will be less

motivated to work hard. This will make it very hard for the organization to meet the demands of their markets thus reducing the overall exports of the organization.

2.4.3 Export-led Growth Strategy:

Growth in EPZ sectors is critical and depends on how issues of competition, incentives, high cost of operation/production and the local and global recession challenges are addressed. If these constraints are addressed, EPZ programme is expected to register a higher growth and also play a bigger role towards achievement of Vision 2030 currently under implementation. Transition of EPZ programme to Special Economic Zones (SEZ) has already been approved by the Government. This means that the scope of the activities would be expanded and corresponding benefits associated are likely to increase. Tax Remission for Export Office (TREO) Scheme has been implemented. According to the TREO Scheme, a local manufacturer can apply for a remission of import duty and VAT on raw materials used in the manufacture of goods for export.

2.4.4 Government Policy on EPZ:

In order to encourage more exports in the EPZs sector, the government should play a very important role to provide institutional support to foster backward linkages and more liberal environments thus propel EPZs to move faster along EPZ trajectory. Tekere (2000) is of the view that the Government should allow the local producers to move into the zones and as a result the EPZs will not be stagnated. Technology upgrading and integration into host economy need to be administered by the government as this will enable the sector to increase the sophisticated products they produce and exports to American markets (Schaffer, 2003).

In cases where EPZs evolves with regard these two aspects, there is evidence that they played a catalytic role in transforming the wider host economy. The department of external trade is responsible for the supervision of foreign trade policies, the promotion of bilateral and regional trade relations, the promotion of foreign trade and the introduction of foreign investment. The export promotion council is mainly responsible for facilitating the business of exporters or export products manufacturers, promoting the export of goods and services, and coordinating all the export-related activities. Export Processing Zones authority mainly provides convenience and services for enterprises in the zones, and issues the permit to establish an enterprise in the export processing zones as well as the permit to establish an export processing zone.

2.5 Critique of the Existing Literature Relevant to the Study:

The study takes into account four major macro environmental factors namely the exchange rate, social economic challenges, export led growth strategy and Government policy on EPZ, but in reality there are still other factors especially micro factors that affect the financial performance of EPZ in Kenya. These factors could be high cost of inputs like raw material, energy costs and also a unskilled workforce in comparison to other global competitors workforce Incomparable levels of technology between Kenyan EPZ and other world industrialized manufacturers make the EPZ to have a lower competitive advantage affecting the demand of its goods in the American market and hence poor financial performance (Tekere, 2000).

Competitive advantages of EPZs may also be explained within the framework of the cluster approach (Porter, 1990). EPZs are industrial clusters of companies that are concentrated in a geographic region. These companies share economic infrastructure, a pool of skilled human capital, and governmental and other institutions that provide education, specialized training, information and technical support. Also, these companies may co-operate to create joint companies, distribution agreement, technology transfer agreements and common manufacturing agreements. External economies of scale and other advantages of the cluster help the operating firms in reducing costs, acquiring competitive advantages and attracting foreign direct investment (Dunning, 1998).

Apart from the perceived macroeconomic factors, one of the basic elements critical for any export activity is adequate infrastructure especially physical infrastructure (transport system such as port, airport, water, electricity and communication facilities). Infrastructure within EPZs is generally considered superior to that available in the wider economy. Further, it can be argued that the relative advantages enjoyed by the EPZ units in terms of incentives, infrastructure and governance vis-à-vis the rest of the economy attract investment in the zones while overall governance and infrastructure facilities in a country determine the export competitiveness of its zones.

2.6 Measurement of Financial Performance:

The performance of export processing firms can be measured by evaluating the following Objectives: Attracting and promoting investments in the export sector, creating and expanding foreign exchange earnings, creating jobs for boosting employment, promoting local processing of materials & inputs for value-added exports. The Goals of export processing firms can be evaluated by assessing if they are able to meet the following goals below: That is ability in promoting industrialization for export diversification and international competitiveness, developing human capital (highly skilled labor), attraction and local absorption (transfer) of technology by export processing zones and fostering linkages between the local economy and international markets. The following financial ratios can also be applied in evaluating the financial performance of export processing zones.

2.6.1 Liquidity Ratios :

The most common liquidity ratio is the current ratio, which is the ratio of current assets to current liabilities. This ratio indicates a company's ability to pay its short-term bills. A ratio of greater than one is usually a minimum because anything less than one means the company has more liabilities than assets. A high ratio indicates more of a safety cushion, which increases flexibility because some of the inventory items and receivable balances may not be easily convertible to cash. Companies can improve the current ratio by paying down debt, converting short-term debt into long-term debt, collecting its receivables faster and buying inventory only when necessary (Saleemi, 2010)

2.6.2 Solvency Ratios:

Solvency ratios indicate financial stability because they measure a company's debt relative to its assets and equity. A company with too much debt may not have the flexibility to manage its cash flow if interest rates rise or if business conditions deteriorate. The common solvency ratios are debt-to-asset and debt-to-equity. The debt-to-asset ratio is the ratio of total debt to total assets. The debt-to-equity ratio is the ratio of total debt to shareholders' equity, which is the difference between total assets and total liabilities (Saleemi, 2010)

2.6.3 Profitability Ratios:

Profitability ratios indicate management's ability to convert sales dollars into profits and cash flow. The common ratios are gross margin, operating margin and net income margin. The gross margin is the ratio of gross profits to sales. The gross profit is equal to sales minus cost of goods sold. The operating margin is the ratio of operating profits to sales and net income margin is the ratio of net income to sales. The operating profit is equal to the gross profit minus operating expenses, while the net income is equal to the operating profit minus interest and taxes. The return-on-asset ratio, which is the ratio of net income to total assets, measures a company's effectiveness in deploying its assets to generate profits. The return-on-investment ratio, which is the ratio of net income to shareholders' equity, indicates a company's ability to generate a return for its owners (Saleemi, 2010).

2.6.4 Efficiency Ratios:

Two common efficiency ratios are inventory turnover and receivables turnover. Inventory turnover is the ratio of cost of goods sold to inventory. A high inventory turnover ratio means that the company is successful in converting its inventory into sales. The receivables turnover ratio is the ratio of credit sales to accounts receivable, which tracks outstanding credit sales. A high accounts receivable turnover means that the company is successful in collecting its outstanding credit balances (Saleemi, 2010).

2.7 Summary of Research Gaps:

Exchange rates are generally volatile in the short run and their predictability is not accurate, resulting into revenues and costs mismatch of export processing zones firms (Romer, 1993). According to Andersen (2007) exchange rates are known to be very volatile. Furthermore, departures of the exchange rate from "long-run equilibrium" are generally long-lived. This translates into major cost shocks for those companies suffering from a currency mismatch between revenue and cost. In this paper, we studied the implications of large, although temporary, deviations of the exchange rate in a duopoly case where one company suffers from such a currency mismatch. First, price-elasticity of aircraft exports at the detailed level are used to calibrate a simple, static model of optimal pricing in the Airbus-Boeing duopoly. The aircraft industry is perfectly suited for this exercise because it perfectly fits the scenario where one firm suffers from a currency mismatch.

We showed that the best response to a cost-push appreciation of the home currency is to contract current profits by limiting the pass-through to export prices to less than 50%.

The rationale behind this strategy is that any rise in one firm's price leads to an important contraction of its sales. This strategy is even reinforced when the temporary character of the exchange-rate shock is accounted for. This is because customers face switching costs when they move from one supplier to the other, and because the production of an aircraft exhibits significant learning effects. Sacrificing current profits allows a firm to maintain its market share, hence to continue to enjoy learning economies while attracting new customers. In the next period, when the exchange rate comes back to its "long-run equilibrium" value, the firm will enjoy lower costs as well as higher demand, compared to a strategy of high pass-through of the exchange-rate shock. This is all the more important since the dynamics of the market are driven by new airline companies, especially in emerging countries, whose decisions today will have long-lasting effects. Still, the inter-temporal strategy of sacrificing current profit in exchange for higher future profits is very risky, since it is hard to predict how long an exchange-rate misalignment may last (Andersen, 2007).

Two additional factors tend to increase the risk. First, a potential problem of compressing Margins today is that it may make it more difficult to finance R&D spending, specifically the development of new products. This weakness may be used by the competitor to speed up its own R&D. Hence, a trade-off needs to be made between the "current-business" view that urges not to pass exchange-rate appreciations on to export prices, and the "innovation" view that stresses the needs to maintain the R&D capacity of the firm over the exchange-rate cycle. In principle, the financial market should help to alleviate this trade-off. Second, a misalignment raises the likelihood that a new producer may enter the market, if the exchange-rate shock leads the incumbent firms to raise prices. Higher market prices for aircraft make entry, for instance by China, more profitable. The threat of entry strengthens the case for little exchange-rate pass-through in the short and medium term, provided that this helps deter entry. However, if entry cannot be deterred, short- and medium-term pass-through should be higher, because future profits are reduced by entry.

Developing countries wishing to promote indigenous, non-traditional exports have often found that the creation of a trade-friendly environment does not suffice to induce a local export supply response. Traditional theory often assumes that once a critical number of trade-related constraints have been removed, a resulting export supply response will instantaneously come from local firms and foreign investors, but this may not be the case. Instead, indigenous firms in developing countries with little or no export experience may have problems in entering into the world market. They often lack "export know-how," not only in the technological sense, but also in terms of marketing and managerial competence. In Romer (1993) an important distinction between object gaps, that is, shortage of machinery, human capital, infrastructure and suchlike, and idea gaps is made. The notion of an idea gap is similar to what several authors have called a technology gap, but is considered to mean something broader (Romer, 1993).

Turning to the movements of the Kenya shilling exchange rate, it can be argued that the Kenya shilling exchange rate has gone through various cycles. Recently the shilling has experienced a strong appreciation. The large swings in the shilling exchange rate are also associated with varying degrees of volatility. Volatility was highest during the period just after liberalization, that is, January 1995 to October 2000 and lowest in the period from October 2000 to November 2004. Since then, however, the shilling experienced prolonged appreciation in nominal and real terms up to the end of 2007. The fluctuation in the exchange rate has attracted public attention especially from exporters who have argued that the strengthening shilling is eroding their competitiveness. In addition to the developments in the shilling exchange rate, there has been a significant change in export earnings. Export earnings have been on an upward trend since 2002 and more so in 2005-2007 when the Kenya shilling appreciated steeply (Moses, 2008).

III.   RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction:

This chapter sets out the methodology used to conduct the study. The chapter comprises of the research design, target population, population sample, data collection instruments and data analysis technique that was used.

3.2 Research Design:

This study adopted descriptive design. According to Kothari (1990) descriptive research is a powerful form of quantitative analysis. He further asserts that it's a comprehensive study of a social unit. The unit of study could be an institution, family, district, community or person. Kandie (2001) argues that a case study is a form of qualitative analysis where

studies are done on institutions and from the study, data generalization and inferences are drawn. The study method gives in-depth information on the competitive strategies adapted by EPZ organizations in Kenya.

3.3 Target Population:

Target population included Chief Executive Officers (CEO), Managers, and Supervisors of the firms operating in the Export Processing Zones (EPZ), Chief Executive officers of the Export Processing Zones Authority (EPZA), Export Promotion Council (EPC) and the Kenya Investment Authority (KIA).

3.4 Sampling and Sampling Procedures:

The researcher adopted a purposive sampling approach. This sampling technique is one where the items for the sample are selected deliberately by the researcher and the researcher's choice concerning the items remains supreme (Kothari, 2004). In this type of sampling, items for the sample are selected deliberately by researcher; his choice concerning the items remains for supreme. The researcher targeted respondents who are knowledgeable in the area of the study. Mainly this included the Chief Executive Officers of the EPZA, the EPZ, the Kenya investment Association (KIA). The exact sample size consisted of 42 employees of the company. This sample will be based on the fact that only employees in positions of leadership in different departments will be targeted. The sampling frame will be as shown in the table 3.2 below:

Table 3.1 Summary of Respondents

Body	Title of Respondents	Number
Export Processing Zones	C.E.O, Managers/Supervisors	39
Export Processing Zones Authority	Manager	1
Kenya Investment Authority	Manager	1
Export Promoting Council (EPC)	Manager	1
Total		**42**

Source: Research Data (2015)

3.5 Data Sources and Instruments:

3.5.1 Primary Sources:

The study will use primary and secondary data. The primary data is to be collected using semi- structured questionnaires (Mainly closed ended question). A sample questionnaire developed for this purpose is attached as Appendix II. Questionnaires are to be administered to the head of quality and assurance department of the EPZ under study to ensure that respondents interpret the questions correctly to enhance information that is more accurate.

3.5.2 Secondary Sources:

Secondary data is to be sourced from the economic survey (2009) compiled by Kenya Bureau of statistics.

3.6 Data Collection Procedures:

There are several ways of collecting the appropriate data which differ considerably in context of money costs, time and other resources at the disposal of the researcher. The researcher will mail the questionnaires to the respondents with a request to return after completing the same. The researcher and the respondents are not to come in contact with each other. The researcher will carry out a pilot study of the research at the three Export Processing Zones in Mombasa. The pilot test is to test the efficacy of the research in order to establish the validity, reliability and time frame of the actual research. This collection procedure will be used because it is cost effective, reliable and has got a high degree of accuracy.

3.7 Data Analysis and Presentation:

3.7.1 Qualitative Analysis:

Qualitative data was operationalized, categorized into emerging themes/patterns or categories and then finally coded. The coded data was assigned numbers for the purpose of data analysis. The researcher used SPSS for the data analysis.

3.7.2 Quantitative Analysis:

The main statistical measures in this analysis were the mean, median, frequency distributions. An arrayed of tables and figures was used to display the research findings.

3.8 Regression Model:

The study will employ the regression model to establish the statistical relationship between the dependent and independent variables. The regression will take the following form:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$

Where

Y = Financial Performance of EPZ (dependent variable)

ϵ = Error term

β_0 – Constant variable

X_1 - Exchange rates movement

X_2 – Socio-economic factors

X_3 – Export – led growth strategy

X_4 – Government policy on EPZs

Financial performance of the EPZ is measured by profitability of the EPZ firms, increase in volume of exports, improved working capital of the firms, improved efficiency ratios and increase in the growth of firms in the EPZ.

3.9 Operationalization of Study Variables:

Independent variable consisted of specific macroeconomic variables which were derived from four general categories of macroeconomic factors namely exchange rate movement, social economic issues, export led growth strategy and Government policy. The dependent variable was the growth of exports in the EPZ. Growth in exports was measured by the increase in exported volume by the EPZ measured in tons.

Table 3.2 Operationalization of the Independent Variables

Independent variables	Indicators
Exchange Rate Movements	Decrease in cost of production
	Increase in demand for exports
	Increase in foreign investors
	Introduction of new and better products
Socio-economic Factors	Availability of skilled labour
	Improved working environment
	Improved remuneration of employees
	Motivation of employees
	Shift from of technology
Export-led Growth Strategy	Globalization
	Trade agreements and economic zones
	Transition of EPZ to special economic zones
	Reduced cost of operations
Government Policy on EPZ	Market linkages by the Government
	Technology integration
	Enabling business
	Institutional support
	Financing provision
	Incentives and tax holidays

Source: Research Data (2015)

IV.   DATA ANALYSIS AND PRESENTATIONS

4.1 Introduction:

This chapter contains data analysis and findings from the study. The analysis is focused on the study objectives. The research sought to investigate the effects of macroeconomic factors on the financial performance of E.P.Z in Mombasa. The research specifically sought to determine the extent to which the exchange rate control policies, social economic issues, Kenya's export-led growth strategy and the Government policy affects the financial performance of EPZ in Mombasa. The findings are presented as a report of the questions answered by the respondent. Out of the 42 respondents targeted, 30 responded. This formed a response rate of 71.43%. The response rate was adequate for the study since it is above 50% as recommended by Mugenda (2003).

4.2 General Information:

The respondents were characterized by how long they have been in employment in the EPZ, their level of education, the extent to which they feel the exchange rate has led to growth of Kenyan exports to foreign markets and the knowledge on whether the exchange rate stabilization led to growth in employment in the firms.

4.2.1 The Number of Periods in Employment:

Table 4.1 Periods in Employment

	Frequency	Percent
2 years	8	26.7
2-5 years	10	33.3
More than 5 years	12	40.0
Total	30	100.0

Source: Research Data (2015)

The respondents were asked to indicate the number of years they have been in employment at the EPZ. Majority of the respondents representing 40% responded that they have been in employment for more than 5 years. Another 33.3% indicated that they have been in employment for between 2-5 years. 26.7% however stated that they have been in employment for 2 years. From the results it can be inferred that majority of the respondents have the necessary experience hence they could give objective responses.

4.2.2 Training Level of Employees:

Table 4.2 Training Level of Employees

	Frequency	Percent
Certificate	3	10.0
Diploma	14	46.7
Degree	6	20.0
Masters	4	13.3
Doctorate	3	10.0
Total	30	100.0

Source: Research Data (2015)

The respondents were asked to indicate their level of training. From table 4.2 it can be seen that majority of the respondents representing 46.7% had a diploma in operations management, 20% indicated that they had a degree in operations management, 13.3% of the respondents indicated that they had a masters in operations management and the

least was 10% which indicated that they had both doctorate and certificate in operations management. From these results it can be inferred that the bulk of respondents had diploma in operations management and had been working on the basis of experience.

4.2.3 Exchange Rate and Growth of Kenyan Exports to Foreign Markets:

Table 4.3: Exchange Rate and Growth of Kenyan Exports to Foreign Markets

	Frequency	Percent
Great extent	14	46.7
Little extent	9	30.0
Not at all	7	23.3
Total	30	100.0

Source: Research Data (2015)

The respondents were asked to indicate the extent to which they think the changes in exchange rate affect the growth of the economy. Majority of the respondents were of the view that changes in exchange rate affect economic growth to a great extent at 46.7% while 30% were of the view that the effect is at a little extent and finally 23.3% believed that changes in foreign exchange rate have no effect on the growth of the economy. These respnses confirms the fact that the establishment of exchange stablization policy by IMF had played a role in improving the growth of the economy through improved export earnings.

4.3 Effects of Macroeconomic Factors on the Growth of Exports by Firms in EPZ:

The researcher sought to investigate the extent to which the macroeconomic factors affect the growth of exports by firms in the EPZ. The macroeconomic factors include exchange rate movements, socio-economic factors, export-led growth strategy and Government policy. For each economic factor, a number of export growth variables are given. The following subsections discuss the results; a likert scale was used where 1= Strongly disagree, 2= Disagree, 3= Neutral, 4 = Agree and 5= Strongly Agree.

4.3.1 Exchange Rate Movements:

The researcher sought to find out the extent to which exchange rate movements affect the growth of exports by firms in the EPZ.

Table 4.1: Descriptive Statistics of Exchange Rate Movements

	N	Mean	Std. Deviation	Rank
Decrease in cost of production	30	3.67	1.06	2
Increase in demand for exports	30	4.07	1.26	1
Increase in foreign investors	30	3.63	1.16	3
Introduction of new and better products	30	2.67	1.47	4
Valid N (list wise)	30	3.51		

Source: Research data (2015)

From the table 4.4, the most commonly effect of exchange rate movement is the increase in demand for exports with a mean of 4.07 followed by a decrease in cost of production with a mean 3.67. The next most effect is the increase in foreign investors which had a mean of 3.63. The least effect is on the introduction of new and better products; this had a mean of 2.67.

4.3.2 Socio – Economic Factors:

The researcher sought to find out the extent to which socio-economic factors on the export by firms in the EPZ. The effects were ranked as given in the table 4.5 below using mean and standard deviation.

In the table 4.5 below the most common effect is the shift from labour to capital intensive technology with a mean of 4.00. This was followed by improved remuneration of employees which had a mean of 3.40. This was followed by availability of skilled labour which had a mean of 3.30. The least effect was motivation of employees with a mean of 2.67. It can therefore be inferred that socio-economic factors had a moderate effect on the growth of the export by the EPZ. This is given by the overall mean of 3.26.

Table 4.2: Descriptive Statistics on Socio-Economic Factors

	N	Mean	Std. Deviation	Rank
Availability of skilled labour	30	3.30	1.34	3
Improved working environment	30	2.93	1.39	4
Improved remuneration of employees	30	3.40	1.33	2
Motivation of employees	30	2.67	1.24	5
Shift from of technology	30	4.00	1.11	1
Valid N (list wise)	30	3.26		

Source: Research Data (2015)

4.3.3 Export – Led Growth Strategy:

The researcher sought to find out the extent to which export-led growth strategy affects the growth of the export by firms in the EPZ.

Table 4.6 Export-led Growth Strategy

	N	Mean	Std. Deviation	Rank
Globalization	30	2.53	1.33	4
Trade agreements and economic zones	30	3.33	1.49	3
Transition of EPZ to special economic zones	30	3.50	1.48	2
Reduced cost of operations	30	3.53	1.31	1
Valid N (list wise)	30			

Source: Research Data (2015)

From the table 4.6 above, the export led growth strategy has a strong application on the growth of export by the firms operating in EPZ by reducing the cost of operations as shown by the mean of 3.53. This is followed by a moderate effect on transition of EPZ to special economic zones which had a mean of 3.50, then the effect on trade agreements and economic zones with a mean of 3.33. The least effect is on the globalization which had a mean of 2.53.

4.3.4 Government Policy on EPZ:

The researcher sought to find out the extent to which Government policy affects the export level of firms in the EPZ. The specific effects were then ranked as shown in the diagram below:

Table 4.7 Government Policy

	N	Mean	Std. Deviation	Rank
Market linkages by the Government	30	3.10	1.37	5
Technology integration	30	3.07	1.36	6
Enabling business	30	3.17	1.46	4
Institutional support	30	3.27	1.36	3
Financing provision	30	3.70	1.26	2
Incentives and tax holidays	30	3.80	1.27	1
Valid N (list wise)	30			

Source: Research Data (2015)

From the table 4.7, the greatest effect of Government policy was on the incentives and tax holidays with a mean of 3.80, followed by financing provision having a mean of 3.70; followed by institutional support which had a mean of 3.27. The least effect was on technology integration with a mean of 3.07.

4.4 Overall Effect of the Macroeconomic Factors on Export Growth in the EPZ:

The researcher summarized the various effects of the macroeconomic factors on the growth of export in the EPZ in order to find out the most significant effects of the macroeconomic factors. This is shown in the table 4.8 below:

Table 4.8: Overall Effects of Macroeconomic Variables

	N	Mean	Std. Deviation	Rank
Availability of skilled labor	30	3.30	1.34	11
Decrease in cost of production	30	3.67	1.06	5
Enabling business	30	3.17	1.46	13
Financing provision	30	3.70	1.26	4
Globalization	30	2.53	1.33	19
Improved working environment	30	2.93	1.39	16
Improved remuneration of employees	30	3.40	1.33	9
Incentives and tax holidays	30	3.80	1.27	3
Increase in demand for exports	30	4.07	1.26	1
Increase in foreign investors	30	3.63	1.16	6
Institutional support	30	3.27	1.36	12
Introduction of new and better products	30	2.67	1.47	17
Market linkages by the government	30	3.10	1.37	14
Motivation of employees	30	2.67	1.24	17
Reduced cost of operations	30	3.53	1.31	8
Shift from labour to capital intensive technology	30	4.00	1.11	2
Technology integration	30	3.07	1.36	15
Trade agreements and economic zones	30	3.33	1.49	10
Transition of EPZ to special economic zones	30	3.50	1.48	7
Valid N (list wise)	30			

Source: Research Data (2015)

From table 4.8 above, the results, macroeconomic variables had significant effects on increased demand for exports with a mean of 4.07, followed by a shift from labor to capital intensive techniques with a mean of 3.80. Incentives and tax holidays had a mean of 3.80 and finally followed by financing provision at a mean of 3.70 to make up the first four major effects.

4.5 The Effect of Macroeconomic Factors on Financial Performance by the EPZ

In this section regression analysis was done to determine if the economic factors as independent variable affect the export performance by the EPZ.

Table 4.3: Average Responses of Macroeconomic factors and Financial Performance

RESPONDENT	X_1	X_2	X_3	X_4	Y
1.	4.09	4.4	3.63	4.08	3.53
2.	3	3.2	3.5	3.5	3.01
3.	4.09	4.6	4	4.5	3.78
4.	3.91	3	3.75	4.17	3.44
5.	4.09	4.2	4.5	4	3.73
6.	4.27	4.6	4.25	4.67	4.03
7.	4	4	4.38	3.83	3.66
8.	3.82	3.4	3.75	3.92	3.49
9.	3.27	3.4	3.88	3.5	3.24
10.	3.91	3.4	4	3.75	2.99
11.	4	3.2	3.63	4.08	3.2
12.	4.55	4	4.13	4.33	3.4
13.	3.45	2.6	3.63	4	3.91
14.	3.36	3.4	3.75	4	3.19
15.	3.73	1.6	3.38	3.5	2.91
16.	4.09	3.6	4.25	3.92	3.54
17.	3.18	2.4	4	3.5	3.23
18.	3.82	3	3.25	3	4.63
19.	4.18	3.4	4.38	4.17	3.65
20.	4.27	3.6	3.38	4.58	3.78
21.	3	3.2	2.75	3.25	3.31
22.	3.36	2.4	3.75	2.75	2.59
23.	3.27	4.2	3.63	3.92	3.18
24.	4	3	3.75	4.83	3.76
25.	3.73	4.4	4.38	4.17	3.65
26.	4.18	4	4.75	4.58	4.85
27.	3.45	3	4	4	3.35
28.	4.09	4.2	3.75	3.83	4.09
29.	2.73	3	3.25	3.08	2.89
30.	2.73	3	3.38	3.42	2.81

Source: Research data (2015)

Y= Financial performance (dependent variable)

X_1 - Exchange rates movement

X_2 – Socio-economic factors

X_3 – Export – led growth strategy

X_4 – Government policy on EPZs

The Table 4.9 above shows the mean of the independent variables and the dependent variables. This data was used to perform regression analysis as shown below.

Table 4.4: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			
					R Square Change	df1	df2	Sig. F Change
1	.630[a]	.397	.287	.38653232	.397	6	33	.007

Source: Research Data (2015)

From table 4.10, adjusted R^2 is 0.287 which means that there was 28.7% positive variation in operational performance index due to changes in independent variables and 71.3% is variation of the dependent variable due to other factors not in the model. The correlation coefficient tells us the strength of the relationship between the variables. The study found that the correlation coefficient was 0.630 thus there was a strong positive correlation between the macroeconomic factors and the increase in volumes of export by the EPZ. It can also be observed from table 4.10, that the coefficient of correlation is 0.63 meaning that there is a positive relationship between independent and the dependent variable. Since computed t (5.00) is greater than critical t, it implies that the coefficient of correlation is significant.

Table 4.5: Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	3.243	6	.540	3.617	.007[a]
Residual	4.930	33	.149		
Total	8.173	39			

Source: Research Data (2015)

From ANOVA table the significant value for the model was 0.007 which means that the model was statistically significant since it is lower than 0.05.

Table 4.6: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	.739	.682		1.083	.287	-.649	2.126
Exchange rate movements (X_1)	.313	.159	.368	1.968	.058	-.011	.637
Socioeconomic factors (X_2)	.110	.115	.161	.957	.345	-.124	.343
Export-led growth strategy (X_3)	.048	.185	.043	.258	.798	-.328	.423
Government policy on EPZ (X_4)	.185	.159	.201	1.162	.253	-.139	.509

Source: Research data (2015)

From the table 4.12 the following regression equation was established:

$$Y = 0.739 + 0.313X_1 + 0.110X_2 + 0.48X_3 + 0.185X_4$$

From the equation the study found that holding exchange rate movement, socioeconomic factors, export-led growth strategy and Government policy on EPZs, growth of exports in volumes index (dependent) would be 0.739. Exchange rate movements would lead to an increase in export growth by factor of 0.313, changes in socio-economic factors would lead

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to an increase in growth in exports by 0.110, formulation of export-led growth strategy would lead to an increase of 0.48 in the export volume and Government policy on EPZ would also lead to an increase in growth in export by 0.185.

Table 4.7: Significance of Correlation between Individual Variables

		Financial performance	Exchange rate movement	Socio-economic factors	Export-led growth strategy	Growth policy on EPZ
Financial performance index	Pearson Correlation	1.000	.537**	.451**	.383*	.451**
	Sig. (2-tailed)		.000	.004	.015	.004
Exchange rate movement	Pearson Correlation	.537**	1.000	.517**	.464**	.434**
	Sig. (2-tailed)	.000		.001	.003	.005
Socio-economic factors	Pearson Correlation	.451**	.517**	1.000	.459**	.416**
	Sig. (2-tailed)	.004	.001		.003	.008
Export-led growth strategy	Pearson Correlation	.383*	.464**	.459**	1.000	.423**
	Sig. (2-tailed)	.015	.003	.003		.007
Government policy on EPZ	Pearson Correlation	.451**	.434**	.416**	.423**	1.000
	Sig. (2-tailed)	.004	.005	.008	.007	

Source: Research Data (2015)

From table 4.13 above, it can be observed that there is a positive significant relationship between financial performance and exchange rate movements, socio-economic factors, export-led growth strategy and Government policy on EPZs. The study found that the growth in financial performance index was positively significant related to exchange rate movements with a correlation coefficient of 0.537. The correlation analysis also revealed that financial performance index was positively significant related to socio-economic factors having a correlation coefficient of 0.451. The study also revealed that growth in financial performance was positively significantly related to export-led growth strategy with a correlation coefficient of 0.383. The study also revealed financial performance index is positively significant related with Government policy on EPZ with a positive correlation coefficient of 0.451.

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction:

This chapter summarizes the research findings and also presents conclusions and recommendations of the study. The conclusions are drawn from the findings of the study which sought to find out the extent to which macroeconomic factors affect the financial performance.

5.2 Summary of Findings:

The objective of the study was to investigate the effects of macroeconomic factors on the financial performance of E.P.Z in Kenya. The target population included Chief Executive Officers (CEO), Managers, and Supervisors of the firms operating in the Export Processing Zones (EPZ), Chief Executive officers of the Export Processing Zones Authority (EPZA), Export Promotion Council (EPC) and the Kenya Investment Authority (KIA). The response rate was 71.43% that was adequate for the research. Most of the employees had been in employment for over 5 years. This level of experience was adequate for purposes of getting valid response for the purpose of the research. The study also established that most of the employees despite having diploma in operations and related areas had a lot of experience.

5.2.1 The Extent to which Economic Factors affect Financial Performance of EPZ:

The research outcome provides an insight on the extent to which macroeconomic factors affect the growth in exports in EPZ. Exchange rate movements, socio-economic factors, export-led growth strategy and Government policy on EPZ were the macroeconomic factors under research in this section and the respondents agreed that the factors are indeed important to the growth in exports by the EPZ. Exchange rate movement was viewed by the respondents as the most important

economic factor. This was followed by socio-economic factors, Government policy on EPZ and the least was export-led growth strategy.

5.2.2 The Effect of Economic Factors on the Growth of Financial Performance:

The study results show that the coefficient of correlation is 0.63 meaning that there is a positive relationship between independent and dependent variables. This shows a positive relationship between the macroeconomic factors and export performance of the EPZ. The following regression equation was established:

$Y = 0.739 + 0.313X_1 + 0.110X_2 + 0.48X_3 + 0.185X_4$

From the above equation the study found that exchange rate movement, socio-economic factors, export-led growth strategy and Government policy on EPZ have a positive influence on growth of exports on EPZ but are not significant as given. Export-led growth strategy however has a moderate significant effect of 0.48.

5.3 Conclusions:

From the findings the study found out that there is a strong positive correlation between macroeconomic factors and financial performance in the EPZ. The EPZ view the economic factors as very important hence the specific macroeconomic variables have a positive effect on the growth of exports in the EPZ.

5.4 Recommendations:

In light of the above findings the following recommendations are made;

- The Government should aim at diversifying its exports to foreign markets.

- The government should improve competitiveness of EPZs by providing special concessions on energy costs, improving labor relations by setting minimum wages and by improving the transport infrastructure and easing congestion at the ports.

- Lower VAT for business within the local regions

- Lay effective and efficient structure to compete like India and china by reviving collapse textile mills through injection of modern technology and management practices.

- Develop cost-effective cotton textile sectors that provide fabric inputs to the garment industry.

- Stabilizing the cost of labor by addressing the high costs of living in Kenya would make labor more competitive locally and internationally.

5.3.1 Policy Recommendations:

The International Monetary Fund (IMF) should review the exchange rate policies so as to control dynamic fluctuations of exchange rate. The developing economies have the most unstable exchange rate due to high inflationary prices. The policy makers need to strengthen and improve their policies in order to stabilize the exchange rate. The IMF should put more emphasis on exchange stability and temporary assistance to countries falling short of foreign exchange and international sponsoring of measures for curing fundamental causes of disequilibrium in the balance of payments.

They should also give more confidence to developing countries like Kenya by making the fund's resources available to them under adequate safeguards, thus providing with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity. The IMF should use some forms of exchange control policies so as to influence demand for, and supply of, currencies in the exchange market. This can be done indirectly by devices like tariffs, quotas, bounties, changes in interest rates etc. imposition of import duties and import quotas will reduce imports, cut down the demand for foreign currency, lower its value or raise the value of domestic currency. Specific policies should be set in place to facilitate the expansion and balance growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employments of the member countries.

5.4 Limitations of the Study:

During the course of this study, some of the challenges encountered are: The cost incurred in the whole process of data collection, the study is expected to be immense and unbearable and the timing of the data collection process from the

respondents may not be appropriate hence may affect the quantity and quality of data to be collected. Also the authority to collect the data may not be granted in some crucial departments which might limit the quantity of information to be obtained, some respondents may not respond to questionnaires given to them

5.5 Suggestions for Further Studies:

The research shows that the apparel sectors thrived following exchange rate stabilization policy. Further research needs to be carried out to establish the challenges mainly facing the other sectors and come up with ways and means of having a diversified export industry under exchange control policy. Also further research need to be carried out to establish the challenges hindering the growth of EPZs sectors despite the fact that the exchange rate policy is in place and come up with ways of solving this problem especially in the Sub Saharan countries.

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APPENDIX - I: QUESTIONNAIRE

SECTION A: GENERAL INFORMATION

Designation of Respondent: **CEO, Managers and Supervisors**

1) How long have you been an employee in the Export Processing Zone industry?

a.   Less than two (2) years   [ ]

b.   Between 2-5 years   [ ]

c.   More than 5 years   [ ]

2) Training level of employees

a.   Certificate in operations management and related fields   [ ]

b.   Diploma in operations management and related fields   [ ]

c.   Degree in operations management and related fields   [ ]

d.   Master's degree in operations management and related fields   [ ]

e.   Doctorate in operations management and related fields   [ ]

3) To what extend do you feel that exchange rate has led to growth of Kenyan exports to foreign markets?

a)   Great extent   [ ]

b)   Little extent   [ ]

c)   Not at all   [ ]

SECTION B: MACRO ECONOMIC FACTORS

The following is a list of macroeconomic factors on the growth of the export by firms in the EPZ. Please indicate your level of agreement to each of the following items regarding their effect on exports by firms operating in EPZ using the scale of 1-5 where 1= Strongly disagree; 2 = Disagree; 3 = Neutral; 4 = Agree & 5 = Strongly Agree	How important is it?				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	1	2	3	4	5
Exchange Rate Movements					
Cost of transactions has decreased					
Increased demand for exports					
Attracted more foreign investors in the country					
New and better products have been introduced					
Socio-economic issues					
Remuneration of employees					
Working environment					
Availability of skilled labour					
Shift from labour to capital intensive technology					
Motivation of employees					
Export-led Growth Strategy					
Cost of operations					
Transition of EPZ to special economic zones					
Trade agreements and economic zones					
Globalization					
Government Policy					
Market linkages by the Government					
Technology integration and upgrading					
Enabling business environment					
Institutional support					
Financing provision					
Incentives and tax holidays					

SECTION C. FINANCIAL PERFOMANCE

Indicate the extent to which the following Performance outcomes have been enhanced by the macroeconomic factors 1= Not at all; 2 = Small extent; 3 = Moderate extent; 4 = Great extent; 5 = Very great extent	What is the extent				
	Not at all	Small extent	Moderate extent	Great extent	Very great extent
	1	2	3	4	5
Profitability of firms					
Increase in the volume of exports					

Improved working capital level					
Improved efficiency ratios					
Increase in the growth of firms in the EPZ					

APPENDIX - II: WORK PLAN

Activity	February 04/2014	March 02/2014	May 07/2014	Dec 17/2014
Problem Identification	░			
Literature review	░	░		
Formation of data collection instruments		░		
Proposal writing		░		
Pretesting of instruments			░	
Correction and submission of proposal			░	
Data collection			░	
Data analysis				░
Report writing				░
Correction and submission of final report				░

APPENDIX III: IMPLEMENTATION BUDGET (ESTIMATES)

1. Money Budget.

Project Writing	**Cost (Kshs)**
Typing and printing	12,000
Diskettes and Stationary	10,000
Photocopy	6,000

Data Collection

Travelling expenses	20,000
Facilitation	10,000
Total	**58 000**

APPENDIX - IV

LIST OF ACRONYMS AND ABREVIATIONS:

AGOA   African Growth Opportunity Act

BOT   Balance of Trade

BOS   Balance of Services

BOCA   Balance of current accounts

BOUT   Balance of Unrequited Transfers

BOP   Balance of Payments

CEO   Chief Executive Officer

EDP   Export Development Programme

EPZA	Export Processing Zones Authority
EPC	Export Promotion Council
EPZ	Export Processing Zones
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPC	Investment Promotion Centre
ISIC	International Standard Industrial Classification
KIA	Kenya Investment Association
LDC	Least Developed Countries
REER	Real Effective Exchange Rate
SEZ	Special Export Zones
SSA	Sub Saharan Africa

DEFINITION OF OPERATIONAL TERMS:

Exchange rate: This is the price of a currency in terms of another currency or currencies (Stanlake, 2000).

Real Effective Exchange Rate: This is the nominal effective exchange rate (A measure of the value of a currency against a weighted average of several foreign currencies divided by price deflator or index of costs (Saleemi, 2010).

Export Processing Zones: A free trade zone or export processing zone, also called foreign-trade zone, formerly free port, is an area within which goods may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities (Government Session Paper, 2003).

International Standardization for Organization: International accreditation of rating and valuing organization in terms of quality of **service** they offer to the public or clients (Larry, 1997).

Balance of Payments: The balance of payments (BOP) records financial transactions made between consumers, businesses and the government in one country with others The BOP figures tell us about how much is being spent by consumers and firms on imported goods and services, and how successful firms have been in exporting to other countries(John, 2008).

Exchange rate Movement: The fluctuations in value between currencies that can result in losses to businesses that import and export goods and to investors (zsolt, 2013).

Parity: The state or condition of being equal, especially regarding status or pay, or exchange rates between countries (Rogoff, 1996).