

COVALENCE ANALYST PAPERS

Kenya Microfinance and Export Processing Zones (EPZ)

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Introduction

All of you know Africa in one way or another. Many of you have just read about Africa on books and articles from the press and through television, while some of you still have probably stepped on the African soil and most likely loved the warm and sunny climate and enjoyed seeing wild animals which are exclusively found in Africa. This is Africa with all its beauty. Land, where the gap between the poor, and the rich is very high. Actually the majority of the population live within the means of less than 2 dollars a day.

However, today I will not speak to you about the failures of Africa but rather focus together on what Africa has done so far and more precisely my mother country Kenya. My interest today will be on the economic point of view. We shall look together the efforts made by the Kenyan government to fight poverty and unemployment poverty in the millennium, a theme set by the UN.

Brief history

Kenya is a home to 37 million peoples all of 45 different tribes. The national language is English and Swahili. The mode of school is the same as the British education system.

There are different approaches taken by the government to alleviate poverty and I will tackle the two most important according to me. These are:

- Microfinance projects set by both small help groups, banks and international NGOs
- The Export Processing Zones abbreviated as EPZ.

MICRO FINANCE AND GOVERNMENTS EFFORTS TO CURB UNEMPLOYMENT IN KENYA

Micro Finance is a way of supplying loans and small credits to finance small projects to help the poor have an income through forming their own small scale business to earn their daily bread and better their living. This term is often confused with microcredit which means that banks give small loans to their clients. Most of the poorest people in the world have no access to banking services and even so most of them still don't have stable income to be saved in a bank. Microfinance comes to back up the UN mission for the millennium to eradicate poverty.

Most of these projects are highly encouraged by the UN. However, many international NGOs have been successful and even somewhat faced some unpromising circumstances. It should be noted that currently there exists many microfinance organisations which give loans to the locals ranging from 20 to 200 dollars. The locals on the other side have to start their own businesses and to pay off the loan in a very acceptable manner. Many people especially in Kenya rely on this for their daily lives. With the continuing high cost of living, 70% of the population struggle to put bread on their tables each day and they struggle to make ends meet. These are people and families with children going to school and some are in high school and with the ongoing high school fees to pay each term (semester). Many international organizations have landed in Kenya with the help in hand but still they face some difficulties. The Kenyan government is not left behind in promoting the economic growth and encourages and finances soft loan banks to make credit be easily accessible to the deserving. For

example *Equity Bank of Kenya*.

However, most of this micro finance projects are mostly in the urban areas in places like the Nairobi slums e.g. Kibera and Mathare slums. Women are mostly the recipients and this generates employment and helps them gain self-confidence in return. The benefiting population set up different types of business ranging from grocery, paraffin pumps to opening stalls for both new and second hand clothes. Most of them turn to be very successful and as many would declare they have made major steps ahead in improving their households with the profits gained. Apart from getting their daily bread, they acquire valuable household items like fridges, gas cookers, televisions and furniture to better their lives. Others have purchased residential and business plots, while others have constructed major buildings that bring additional income to their families.

IMPORTANCE OF MICROFINANCE

- Gives a source of employment (reduces unemployment)
- Boosts economic growth.
- It helps those who have identified an interesting economic opportunity and wants to explore it but have no money to start off. It helps them gain self confidence especially women who in many contexts, are secluded from public space, transacting with formal institutions can also build confidence and empowerment.
- The interest paid represents a very small portion of the overall cost of transaction. Microfinance institutions offer credit on a more accessible basis, substantial costs in terms of time, travel, paperwork, etc. can be reduced, thus benefiting the poor.
(<http://www.microfinancegateway.com>)

SET BACKS OF MICROFINANCE IN KENYA

- Most part of the population is unable to excel due to the offset of the business atmosphere and even high prices of food. This is a major reason for not being able to pay back their loans.
- Some of them don't know how to save and pay back what they make and instead they see the loans given as free grants that do not require paying back.

THE EXPORT PROCESSING ZONES IN KENYA

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.

EPZ enterprises engage in various export-oriented activities such as manufacture of bristle dartboards, garments, cotton yarn, fortified foods, veterinary & human pharmaceuticals, batteries, tanning extract, essential oils, macadamia nuts, film production e.t.c

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 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. Many of these have made additional investments and expanded their operations, as a manifestation of their initial success. (<http://www.epzakenya.com/>)



Advantages

- **Job creation.** Reduces the unemployment rate. Wages, working conditions, and opportunities for employment for women, are often seen to be better in EPZs than the national average.
- **Boost the economy** through taxes.
- The zones are seen as an opportunity to attract foreign direct investments, eventually giving rise to lasting industrialization.

Disadvantages

- **Women exploitation.** This is very common because the highest population of employees is women. Women are exploited sexually and forced to work long hours to finish their set daily targets.
- **Bad working conditions** .Long standing hours because some duties requires one to stand. With the bosses who are mainly of Indian origin, many face humiliating situations but they would never leave because they would not get another job.
- Several companies used the strategy to get rid of union organizing and complaints. The Minister of Labour and the Minister of Trade and Industry have supported the employers in declaring alleged “strikes” illegal and allowing dismissals, in order to create a favourable environment for investors. The employers claim there is a legal basis for the mass dismissals and any other arbitrary dismissals. The Export Processing Zone Authority seems to be siding with the investors. Although their role should be neutral, they have been seen as siding with the investors.

PROPOSITIONS

- The head of departments should be of Kenyan origin to help them learn how to steer such organisations. Sure there are well educated people in Kenya and if only they can be given the chance, then great strides ahead can be achieved.
- **Health insurance.** There should be special health insurance to all workers in these factories since they are exposed to dangerous conditions mostly of having to inhale dust and long standing hours. Most of them quit because of sickness and can no longer support the dusty conditions or depression due to stress at work.
- The other thing that should be put into consideration is that a very big portion of Kenyan population is living with **HIV AIDS virus**. Of course in these places there are people who are HIV positive and form a part of the workforce. This enforces the point that health insurance should be useful and especially the most vulnerable should be given special posts. They should also have some days off to attend their clinical appointments and with no fear of being laid off in case of absence.
- I would also suggest that there be put in place a way of having a local canteen where workers can eat free or even at a lower rate. And why not have some HR motivational factors being implied even in Kenya like in the Western countries? This can either be some bonuses and special schools for workers children, free transport of workers etc.

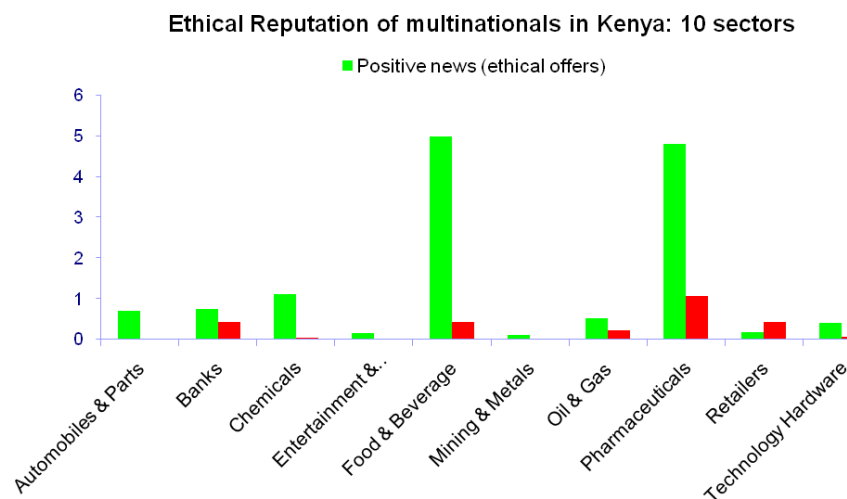
CONCLUSION

Normally minimum pay is 70 dollars a month. Nevertheless, the price tag of each garment is rarely less than 30 dollars. Basically two garments are enough to pay each persons' monthly salary. The question is how many garments does each person produce each day not considering each month? Mostly more than 8 bundles pass through the line and each has to do their task, so why not offer decent salaries?

About microfinance, given the good work done and the efforts of offering small loans to the population who have nowhere to get such help is very encouraging. I highly recognise all the organisation trying to help. However, the common people who have never had business experience before, training would be very useful to help them better manage what they make.

As the Equote criterias, there are a couple of criterias which well represent the multinationals and the investment in microfinance. There is notably the women criteria and social benefits. Why these two criterias? Because women criteria defines the level of salaries paid to women in comparison to their counterparts, men. Social benefits defines the social benefits for both the employees and their families which are set by the companies. This helps in motivating the employees and feeling like a part of the company not just like a job just to make a salary.

This graph is composed from the information entered in the Equote data of Covalence SA. It is a representation of the present multinationals present in Kenya together with their volume in value of percentage. From the graph it is evident that Heineken, leads with the highest representation of 33% out of all the occupancy of multinationals in the country.



From the EthicalQuote entries, we have a representation of the following multinationals in value of their news both negative and positive. All this is part of Covalence SA, publication about Kenya. The negative news are demands whereas the positive are the offers both well defined in the Equote data entry. For instance, food and beverage have more positive news than the banks. On the other hand, pharmaceuticals have the highest rate of negative news in comparison to other industries.

However, all this multinationals represent the biggest part of investment in the country and their contribution to the economy can not be neglected. They are a source of employment and this goes hand in hand with the governments aim to alleviate poverty and stimulate economic growth.

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