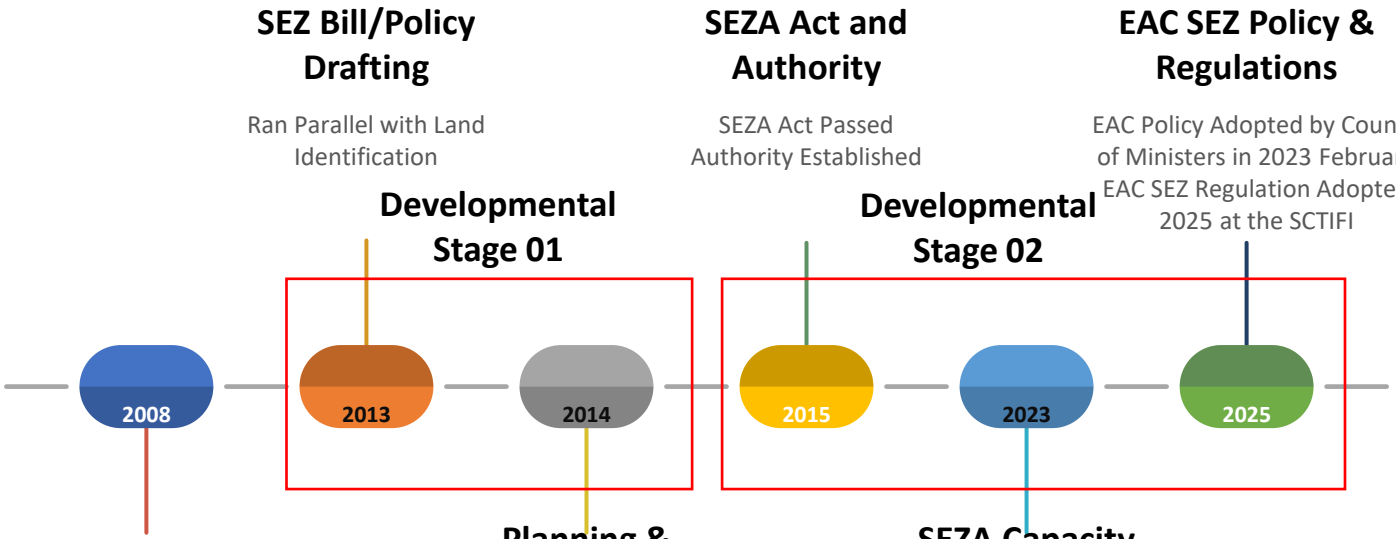
Strategic Location Matters

A National Spatial Framework for Kenya's Special Economic Zones

How can Kenya's national spatial strategy optimise SEZ locations to maximise spillover effects, attract productive FDI, and drive inclusive regional industrial development within a devolved governance framework?

Kenya SEZ Program: Historical Timeline



Vision 2030

SEZ included in Vision 2030

SEZ Bill/Policy Drafting

Ran Parallel with Land Identification

Developmental Stage 01

Planning & Structuring

SEZ Project(s) planning (Mombasa Free Zone), Infrastructure and Phase 01 Identification

SEZA Act and Authority

SEZA Act Passed
Authority Established

Developmental Stage 02

SEZA Capacity Building

Recruitment of Substansive Staff and Legal Framework Review

EAC SEZ Policy & Regulations

EAC Policy Adopted by Council of Ministers in 2023 February
EAC SEZ Regulation Adopted 2025 at the SCTIFI

Current

SEZ Incentives Framework Review
SEZ Schemes Guidelines and SEZ Regulations
Kenya National SEZ Strategy

Stage 01

SEZ Bill and Policy Drafting

- Attraction of both local and foreign investments
- Expansion and Diversification of production of goods and services for domestic and export markets
- Promote value addition
- Promote local entrepreneurship through Small and Medium Enterprises (SMEs)
- Enhance technology development and innovation
- Promote rural and regional industrialization by exploiting comparative advantage of local resources

Land Identification for SEZ Hubs:

- Employed a regional hub approach with sites chosen in Mombasa (2000 sqKm), Lamu (700 sqKm), 3000 Acres in Dongo Kundu and 700 sqKm planned for identification in Kisumu
- Large scale Economic Hubs along the Northern Corridor that would be catalysed through initial start-up (phase 01) area of upto 50 sqKm
- Identified Start up areas would be developed on a competitive design and build (EPC) model

Stage 02

SEZ Authority and Capacity:

- SEZ Authority Established with the mandate of creating an enabling environment for local and foreign investment and the regulation of SEZs
- SEZ regulations of 2016
- Development of Flagship SEZs
- Investment Promotion and Communication Strategy

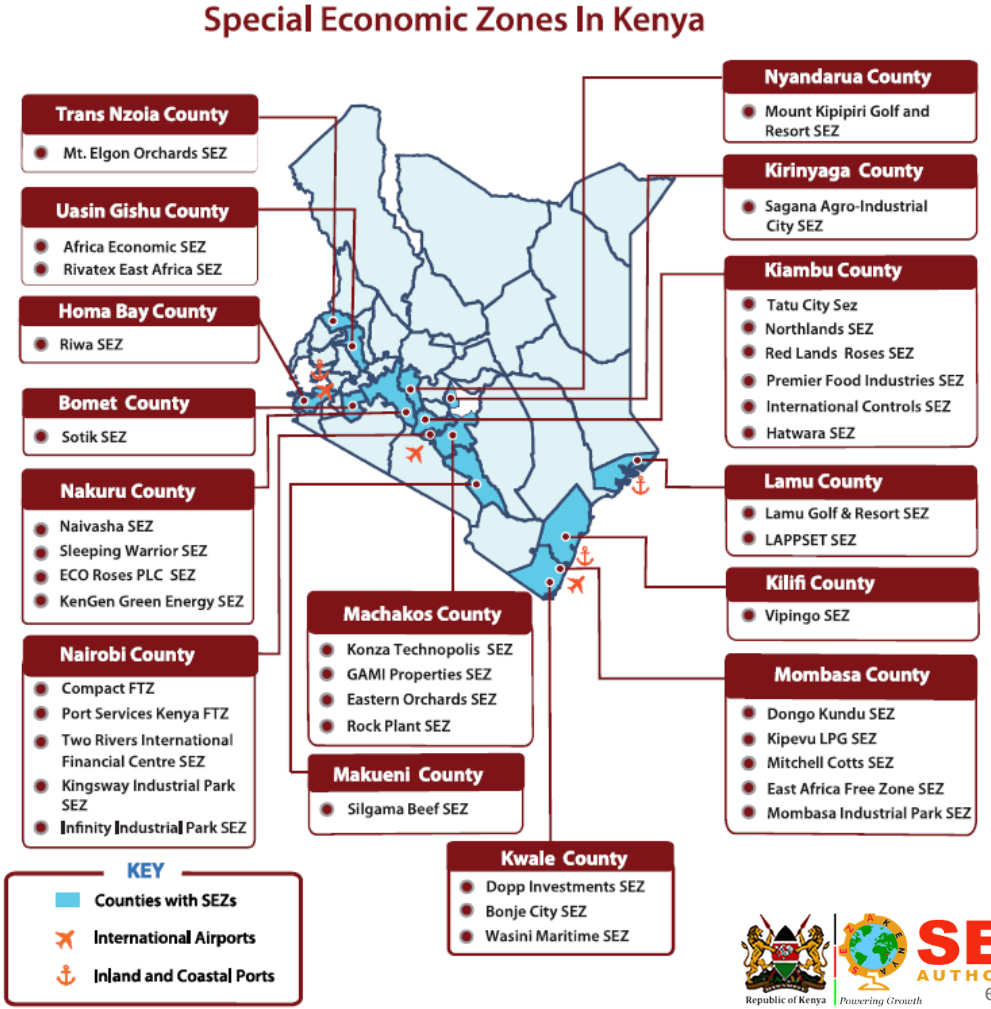
Implementation of the Program:

- Switched to a private sector led growth-model where private SEZs were the key implementers and early adopters e.g. AEZ, TATU City. Dongo Kundu SEZ experiences delays due to Project Affected Persons, LAPSSET Lamu Corridor faces delays and funding constraints
- Naivasha SEZ is established in 2019 as a Textile manufacturing hub. Faces funding challenges for Infrastructure Developments, pivots to a mixed-use Industrial SEZ
- Authority lacked substantive staff and in 2023 recruitment began
- Number of private SEZs grew to 36, and public SEZs to 8 within the period
- This has been reduced due to enhanced regulatory oversight to 36 SEZs in total – 27 private and 9 public
- Raft of Legal Amendments to support the evolving investment landscape and improve on legal gaps and reforms

Current Status

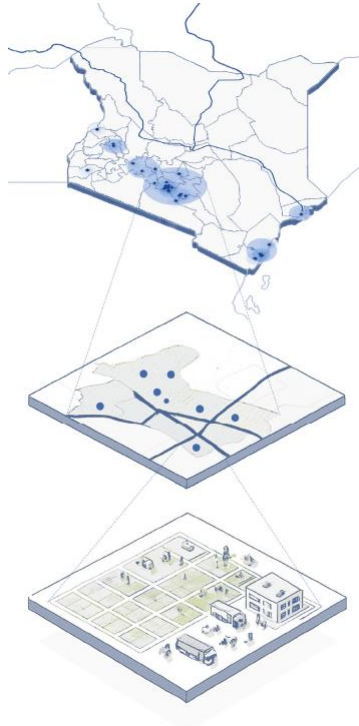
SEZ Program Reform:

- **Legal and Regulatory Reforms** through the SEZ Act Cap 517A Amendments, adoption of Regulations and SEZ Schemes Guidelines
- Development of an overarching **National SEZ Strategy** based on sound economic Principles and Development Strategy
- **Capacity building** the Authority and stakeholders for effective implementation of the SEZ program
- **Enhance Incentives Framework** to drive impact and performance - based incentives that are sector-led
- Integration of Kenya SEZ program into **Regional corridors** and the **AfCFTA** as a first-mover within the SEZ space within Africa – Naivasha SEZ as a model zone
- Unlocking **Sustainable Finance for Development** of Large-scale eco-industrial SEZ infrastructure required for priority zones
- **Digitisation** of the Progam to allow for real-time or near real-time monitoring and data collection



The Challenge: SEZ Performance in Sub-Saharan Africa

- Special Economic Zones are a prominent policy instrument across Sub-Saharan Africa, yet evidence consistently shows limited contribution to structural transformation (Farole, 2011; Moberg, 2015).
- Kenya is committed to using SEZs as a catalyst for industrialisation and regional economic growth.
- The central challenge is ensuring that zone locations are strategically selected to generate meaningful spillover effects and developmental outcomes.
- This requires a coherent national spatial framework, particularly within Kenya's devolved governance structure where 47 counties hold economic development mandates.



Why Location Determines Impact

- The developmental impact of SEZs depends critically on their capacity to generate spillovers beyond zone boundaries — including technology transfer, labour skill upgrading, and backward linkages to local suppliers (Aggarwal, 2012).
- These spillover mechanisms are directly shaped by zone location relative to existing regional capabilities and infrastructure networks.
- Zones established without regard to local factor endowments, transport connectivity, or proximate industrial activity consistently fail to catalyse broader development (Farole & Akinci, 2011).
- Conversely, zones positioned to leverage regional comparative advantages and existing economic agglomerations generate substantially higher developmental returns (Zeng, 2015).

Leveraging Industrial Clusters

- Industrial development concentrates where firms benefit from specialised labour pools, supplier networks, and knowledge spillovers — the well-established logic of agglomeration economies (Marshall, 1920; Porter, 1998).
- An effective national SEZ strategy positions zones to strengthen emerging or existing industrial clusters rather than creating isolated enclaves.
- This approach avoids the enclave problem — zones disconnected from domestic productive capacity that generate minimal local linkages (Kaplinsky & Morris, 2009).
- The strategic question for Kenya is whether each zone will function as a catalyst for regional industrial development or remain a foreign-owned enclave with limited domestic impact (UNCTAD, 2019).

Devolution and the Coordination Challenge

- Kenya's 2010 Constitutional devolution gives county governments mandates for economic development, creating both opportunity and risk for SEZ strategy.
- Without national coordination, counties may compete for Foreign Direct Investment through fragmented and suboptimal zone proliferation.
- Uncoordinated fiscal competition between counties risks a destructive race to the bottom in incentives, eroding the fiscal base without generating developmental returns (Smoke, 2015).
- Counties may establish zones in locations driven by political considerations rather than developmental logic — lacking genuine comparative advantage, adequate infrastructure, or proximity to markets and suppliers (Bräutigam & Tang, 2014).

The Role of a National Spatial Framework

- A national spatial SEZ framework identifies locations with genuine competitive advantages based on regional factor endowments and economic potential.
- It ensures zones connect to transport corridors, logistics infrastructure, and trade networks essential for competitiveness.
- It matches sectoral specialisations to regional industrial capabilities, maximising the potential for domestic linkages.
- It coordinates zone distribution across counties to avoid wasteful duplication and prevents counties competing through excessive fiscal incentives (Kinda, 2014).
- Without this coordination, Kenya risks zone proliferation without territorial logic — replicating the failures seen elsewhere in the region.

Proposed Methodology

Phase 1: Context Analysis

***Spatial Context* —** Natural systems baseline (topography, land cover, flood risk, protected areas, natural assets) establishing spatial constraints; overlaid with human systems (road networks, infrastructure, settlements, utilities, administrative boundaries)

***Economic Context* —** Socioeconomic and demographic projections (25–35 year horizon) at sub-county level; input-output and value chain analysis of national trade patterns; labour market assessment by region

***SEZ Audit & Policy Review* —** Identification and audit of existing SEZs (sector focus, performance, challenges); review of infrastructure plans (LAPSSET Corridor, SGR, Vision 2030); review of policy and regulatory framework (SEZ Act 2015, county spatial plans); international best practice and literature review on SEZ spillovers and agglomeration

Phase 2: National Constraint and Opportunity Mapping

Synthesise spatial and economic analysis into a national constraint and opportunity framework; identify key regional economic zones and their competitive advantages; map infrastructure corridors, growth nodes, and strategic locations; institutional and stakeholder capacity assessment across counties and SEZA

Phase 3: Zone-Level Analysis and Feasibility

Deep-dive into each identified regional economic zone: county-level constraints, opportunities, and sector potential; identify priority locations for new or expanded SEZs (existing and proposed); conduct pre-feasibility analysis for critical sites including market demand, infrastructure requirements, and environmental and social impact screening

Phase 4: Implementation Strategy and Investment Packaging

Develop a coordinated implementation strategy with prioritised, phased investment projects at national, regional, and sub-regional scales; package projects for independent procurement while maintaining strategic coherence; define governance framework (coordination mechanisms, institutional roles, monitoring); establish prioritisation criteria and delivery phasing aligned with fiscal and capacity constraints

Lessons from the Region — What Has Not Worked

- Tanzania's Export Processing Zones were distributed without systematic location analysis, resulting in minimal employment generation and negligible spillovers (Mathews & Odhiambo, 2014).
- Nigeria experienced a proliferation of underutilised zones in locations lacking basic infrastructure or meaningful market access (Aggarwal, 2007).
- In both cases, political considerations drove site selection, overriding spatial and economic rationality.
- These experiences demonstrate the high cost of proceeding without a coherent spatial strategy — wasted public investment, missed development opportunities, and zones that function as enclaves rather than growth engines.

Lessons from the Region — What Has Worked

- Mauritius strategically positioned zones near port infrastructure and existing textile manufacturing capabilities, creating strong backward linkages to the domestic economy.
- Rwanda deliberately placed zones along transport corridors connecting to regional markets, ensuring competitiveness and trade facilitation (Chaurey, 2017; Steenbergen & Javorcik, 2017).
- Both countries demonstrate that strategic alignment between zone location, sectoral focus, and regional competitive advantages drives measurable developmental outcomes.
- The common thread is intentional national coordination of zone placement based on economic analysis, not political expediency.

Ethiopia — A Detailed Example

- The Ethiopian government located industrial parks based on systematic analysis of regional comparative advantages (Oqubay, 2015).
- Textile zones were placed near cotton-producing regions; leather parks near livestock areas; agro-processing zones adjacent to agricultural hinterlands.
- All zones were connected to the Addis Ababa–Djibouti transport corridor, ensuring export logistics and regional integration.
- This spatial logic has generated significantly higher domestic linkages, employment, and regional development impacts than zones established without territorial strategy.
- Ethiopia's experience provides a directly relevant model for Kenya's spatial framework development.

What tools are essential for positioning SEZ in a Mixed-Stage Zone Portfolio

How to Assess Concentration Risk in a Mixed Stage SEZ Program

- Measure concentration risk across sectors, firms, geography, markets, and infrastructure
- Identify structural vulnerabilities affecting resilience and industrial growth
- Inform SEZ positioning, diversification, and spatial strategy

Research Questions

- How concentrated are SEZ investments in Kenya by sector, firm size, origin country, and export markets?
- Is there an overdependence on specific infrastructure/corridors, incentives, or value chains?
- What risks arise from geographic clustering or limited diversification?
- How does concentration affect economic resilience and industrial upgrading?

Conceptual Framework – Examples of Foundational Theory and other Research Done in Emerging Economies

- Industrial concentration theory as a basis
- Agglomeration/Clustering vs over-concentration trade-offs?
- Economic resilience and diversification theory

Methodology (Mixed Methods combined to make a diagnostic tool) What's the Best Approach Here?

- HHI (informs diversification), Location Quotient (overspecialization in a zone/sector), export concentration index (diversification of zones, value-chain gaps for investment targeting),
- SEZ concentration ratios (sectors, firms, zones, exports),
- Spatial & Network Analysis: clustering, infrastructure dependency/, SEZ-domestic linkages
- Stakeholder interviews, policy review, global benchmarking

What tools are essential for positioning SEZ in a Mixed-Stage Zone Portfolio

Data Sources

- Stakeholder interviews, policy review, global/regional benchmarking
- Government:
  - ❑ Kenya Special Economic Zones Authority (SEZ Firm and Zone Data),
  - ❑ Kenya National Bureau of Statistics (labour, demographics, exports, firm data)
  - ❑ Invest Kenya Authority (Investment Flows and Origin),
  - ❑ Central Bank of Kenya (credit, other financial data),
  - ❑ Kenya Revenue Authority (exports, imports, revenue)
- County governments: land use, permits, local incentives among others
- Firm-level data??
- International: World Bank, UNCTAD, UNIDO

Expected Outputs

- How to derive and apply a SEZ concentration risk index (SCRI)
- Sector and geographic diversification gaps
- Policy recommendations for balanced SEZ positioning
- Inputs for Master Planning e.g. suitability model (labour + infrastructure + market + low SCRI)

Conclusions and Way Forward

- SEZ effectiveness depends fundamentally on a national spatial strategy that maps zone locations to regional competitive advantages, infrastructure endowments, and industrial capabilities.
- In Kenya's devolved context, the national government must exercise strategic spatial coordination to ensure coherent and effective zone development.
- This coordination prevents fragmented county-level competition from producing the enclave development patterns that have characterised underperforming SEZs across Sub-Saharan Africa.
- A national spatial SEZ framework is not a constraint on devolution — it is the essential structure ensuring zones contribute to inclusive territorial development across Kenya.
- This framework also provides the regulatory clarity and investment certainty that attracts productive Foreign Direct Investment by reducing perceived policy risk for international investors.

No research without action,
No action without research
Kurt Lewin

Africa must rethink what 'critical' actually means from its own development calculus.
Resources are 'critical' only relative to a society's productive priorities.
Simons

Appendix: Research Summary

Special Economic Zones have emerged as prominent instruments for industrial policy across Sub-Saharan Africa, yet evidence consistently demonstrates their limited contribution to structural transformation and inclusive development (Farole, 2011; Moberg, 2015). This research examines the imperative for a coherent national spatial strategy to guide SEZ development in Kenya, arguing that strategic location decisions fundamentally determine whether zones generate meaningful spillover effects or remain disconnected enclaves with negligible developmental impact.

Theoretical debates on SEZs centre on their capacity to generate spillovers beyond zone boundaries. Spillover mechanisms—including technology transfer, labour skill upgrading, and backward linkages to local suppliers—depend critically on zone location relative to existing regional capabilities and infrastructure networks (Aggarwal, 2012). Zones established without regard to local factor endowments, transport connectivity, or proximate industrial activity consistently fail to catalyse broader development (Farole & Akinci, 2011), while zones positioned to leverage regional comparative advantages and existing agglomerations generate substantially higher developmental impact (Zeng, 2015).

Drawing on agglomeration theory, industrial development emerges where firms benefit from specialised labour pools, supplier networks, and knowledge spillovers (Marshall, 1920; Porter, 1998). Successful SEZ spatial strategies therefore position zones to strengthen emerging or existing industrial clusters rather than creating isolated enclaves disconnected from domestic productive capacity (Kaplinsky & Morris, 2009). Location thus becomes the primary determinant of whether zones catalyse regional industrial development or remain foreign-owned enclaves with minimal domestic linkages (UNCTAD, 2019).

Kenya's 2010 Constitutional devolution gives county governments mandates for economic development, creating spatial planning challenges through potential uncoordinated competition for investment. Without national coordination, fiscal decentralisation risks destructive inter-jurisdictional competition (Smoke, 2015), with counties establishing zones in locations lacking comparative advantage, infrastructure, or market proximity—driven by political rather than developmental logic (Bräutigam & Tang, 2014). A national spatial strategy must identify locations with genuine competitive advantages, ensure connectivity to transport corridors, match sectoral specialisations to regional capabilities, and prevent wasteful duplication.

Historical evidence demonstrates the consequences of spatially incoherent SEZ development. Tanzania's Export Processing Zones, distributed without systematic location analysis, generated minimal employment and negligible spillovers (Mathews & Odhiambo, 2014). Nigeria's proliferation of underutilised zones reflects political site selection overriding spatial rationality (Aggarwal, 2007). Conversely, Mauritius and Rwanda demonstrate how strategic zone positioning determines developmental outcomes (Chaurey, 2017; Steenbergen & Javorcik, 2017). Ethiopia's deliberate location of industrial parks based on regional comparative advantages—textile zones near cotton regions, leather parks near livestock areas—connected to the Addis Ababa–Djibouti corridor, generated significantly higher domestic linkages (Oqubay, 2015).

This research demonstrates that SEZ effectiveness depends fundamentally on national spatial strategy mapping zone locations to regional competitive advantages, infrastructure endowments, and industrial capabilities. In Kenya's devolved context, a coherent spatial SEZ strategy represents not a constraint on devolution but the essential framework ensuring zones contribute to inclusive territorial development, while providing the regulatory clarity and investment certainty that enhances FDI attraction.

Keywords: *Special Economic Zones, spatial strategy, Kenya, devolution, spillover effects, agglomeration, regional development, Sub-Saharan Africa, territorial planning*

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