ANALYSIS OF POTENTIAL FOR GROWTH OF YOUNG ENTERPRISES IN THE AUTOMOTIVE SECTOR IN KENYA

Study commissioned by GIZ Programme for Promotion of Self Employment and Entrepreneurship in Kenya

Submitted by

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LIST OF ABBREVIATIONS

1.	AfCFTA	-	African Continental Free Trade Area
2.	AVA	-	Associated Vehicle Assemblers
3.	CAR	-	Centre for Automotive Research
4.	CBET	-	Competence Based Education and Training
5.	CET	-	Common External Tariff
6.	CIF	-	Cost Insurance and Freight
7.	CKD	-	Completely Knocked-Down
8.	CLIP	-	Continuous Learning and Improvement Programme
9.	COMESA	-	Common Market for Eastern and Southern Africa
10.	DBK	-	Development Bank of Kenya
11.	EAC	-	East African Community
12.	EPZ	-	Export Processing Zones
13.	FDI	-	Foreign Direct Investment
14.	GIZ	-	Deutsche Gesellschaft für Internationale Zusammenarbeit
15.	ICDC	-	Industrial and Commercial Development Corporation
16.	IDF	-	Import Declaration Fee
17.	KABM	-	Kenya Association of Bus Manufacturers
18.	KAM	-	Kenya Association of Manufacturers
19.	KEBS	-	Kenya Bureau of Standards
20.	KENAS	-	Kenya Accreditation Service
21.	KIE	-	Kenya Industrial Estates
22.	KNBS	-	Kenya National Bureau of Statistics
23.	KRA	-	Kenya Revenue Authority
24.	KS	-	Kenyan Standard
25.	KVM	-	Kenya Vehicle Manufacturers
26.	LN	-	Legal Notice
27.	MNCs	-	Multinational Corporations
28.	MNEs	-	Multinational Enterprises
29.	MSME	-	Micro Small and Medium Enterprises
30.	NTSA	-	National Transport and Safety Authority
31.	OEM	-	Original Equipment Manufacturers
32.	PSV	-	Passage Service Vehicles
33.	RDF	-	Railway Development Levy
34.	SDF	-	Skills Development Facility
35.	SEZ	-	Special Economic Zones
36.	SEZA	-	Special Economic Zones Authority
37.	SMEs	-	Small and Medium Enterprises
38.	SSA	-	Sub Saharan Africa
39.	TVET	-	Technical and Vocational Education and Training
40.	UNCTAD	-	United Nations Conference on Trade and Development
41.	UNECE	-	United Nations Economic Commission for Europe
42.	VAT	-	Value Added Tax
43.	WTO	-	World Trade Organization

Section 1

1.1 Introduction

The federally owned Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH supports the German Government in achieving its development-policy objectives. GIZ promotes complex reforms and change processes. In Kenya, GIZ has been working for more than 40 years in bilateral cooperation on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) and on commission of the Kenyan government and international donors.

The GIZ Programme for Promotion of Self-Employment and Entrepreneurship in Kenya aims to increase the job-creating growth of formal and informal start-ups and young enterprises in selected industrial and service-oriented sectors. In the current phase (2020 to 2022) three outputs are defined: (1) Establish innovative mechanisms to promote market-based business models. To this end, products, services, and suppliers with market potential are identified and promoted in industry-specific design thinking seminars and through partnerships with (large) companies. The aim is that a structured cooperation between established companies and young enterprises opens growth potential. (2) Promote the use of sectoral services to improve entrepreneurial skills for the growth of young enterprises. The assumption is that improved entrepreneurial capacity leads to business growth. (3) Access to demand-oriented financial services for the growth of young enterprises. The impact hypothesis is that improved information and brokerage services facilitate access to financial services and thus contribute to the growth of young enterprises. The programme is part of the Sustainable Economic Development (SED) Cluster of GIZ in Kenya. Within the cluster, further projects on employment promotion, digitization and trade are being implemented with the objective of giving young people employment prospects through the support of micro, small and medium enterprises, promotion of entrepreneurship and independent as well as practice-oriented training, and job matching services.

Globally, the automotive industry has been a pillar of industrialization and a key driver of macroeconomic growth and technological advancement in many economies. The industry has consistently contributed directly and indirectly to the GDP, foreign investment, employment and innovation in developed countries such as Germany, United States, Japan, South Korea, Italy, China, Thailand and several other emerging economies. In Kenya, the automotive industry has a potential to significantly contribute to the manufacturing sector, and the government targets to increase its share to the GDP from the current 9.2% to 15% by 2022.

The Government of Kenya had started putting in a lot of emphasis on developing the automotive sector from the 1980s. However, the prospects of growth for the sector were immensely reduced in the 1990s when liberalization of the market resulted in importation of cheap used cars. Since then to date, the vehicle assembly industry has struggled; and the components industry whose lifeline depended on a protected market at the time, also saw many manufacturing entities gradually close shop. The current government has realized the potential this sector has in contributing to the GDP and is currently putting measures to spur its growth such as development of the National Automotive Policy 2019 which aims to promote competitive automotive products manufacturing anchored on training research and development.

One of the objectives of this policy seeks to drive employment generation and skills development through the establishment of a manufacturing skills centre of excellence and

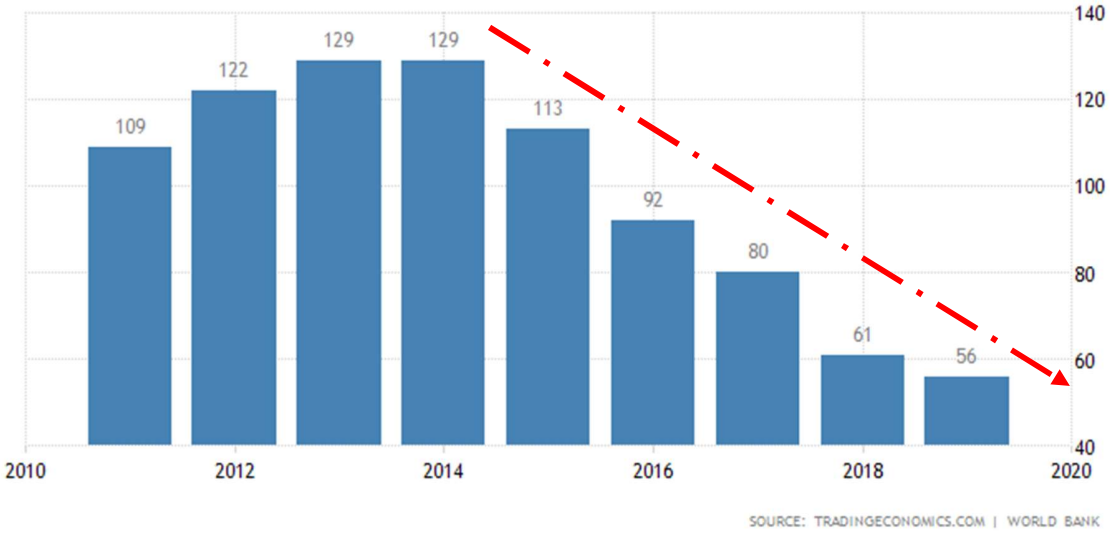
creation of a solid foundation for generating jobs in the automotive sector over the next decade. In line with this, the GIZ Programme for Promotion of Self-Employment and Entrepreneurship purposed and carried out a research in line with this to analyze how the current conditions in the automotive sector in Kenya are, that is, on the political level, legal framework, market situation, situation of the companies in terms of location and what they can do, as well as market potential. Through this research the Programme envisages to develop preliminary ideas on how to strengthen the sector in Kenya.

It is against this background that this study was undertaken. The report analyzes current business conditions in the automotive sector in Kenya with the aim of assessing the viability of GIZ and other stakeholders supporting growth of young enterprises in the sector.

1.2 Overview of Business Environment in Kenya

The manufacturing sector plays a critical role in any economy through the creation of productive employment and opportunities for wealth generation, with direct linkages to all sectors of the economy. However, in Kenya, the manufacturing sector is yet to realize its full potential. Through Vision 2030, the Kenya Industrial Transformation Program and most recently, the Big 4 Agenda, the Government has committed to revitalize the sector[1]. The share of the manufacturing sector contribution to Kenya's GDP has been on a declining trend; from 11.8% in 2011 to 8.4% in 2017. According to the Big 4 Agenda, the share of the manufacturing sector should rise to 15% of GDP by 2022, from 9.2% in 2018.

According to the World Bank's Ease of Doing Business annual ratings, Kenya was ranked 56 among 190 economies in 2019 as opposed to 61 out 190 economies in 2018. Kenya's Vision 2030, a long-term development strategy launched in 2008 envisions that the country's Ease of Doing Business will improve to 45 by 2022.



According to the Kenya National Bureau of Statistics (KNBS), during the year 2019, the manufacturing sector real value added increased by 3.2 per cent, compared to 4.3 per cent

[1] KAM Manufacturing Priority Agenda 2019

recorded in 2018. The volume of output for the sector rose by 2.0 per cent in 2019. This growth was attributed to increased production of motor vehicles, trailers and semi-trailers, animal and vegetables fats and oils and pharmaceuticals sub-sectors. The manufacturing sector performance was driven by marked growths in several activities in the production of transport equipment (21.4 per cent); chemical and chemical products (5.9 per cent); basic metals (3.9 per cent) and pharmaceuticals (6.0 per cent).

With regards to growth in auto sector, the number of newly registered motor vehicles and motorcycles increased by 7.6 per cent and 11.4 per cent to 109,751 units and 217,425 units in 2019, respectively (KNBS 2020). It is important to note that 88 percent of total vehicle registrations were used vehicles and only 12% were new vehicles. More than 50 percent of the new vehicles were built in Kenya from complete knocked down kits whereas 47% were imported as fully built units.

In terms of access to finance, credit advanced to enterprises involved in manufacturing activities rose by 9.3 per cent to stand at KSh 366.9 billion in 2019, a further indication of increased activity in the sector during the period under review.

1.3 Brief profiles of Automotive Component Manufacturing Companies in Kenya

The growth of automotive industry brings immense benefits as well as drawbacks to the economy. While job creation and technology transfers are among the main benefits, pollution and traffic congestions are among key drawbacks of the industry. Experiences from countries with developed automotive industry show that benefits of manufacturing localization far much outweigh the drawbacks it creates. This has incentivized governments to create and implement policies and strategies to support development and growth of automotive industry.

Developing of local automotive industry entails having domestic manufacturer of automotive products and so having domestic producers. According to the requirements of investors in automotive assembly industry, any parts manufacturing firm that meets the required quality levels can supply automotive companies. In addition, there are higher chances for business collaboration with the big suppliers who have economies of scale and are able to automate their processes and maintain quality at affordable prices. It needs to be noted that the requirement of quality, which is closely related to safety, is very important in the automotive industry and needs to be done incrementally, continually and in an integrated manner.

Auto components industry in Kenya can be traced as far back as the 1970s when automotive assemblers set shop in Kenya. The industry has however suffered shocks of the liberalization era where Kenya like other African markets saw the influx of imported new and used which were more affordable hence collapsing the budding automotive industries of the time. Many closed in the mid-2000s; and only a few sustained business to this day.

The components sub-sector comprises of formal companies manufacturing various parts and components used during motor vehicle and motorcycle assembly as well as spare parts for the secondary market. This sub-sector is critical for the development and growth of the automotive industry in Kenya. There are about 25 local motor vehicle component manufacturers with a combined average capacity utilization of 36%. Each component manufacturer is estimated to

employ 256 people (2017 employment averages) and contributes over KES 40 million annually in tax revenues to government.

Table 1: List of parts and components manufacturers

	Part manufacturers	*Capacity utilization*		*Part manufacturers*	*Capacity utilization*
1)	Pipe Manufacturers Ltd.	23%	14)	Auto Axillaries Ltd.	30%
2)	Megh Cushion Industries Ltd.	40%	15)	Metal Equipment Ltd.	30%
3)	Mutsimoto Motor Co Ltd	40%	16)	Unifilters Ltd.	30%
4)	Auto Springs EA PLC	35%	17)	Rubber Products Ltd.	30%
5)	Associated Battery manufacturers Ltd	60%	18)	Specialised Fiber Glass	30
6)	Highway Upholstery Car Cushion	30%	19)	Romageco Kenya Limited	30%
7)	Sai Raj Ltd	45%	20)	Pantech Ltd	30%
8)	Numerical Machine Complex	20%	21)	Sagoo Holdings Ltd	30%
9)	Pinnacle Systems Ltd	40%	22)	Kenrub Ltd	30%
10)	Digital Bass Auto	30%	23)	Patmose	30%
11)	Chui Springs	30%	24)	Turnometal	30%
12)	Impala Glass	30%	25)	Mann Manufacturers	30%
13)	SKL Springs Ltd	30%			

Source: APMA (cited in KAM 2020)

The mentioned companies have largely served the aftersales market with products that fully compete with imported new and used auto components from all parts of the world.

1.4 Current legal and regulatory framework for automotive sector in Kenya

Several legal instruments and sector related policies guide the automotive sector in Kenya. Standards have been put in place to guide compliance for both locally made and imported products. It is however generally agreed that the existing instruments need to be reviewed and revised policies enacted to steer the sector forward.

1.4.1 Policies

There are policies in place that directly affect the automotive sector, and therefore need to be considered and where necessary reviewed to propel the realization of a vibrant automotive industry in Kenya. These include:

i. **Draft National Automotive Policy (NAP) 2018** - the draft NAP of Kenya is currently before Cabinet of Kenya. This draft policy provides for the creation of the National Automotive Council to oversee and regulate the developments of the automotive sector in the country. The draft policy further provides for definitions of knock-down levels for assembly, and the progressive periods as well as outputs between each level. Associated tax regimes are also provided.

ii. **Legal Notice (LN) 363 and LN 489:** In exercise of the powers conferred to the Minister of Finance by section 234 (1) of the Customs and Excise Act, the Minister for Finance issued the *Customs and Excise (Unassembled Motor Vehicles) Regulations, 1993* housed in the

Customs and Excise ACT (Cap. 472). These regulations set specific meanings to terminologies in automotive assembly including Part and Sub-Assembly. "Part" means an individual component shaped, fashioned or otherwise manufactured from one piece of metal or other material only 'and not joined or connected in any way to another component or material; whereas "sub-assembly" means a component consisting of any two or more parts joined together by any means.

The regulations provided special provisions (as Part B) for: (a) Chassis frame; (b) Body/chassis panels, stamping and pressing; (c) Engine; (d) Controls; (e) Axle, brake and suspension system; (f) Instruments; (g) Miscellaneous materials, parts and accessories; and (h) Anti-squeak and anti-drum material. Specifically, the regulations provide for a FOURTH SCHEDULE; which lists items to be excluded from constituting parts or sub-assemblies of unassembled motor vehicles specified in the First and Second Schedules. This schedule was made on the 30th November, 1993. The Fourth Schedule listed 21 parts that make the foundations of auto component manufacturing in Kenya. The list was revised in an amendment in 1994; cited as the *Customs and Excise (Unassembled Motor Vehicles) (Amendment) Regulations, 1994*. The final 20 parts list for exclusion in assembly is as listed:

Batteries; Battery cables; Brake linings; Disk brake pads; Disc pad backing plates; Engine air filters; Exhaust pipes and silencers; Hydraulic dampers and shock absorbers; Leaf springs assembly; Radiators; Safety belts; Seat frames; Shackle pins for leaf springs; Spark plugs; Speedometer cables; Tubes; Tyres; U-bolts and U-bolt nuts; Windscreen, side, and rear glass; and Wiring harnesses.

However, the applicability of the list in the sector was a challenge, calling for more revision.

iii. Legal Notice 84 of 2019 - Motor vehicle assemblers apply Legal Notice 84 of 2019 (The Tax Procedures –Unassembled Motor Vehicles and Trailers, regulation). The regulation has three schedules:

a) First Schedule - General Provisions
b) Second schedule
I) Part A: Specific breakdown of Completely Knocked Down Kits for Trucks and Buses
2) Part B: Specific break down on Completely Knocked Down Kits for Pick Ups
3) Part C: Specific break down of completely Knocked Down Kits for Passenger Vehicles and Station Wagons
c) Third Schedule
I) Part 1: It shows list of items that shall not be allowed as constituting part or sub-assemblies of the unassembled motor vehicle specified in the first and second schedule (*see Box 1*)
2) Part 2: It shows the list of items that shall not be allowed as constituting part or sub-assemblies of unassembled motor vehicles specified in the first and second schedule (*see Box 2*)
d) Fourth Schedule: Highlights the parts or sub-assemblies that constitutes the Completely Knocked Down knits for trailers.

Box 1 (21 items)

Batteries; Battery Cables; Engine Filters; Exhaust Pipe and Silencers; Leaf springs assembly & leaf springs; U-bolt, U-bolt nuts & Central bolts; Wiring Harnesses; In-Vehicle literature; Vehicle VIN Plates & decals; Radio, USB, Compact Disc or DVD players; Automotive paints & painting preparation chemicals; Speed governors & accessories; Seat frames; Seat foam pads (polyurethane foam); Seat upholstery; Soft interior trim; Canvas; Spare wheel carrier; Shackle pin from leaf springs; Windscreen side & rear glass; and Radiators

Box 2 (15 items)

Oils; Greases; Fuels; Hydraulic fluid; Sealer; Adhesives; Paint; Toughened flat glass; Canvas hoods, covers & screens; Soft trim upholstery; Sound deadening material; Pre-mixed metal, pre-treatment chemicals; Hydraulic jacks; Scissor jack; and Tool kits

iv. **The Motor Vehicle, Components and Accessories Act 1965** – This legislation should be of interest to organizations supporting the automotive sector not only because of the ancillary impact that motor vehicle components and accessories have on the larger Automotive industry; but also, considering the existing and potential Component Manufacturing market that exists in Kenya. This legislation, though partially repealed, governs the operations, and conduct of Component and Accessories Dealers. The definition of 'dealer' under the Act refers to a person who deals in motor vehicles and accessories, in respect to purchase or sale of the same. It should be noted that Manufacture of Components and Accessories are not captured within the definition.

The repealed portions of the Act were in respect to the previous licensing provisions in place. Therefore, it appears that there is no independent body under the Act that is mandated to supervise and regulates the dealers of Motor Vehicle Components and Accessories.

As already mentioned, LN 363 and 489; and now LN 84 of 2019 set out specifically Motor Vehicle Components and Accessories to be sourced locally. To compliment this existing requirement, it would be useful to support efforts towards reviving this legislation and creating a body that would be able to oversee not only the trading in these parts but the manufacturing of the same. In addition, the legislation has made provision for restrictions on trading of particular components and accessories. However, it may be useful if the Council would be able to review the same to have more specific and pragmatic requirements around the quality and specifications of Components to be traded or restricted.

Any undertaking to review this legislation is to ensure that it can support the Motor Vehicle, Components and Accessories market from manufacturing to the retail of the same, while ensuring appropriate regulation of the Standard and Quality of products in the market.

v. **Proposed Multisector Local Content Policy:** The government is working on a Multisector Local Content Policy. This is a policy to promote local goods and services. For the Automotive sector, the policy is challenging vehicle assemblers to use more local content. The policy states that when government is procuring, preference will be given to those companies whose products have the highest local content. This is aimed at progressively moving the country to full vehicle manufacture. There will be a scoring criterion in government tenders for this qualification, showing how much local content has been utilized. This will increase sale volumes of locally assembled vehicles, as government is a big buyer.

The government is also working on a vehicle purchase scheme for civil servants with similar considerations of local content.

vi. **The Environmental Management and Co-ordination Act, 1999** –, the relevance of this legislation is specifically in regard to the governance of Emissions. A collaborative engagement with the National Environmental Authority to develop specific regulations in respect to the manufacturing and operation of Motor Vehicles is unavoidable. Section 93 and 101 of the Act, speak to regulating noise pollution and discharge of hazardous substances from motor vehicles.

Motor Vehicles have already been identified as being large contributors to Emissions in Kenya[2]. Promoting the manufacturing/assembly and market demand for electrical and hybrid vehicles, are growth moves that the policy can shield and protect.

vii. **The Export Processing Zones Act, 1990** – Export Processing Zones have become crucial tools for the expansion of Manufacturing in several jurisdictions. In Kenya, this legislation has allowed specific designated areas to be converted to processing zones in which enterprises may develop their goods or services in special favorable conditions prior to exportation. Some of the benefits for enterprises established in EPZ's include;

   a. Exemptions from Registration under the Value Added Tax Act;

   b. Exemption from the payment of excise duties as specified in the Customs and Excise Act;

   c. Exemption from payment of Income Tax as specified under the Income Tax Act for the first Ten Years from the date of first sale;

   d. Exemption from quotas or other restrictions or prohibitions on import or export trade with the exception of trade in firearms, military equipment or other illegal goods. (Amongst other benefits).

   The legislation does provide that the activities eligible to be carried out within an export processing zone shall be manufacturing activities, commercial activities or service activities. This particular legislation would be of interest to the automotive sector as it offers favorable terms for manufacturing; especially in the absence of a dedicated automotive industrial park. It is logical to consider and make recommendations as to special regulations under the Act which Motor Vehicle manufacturers could benefit. Such benefits should be considered alongside the provisions of the The Special Economic Zones Act, 2015 which prescribes the creation of Industrial Parks within SEZs, and such parks can also be utilized for Auto Manufacturing.

viii. **The Traffic Act and National Transport and Safety Authority Act, 2012** – These two legislations have played an integral role in the Motor Vehicle Industry, outside the aspect of manufacturing but the operation of Motor Vehicles. The Traffic Act bears provisions as to the condition and loading of vehicles and regulations in regard to the importation and exportation of vehicles. Since road safety is only feasible when auto parts used are the right quality, these legislations would be important to assess, especially in regard to the matter of conditions of vehicles and specifications as to the standards to be maintained. With the present ambiguity of the provisions, it would remain at the discretion of the officers or authorities to determine the applicability of the provisions.

   Similarly, the National Transport and Safety Authority Act, establishes the Authority thereunder and its various mandates. Key objectives of the Authority include to implement policies relating to road transport and safety, as well as manage and regulate road transport systems. In view of this, a collaborative engagement with the Authority in order to

[2] *The Kenya Second National Communication to the United Nations Framework Convention on Climate Change (SNC) 2015 notes that the transport sector, dominated by road transport, is a significant and growing contributor to Kenya's GHG emissions.* The above notwithstanding, Kenya's Intended Nationally Determined Contribution (INDC) commits to reducing GHG emissions by 30% (143 MtCO2e) relative to business as usual levels by 2030

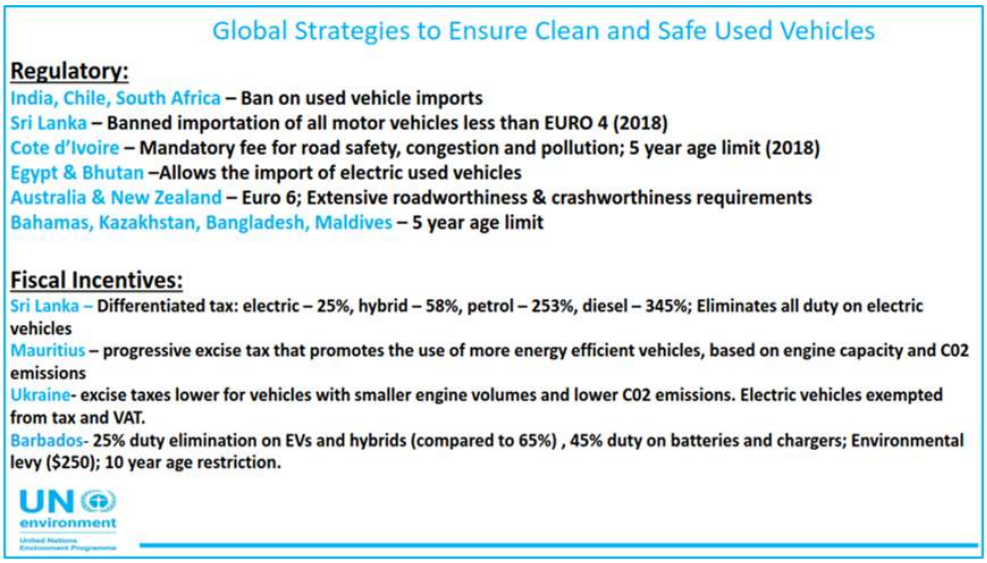
spearhead relevant guidelines and regulations in respect to the enforcing Road Safety and ensuring that sub-standard vehicles are identified and addressed; is a step in the right direction. A particular aspect to be examined in respect to the same would be the measures employed in determining a Vehicle's 'Roadworthiness' and how often the same should be administered. Currently the same is provided for under the NTSA regulations.

ix. **Second Hand Motor Vehicle Purchase Tax Act** – This legislation simply addresses the rate of tax applicable to the Purchase of Second-Hand vehicles. Given that support to the sector is partly intended to make the Automotive Market for local products more vibrant and competitive, there may be urgent need to review this Act. This would be ideally to encourage purchase of vehicles from within the market rather than through importation, even if the present legislations appears to apply to all vehicles.

1.4.2 Regulatory standards and Compliance to Quality

Importing a used car in Kenya is subject to roadworthiness inspection by a Kenya Bureau of Standards (KEBS) appointed inspection agent in the country of export. A study by the Netherlands Transport Inspectorate on used vehicles destined for Africa, noted rather interestingly, that around half of export vehicles would not pass the Periodic Roadworthiness Test[3]. This percentage might be higher since pits or lifts are never available to perform a complete inspection. A vehicle with a valid roadworthiness certificate can also have technical or emission deficiencies due to events happening after the last inspection. Old vehicles can end up on the export market due to defects. There is also a risk that emission systems are missing or not functioning at the time of export vehicles.

Nonetheless, from a regulatory perspective, there are standards in place to guide the quality inspection of imported fully built units, as well as standards for supporting service industries. These include:



- KS1515:2000 Code of practice for inspection of road vehicles: covers steering control, tyres, electrical and lamps, braking systems and components suspension, windscreen glass, and seat.
- KNWA 2640:2013 Motor vehicle garages for repair and services — Code of practice
- KS 2499:2013, Road vehicle inspection centre evaluation – Code of practice. Assure the quality of goods purchased and services received.

Motor vehicle parts have corresponding quality standards set by KEBS, for which any necessary testing is undertaken within KEBS laboratories. The following standards (Table 2) are in existence in Kenya regarding motor vehicle parts.

[3] Used vehicles exported to Africa - A study on the quality of used export vehicles. Netherlands Human Environment and Transport Inspectorate, Ministry of Infrastructure and Water Management, 2020

Table 2: Applicable standards for auto parts

Part Description	Type of Test	Applicable Standard
BATTERIES	All parameters as per Standard	KS 185-1:2007, Lead-acid starter batteries - Part 1: General requirements and methods of test - Specification (Fourth Edition)
ENGINE AIR FILTERS	All parameters as per Standard	KS 294:2012 KS ISO 4548 Series
EXHAUST PIPES AND SILENCER	All parameters as per Standard	KS 52-2:1993
LEAF SPRING ASSEMBLY	All parameters as per Standard	KS 260:1981
SEAT FRAMES	All parameters as per Standard	KS 372:2014
SEAT FOAM PAD (POLYURETHANE FOAM)	All parameters as per Standard	KS 376-1:2005
SEAT UPHOLSTERY	All parameters as per Standard	KS ISO 16131:2012 KS 893-1:1991 KS 893-2:1994
INTERIOR TRIM	All parameters as per Standard	KS 2733:2018
SHACKLE PINS FOR LEAF SPRINGS	All parameters as per Standard	ISO 2415:2004
WHEEL STUDS	All parameters as per Standard	KS 2727:2018
U-BOLTS, U-BOLT NUTS AND CENTRE BOLTS	All parameters as per Standard	KS ISO 885:2000
WIRING HARNESS	All parameters as per Standard	KS 1515
DISK BRAKE PADS	All parameters as per Standard	KS 249 :1988
DISC PAD BACKING PLATES	All parameters as per Standard	KS ISO 11157: 2005 KS ISO 15484: 2008
WINDSCREEN, SIDE AND REAR GLASS	All parameters as per Standard	KS 649-1 KS 649-2
SPEEDOMETER CABLES	All parameters as per Standard	KS OIML R 55:1981 KS 756:1989
BRAKE LININGS	All parameters as per Standard	KS ISO 11157: 2005 KS ISO 15484: 2008
RADIATORS	All parameters as per Standard	KS 251:1982
TUBES	All parameters as per Standard	KS 700:1990
TYRES	All parameters as per Standard	KS EAS 359
SPARK PLUGS	All parameters as per Standard	KS ISO 28741
HYDRAULIC DAMPERS AND SHOCK ABSORBERS	All parameters as per Standard	KS 463:2005
SAFETY BELTS	All parameters as per Standard	KS 664
ACCELERATOR CABLES	All parameters as per Standard	KS 2737:2018
SPEED GOVERNORS AND ACCESSORIES	All parameters as per Standard	KS 2295-1 KS 2295-2
SPECIALIZED CHASSIS METAL COMPONENTS (x-members, chassis reinforcements members, bus dashboard components, exhaust systems etc)	Tensile Strength, Yield Strength, Hardness (Vickers, Brinell) etc	KS 52-1:1997
AUTOMOTIVE PAINTS & PAINTING PREPARATION CHEMICALS	All parameters as per Standard	KS EAS 853-1: 2016 KS EAS 853-2: 2016
VEHICLE VIN PLATES & DECALS	All parameters as per Standard	KS 2709:2017 KS 2635:2016
AUTOMOTIVE FASTENERS (RIVETS, NUTS, BOLTS & WASHERS)	All parameters as per Standard	KS 2727

Source: Kenya Bureau of Standards

Automotive industry players have pointed to the fact that even when all the standards are in place, vehicles and auto components imported into the country as used, do not conform to the standards; and actual inspections are hardly executed by the institution in charge. Road worthiness inspections by contracted agencies abroad are not enough a measure to keep out

vehicles and parts that are below Kenyan standards and are a safety risk to the users[3,4]. Countries like Tanzania are already considering inspection at port of entry for both safety reasons and economic gains associated with inspection fees. In Kenya's case, the ability and resolve to reject and deny entry into Kenya of such commodities when they have already arrived at Kenyan ports of entry is unclear. What is rather deemed an effective measure is regular and mandatory checks and tests, where automotive products that fail to pass the test are impounded and heavy fines should be associated with failure to pass a regular test. This would eventually deter dealers who import such items in full knowledge that they contradict given legislations, but always find a way of getting their products into the country and onto the market.

1.4.3 Automotive Industrial Park Scenario for Kenya

Taking and learning from Morocco[5] and South Africa[6] as recent success stories in automotive industry development, almost all countries that have a developed automotive sector establish industrial parks and manufacturing zones dedicated to automotive manufacturing and auxiliary industries. The development and promotion of auxiliary industries in partnership with the vehicle assemblers (eventually) enables automotive companies to source high quality inputs locally[7], further strengthening the case for local assembly. For almost all industrial sectors, industrial parks are a tool to attract Foreign Direct Investment (FDI) subject to proper feasibility studies being undertaken before establishment of the park.

An automotive industrial park for Kenya would avail economies of scale, a service chain that guarantees supply, attracting Original Equipment Manufacturers (OEMs) with a possibility of JVs with local companies, and a strategic location advantage for players in the automotive sector. For parts manufacturing specifically, technological innovation (as a process through which new and improved technologies are developed and brought into widespread use) is inevitable and hence would be included through providing for technology hubs within the parks. Technological innovation is usually associated with product and process innovation and plays a vital role to achieve a sustainable development of the automotive parts industrial parks. This, in part, explains some of the fundamental challenges to growth of auto components sector in Kenya today.

This ideal automotive industrial park scenario however continues to elude the automotive sector in Kenya. Assemblers and parts producers are spread across the country, but strategically

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[4] Imported vehicles will from March 1 2021 be inspected at Dar es Salaam port upon arrival in the country, the Tanzania Bureau of Standards (TBS). In that regard, the $150 (Sh346,366) inspection fee that was paid in the country of export on imported vehicles will now be paid in Tanzania. https://allafrica.com/stories/202101210299.html#:~:text=Dar%20es%20Salaam%20%E2%80%94%20Imported%20vehicles,now%20be%20paid%20in%20Tanzania.

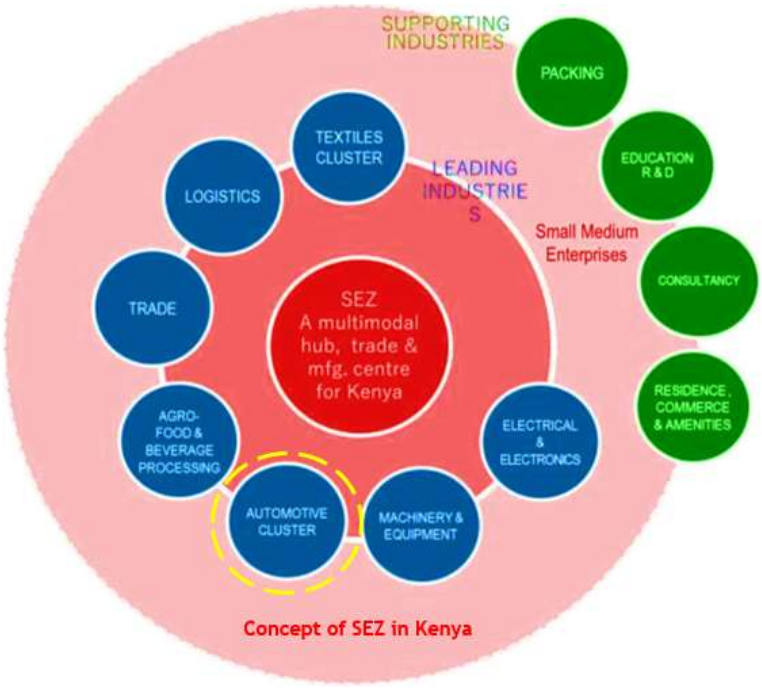
[5] Morocco, which is among the first countries in the Middle East and North Africa to pursue an export-led economic policy, has used the GVC opportunity, among others, to develop an automotive supplier industry, which became one of the country's industrial lead-sectors. - https://www.researchgate.net/publication/321228165_The_effectiveness_of_Morocco's_Industrial_Policy_in_Promoting_a_National_Automotive_Industry. Morocco today counts four main integrated industrial hubs (Tangier, Kenitra, Rabat and Casablanca) as well as four specialized training institutes.

[6] The Automotive Supplier Park (ASP) is an industrial park based in Rosslyn in the northern part of Pretoria. The park spans 130 hectares and houses a tenant pool comprising mainly of component manufacturers and suppliers to Original Equipment Manufacturers (OEM). Automotive component manufacturers, suppliers and service providers benefit from the synergies and cost saving opportunities created by the locality of the Automotive Supplier Park. The AIDC develops factories to tenant specification on a long-term lease basis. The ASP is a benchmark project for South Africa and the continent at large and has contributed significantly to the global competitiveness of the South African automotive industry - https://www.aidc.co.za/automotive-supplier-park/

[7] https://www2.deloitte.com/content/dam/Deloitte/za/Documents/manufacturing/za_Africa-Auto-2016-Report-28-May-2018.pdf

located in cities like Mombasa, Nairobi and Nakuru; all along the main highway serving neighboring countries heavily dependent on Mombasa coast for trade. This further implies that motor vehicle assemblers, parts producers and parts dealers move raw material items and finished products in all directions to meet demand and supply requirements depending on the location of the assembler or manufacturer. The implications in such an arrangement are increased costs that affect the final product price; and obstacles in delivering required quantities on time consistently.

SEZs and EPZs potential to cater for an Automotive Industrial Park



In Kenya, the Special Economic Zones Authority (SEZA) is established under the special Economic Zones Act to govern Kenyan Special Economic Zones (SEZs). The SEZ policies aim at attracting Foreign Direct Investment (FDI) as well as local investments to drive the industrialization agenda of the country forward. FDI comes with transfer of superior technology, sophisticated management skills, employment creation, capital and increased foreign exchange earnings[8]. Several Areas in Kenya have been declared as special economic zones. A majority of these are multi-sectoral SEZs while a few are single sector SEZs. The infrastructure and utilities in these areas are to be developed on a completely public arrangement, private arrangement, or public-private partnership basis.

Although the Kenyan SEZ concept recognizes presence of the automotive cluster within SEZs, so far, there is no SEZ for the automotive sector. However, there are SEZ Industrial parks, zones with integrated infrastructure to facilitate manufacturing and processing industries. Such parks can accommodate the automotive sector.

It is important to note that Export processing Zones (EPZs) equally exist in Kenya. This scenario therefore allows export-oriented investors to switch between both schemes and maximize on the tax incentives to their convenience[8]. Kenya's EPZs enjoy a ten-year corporate income tax holiday followed by a limited tax rate of 25% for a further ten-year period thereafter. Whether this provision has been abused by investors setting up firms to benefit from the tax holiday, only to close up shop after the expiry of the grace period is subject to debate. The SEZ scheme appears to avoid these challenges by opting to offer a reduced corporate tax rate of 10% for the first 10 years and 15% for the next 10 years. Nonetheless, it remains doubtful whether the

[8] KenyasExperiencewithSpecialEconomicZones%20PolicyBosire.pdf

reduced tax rate will provide sufficient incentive to investors who would still have the option to set up under a comparable tax-free EPZ scheme[8]. Notably, the Special Economic Zones Act also provides for some tax incentives for export manufacturing. However, revenue from sales to customers in the Kenyan Fiscal Territory is taxable at the rates provided in the Income Tax Act, as modified by the Finance Act of 2015[9].

Below are the existing public and private SEZs[10].

SEZ	*Location*	*Public/ Private*	*Description*
Dongo Kundu SEZ	Mombasa	Public	Multisectoral – on appx 3000 Acres - includes Industrial Park, Port, Free Port/Free Trade Zone among others
Naivasha SEZ	Mai Mahiu	Public	On 1000 acres of land and is planned to include, an Inland Container Deport, Railway Marshalling Yard, logistics zone and public utility area with supporting modern infrastructure.
Konza Technopolis SEZ	Konza Town	Public	Located on 5000 acres about 60Km East of Nairobi along the Nairobi-Mombasa. A public private partnership to be developed as a Science and Technology Park with integrated Information Communication Technology Parks.
Lamu SEZ	Lamu	Public	A multiple Sector SEZ envisaged to be developed on an approximately 1,243 Acre pieces of land. Includes Industrial Parks – for light and heavy industry; Free Ports, Tourist and Recreational Zones among others
Tatu City SEZ	Ruiru-Kiambu County	Private	located on a 5,000-acre piece of land - a multi-sector SEZ comprising of Industrial Parks, Science and Technology Parks, Business Parks etc.
Africa Economic Zones	Eldoret	Private	Multisectoral
Compact FTZ	Embakasi - Nairobi	Private	For Free Trade Zone activities and services including Bulk breaking; Repackaging of goods for local and export; Warehousing and light manufacturing.
SBM SEZ	Kwale	Private	On approximately 11,000 acres. Identified to develop as an multisectoral industrial Zone e.g Agro Processing Industries, Fish and Marine Resource Processing, Leather Industry, Textile and Apparel Industries, Automobile and Assembling Industries.
Northlands SEZ	Ruiru – Kiambu County		on 11,576 acres – consists of residential areas, recreational facilities, industrial parks, Business Parks, Science and Technology Parks etc

Source: SEZA Brochure

The development of the automotive industrial park would offer Kenya the competitive advantage to participate actively as a viable vehicle manufacturing nation, as it can provide enhanced infrastructure, facilities, and services more economically and rapidly, thereby enhancing the speed with which manufacturers expand to scale and introduce new products to the market. Kenyan Government, in partnership with development focused partners can fully fund the feasibility studies for establishing such an industrial park. This implies that the cost of conducting surveys and environmental impact assessments to determine locations that are suitable for setting up automobile parts manufacturing plants by investors will also be eliminated, hence improving the attractiveness to invest in the automotive sector. Considering

[9] Draft_Kenya_Supp_SEZ_Regulations_v_20191115_VF.pdf
[10] SEZA brochure

the Automotive Cluster, industry sector specialists argue that a well-developed concentration of related business spurs three important activities: increased productivity (through specialized inputs, access to information, synergies, and access to public goods), more rapid innovation (through cooperative research and competitive striving), and new business formation (filling in niches and expanding the boundaries of the cluster map)[11].

Further studies on automotive industrial park development point to the fact that automotive industrial park development enhances the ease of doing business as unnecessary bureaucratic bottlenecks and infrastructural shortcomings will be considerably reduced, thereby leading to an influx of foreign investors which will eventually increase FDI12. It will also serve as a one stop shop for manufacturers as it will provide them with spaces, infrastructures, utilities, and the needed facilities. Other benefits include:

i. Standardization and improved quality of products
ii. Reduced cost of innovation due to clustering
iii. Rapid industrialization
iv. Reduction in over-dependence on imported automobiles
v. Boost in Gross Domestic Product
vi. Faster return on investment
vii. Availability of support facilities
viii. Availability of infrastructure
ix. Mutual cooperation (R&D, quality, & standards) especially between OEMs and SMEs
x. Increased employment opportunities etc.

It should be noted however, that even with adequate planning and design arrangements in place, it takes several years to complete a standard automotive park (several developments required: completion of the various structures and infrastructures, installations of utilities and equipment, selection of rightful occupants, as well as other exigencies). Efforts must be put in place to ensure adherence to international best practice, as faulty executions could shatter the dreams of the stakeholders. In the same way, efforts must also be put in place to ensure strict compliance to regulations and adherence to rules after completion to avoid such an industrial park degenerating from a well-conceived project into a congested industrial slum with large traffic challenges.

Well-planned industrial parks all over the world contribute immensely to the gross domestic product and economic developments of nations; this is because they are strategic hotbeds for creativity, growth, job creation, and innovation. Industrial parks can be a solution for increasing the local competitiveness through its provisions– institutional framework, modern services in administration, financial consultancy, training, technical guidance, information services, shared facilities, research, and own infrastructure designed to meet the needs of companies they gather, by providing them with modern services for the business deployment and development[13].

[11] https://www.referenceforbusiness.com/small/Bo-Co/Clusters.html
[12] Automotive Parts Industrial Park: A Panacea for Nnewi Automotive Industrial Cluster, Journal of Scientific and Engineering Research, 2018, 5(4):397-404. Chukwutoo and Chikwendu, 2018.
[13] Eugenia , M. and Georgeta, B. (2013), cited in Chukwutoo and Chikwendu, 2018: "The Role of National Parks in Economic Development" https://www.brookings.edu/wp-content/uploads/2016/.../L2C_WP8_Chete-et-al-1.pdf

1.4.4 Institutional approaches to skilling the automotive sector

Considering the 100% success rate of the dual training programme in terms of employability, and the increasing entrepreneurial ventures created by graduates of the dual training programme; the Kenya – German TVET Initiative, a program spearheaded by the German Government through GIZ and KfW, whose main objective is the creation of Automotive Centres of Excellence in selected Technical Training Colleges; needs to be expanded, and where possible in all TVET institutions of Kenya (Public or Private).

In 2016, the Eastlands College of Technology and St. Kizito Vocational Training Institute in partnership with Simba Corporation, and Handwerkskammer Frankfurt-Rhein-Main (Chamber of Skilled Crafts) rolled out a unique Automotive Training Programme aimed at equipping qualifying students with the necessary skills to meet the growing need in the automotive industry. The programme was precipitated by the technological advancements experienced in the recent past that has greatly impacted the global motor vehicle industry and resulted in development of motor vehicle models that are more dependent on technology than was the case a few years back.

The Dual Training model of the programme gives the continuing students the opportunity to gain industry experience and on-the-job training through periodic apprenticeships. The programme is structured such that the industrial attachment is undertaken in between each of the three semesters over the 18 months course duration.

Kenya Association of Manufacturers (KAM) has strongly pushed for popularizing and strengthening Competence Based Education and Training (CBET) with industry for buy in through awareness creation. Since 2017, KAM has been implementing a TVET programme that aims at improving access of technical and vocation job and economic opportunities for youth in Kenya supported by the Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ).

Kenya has a great opportunity in the structure of the education system, which allows for TVETs and Universities offering practical courses in many fields including the automotive sector. The automotive sector related courses have a higher employability either in form of informal sector placements in garages and body repair workshops, or in automotive assembly workshops. Harnessing the dual training in over 50 TVET institutions spread across the country would spark the entrepreneurial opportunities in auto repair and body works business; and create job opportunities and apprenticeship places for the generation next.

Table 3: Kenyan TVET Institutions Offering Mechanical Engineering Courses

*TVET Course**	*Number of Institutions offering the course*
Diploma in Mechanical Engineering (*Plant)*	29
Automotive Engineering Courses (Diploma)	59
Diploma in Mechanical Engineering (Automotive Option)	13
Diploma in Mechanical Engineering (*Production)*	32

Source: Kenya Universities and Colleges Central Placement Service -Diploma Programmes 2019/20
**Note: Most of the above colleges also offer certificate courses in the same areas.*

Field interviews with public TVET practitioners point to the fact that most of the training is academic and or theoretical than practical. As reported by one of the Heads of a public TVET institution, the overarching goal of instructors is to finish the prescribed syllabus, which for the present was last revised in 2007[14]. Graduates of such content that is 13 years old cannot match the job placements in the automotive assembly and service where equipment, engines, technology, working tools and so much more are so advanced and continuously evolving for better. Vehicle technology generally changes every 2-3 years, and engine models evolve on average every 5 years. The teaching aids in form of engines, gear boxes, and in some instances fully built vehicles have not changed for over a decade. Retooling TVET institutions cannot be overemphasized. This further justifies the need to amplify the dual training programme to benefit all TVET institutions; to save graduates from 'just graduating'.

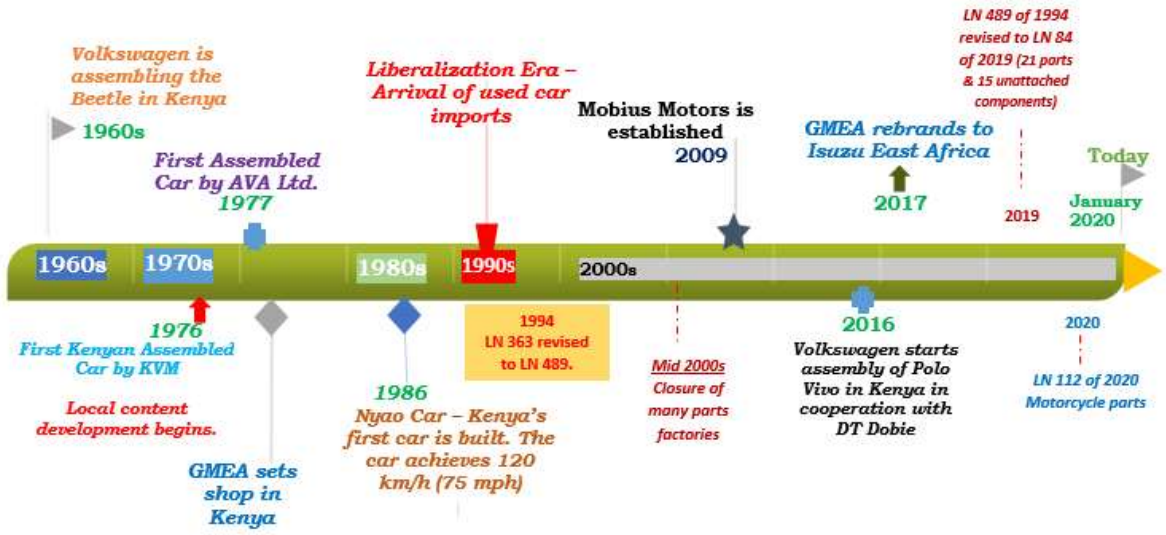
Nevertheless, with all the existing TVET institutions, mainstream component manufacturers still struggle with lack of appropriately skilled workforce due to a disconnect between industry and learning institutions. This necessitates in-house retraining of the recent graduates joining the industry. Additionally, technology in automotive component manufacturing continues to evolve to catch up with changing technologies in vehicle designs and performance. Automotive manufacturers are finding it difficult to fill positions requiring higher-skilled employees such as engineering positions who cover several disciplines including design, manufacture, programmes and quality. This requires differing levels of skills, expertise, and knowledge (KAM 2020). Therefore, technical assistance to the vocational sector in terms of expert placements, tools, and equipment for students to train on, as well as support to periodic review of training syllabus to meet industry market demands is both a necessity and inevitable.

[14] As reported by one of the heads of a Public TVET institution in Thika

Section 2

2.1 Market analysis

Kenya automotive sector dates way back to the 1960s. To appreciate the current Kenyan automotive sector, it is useful to understand the journey it has been through that partly informs the business environment in which it operates. t (*See timeline chat*).



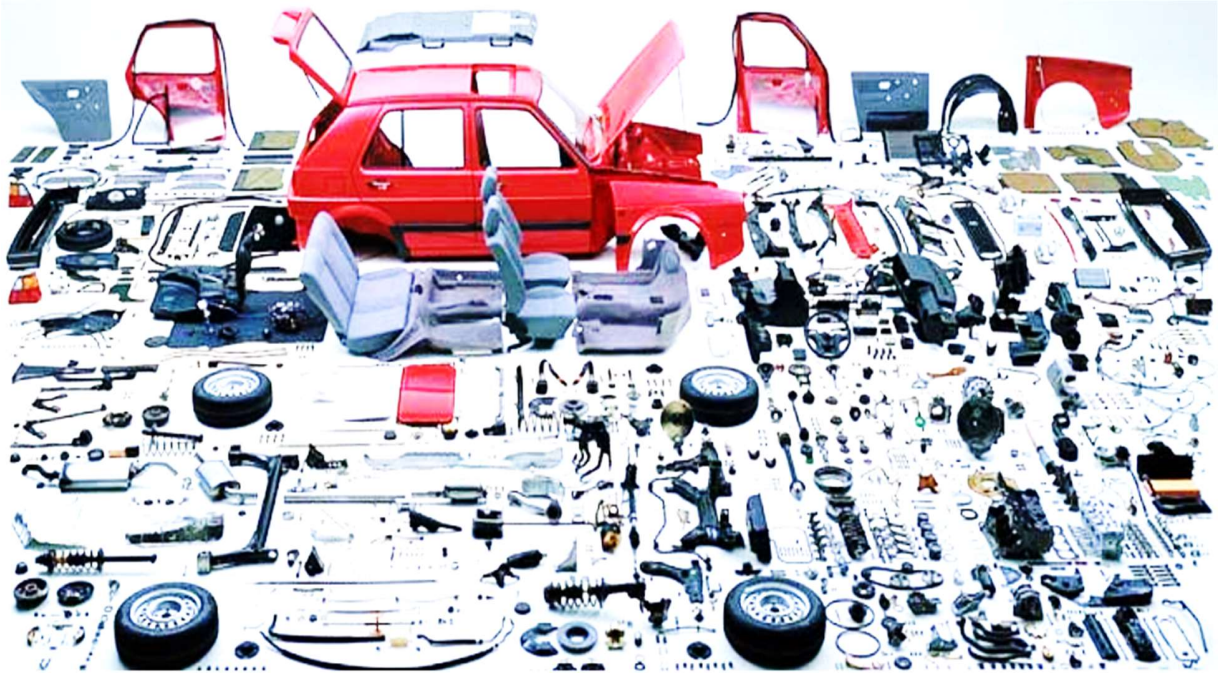
2.1.1 Parts produced in Kenya

Before the closure of many parts manufacturing plants in the mid-2000s, some of the imported components like radiators, tyres and tubes, brake linings, spark plugs and hydraulic dampers and shock absorbers were competently produced in Kenya. Having suffered the liberalization era shocks that saw the importation of used vehicles and used spare parts, the industry suffered further blows by competing with a heavily subsidized new parts industry in Europe and Asia that flooded the Kenyan market with new parts. It increasingly became economical to import than to produce.

Nonetheless, a few resilient industries survived the liberalization shocks, the highly price competitive WTO protected global trade in automotive parts; and continue to thrive amidst the most recent challenges like global supply chain disruptions due to the onset of Covid19. Interestingly, manufacturing has evolved to include assembly and sub-assembly of parts; and therefore, some abandoned products like radiator manufacturing are re-emerging from the ashes of the 1990s era. To date, about 37 auto components are manufactured in Kenya including plastic parts, paints, and lubricants, among others.

The locally manufactured parts target the aftersales service and replacement market in Kenya and in the EAC region including a few adjacent countries to EAC like South Sudan, The Democratic Republic of Congo, and Chad. Even though a few of the locally made parts are in real sense consumed by motor vehicle assemblers, locally produced parts have survived on the market largely due to quality than price preference. The localized parts are made for Africa,

and consumers find them more durable than imports that are largely designed for European roads and loads.



Made-in-Kenya motor vehicle parts currently entail the following products:

1. *Batteries*
2. *Battery Cables*
3. *Filters (Oil, Air & Fuel)*
4. *Exhaust Pipes and Silencer*
5. *Leaf Spring Assembly*
6. *Seat Frames*
7. *Seat Foam Pad (Polyurethane Foam)*
8. *Seat Upholstery*
9. *Interior Trim*
10. *Shackle Pins for Leaf Springs*
11. *Wheel Studs*
12. *U-Bolts, U-Bolt Nuts & Centre Bolts*
13. *Wiring Harness*
14. *Automotive Booklets (Drivers Manuals & Service Booklets)*
15. *Vehicle Vin Plates & Decals*
16. *Vehicle Vin Plates & Decals*
17. *Automotive Fasteners (Rivets, Nuts, Bolts & Washers)*
18. *Specialized Chassis Metal Components (X-Members, Tyre Carriers, Chassis Reinforcements Members, Bus Dash Board Components, Exhaust Systems Etc)*
19. *Spare Wheel Carrier*
20. *Automotive Paints & Painting Preparation Chemicals*
21. *CKD TJM Bull bars/Roof racks*
22. *Bull bars*
23. *Roof racks*

24. *Side bars*
25. *Rear bars*
26. *Tow bars*
27. *Jerry can holder*
28. *Tyre carriers*
29. *Long range fuel tanks*
30. *Roll over protection structures internal/external - to Mining and Oil/Gas/Petroleum standards*
31. *Metal bodies steel/aluminum*
32. *Metal sport Lids*
33. *Tour vehicle conversion*
34. *Rear Pickup steel plate protection plates*
35. *Specialized vehicle conversions/bodyworks*
36. *Under body protection kits*
37. *Suspension – Shocks, coils/leaf springs, bushes, shackle kits etc*

It is worth noting, that due to design changes because of extensive R&D and technology advancements, some listed parts like speedometer cables are now preassembled and cannot be separated to their attachments; and on another hand for some models, speedometer cables have been replaced with high-tech sensors.

An interesting development is that component manufacturers in Kenya serve multiple automotive sectors including motorcycles and trailers. With LN 112 of 2020, more investments into motorcycle parts are expected since localization is poised to reach 14 parts from originally 7 parts.

The following 14 motorcycle parts will be compulsory to be sourced locally by motorcycle assemblers in accordance with Kenya's Legal Notice 112 of 2020.

1. *Center Stand Comp*
2. *Crash Guard*
3. *Pillion Handlebar*
4. *Third Rider Foot, Rest Right*
5. *Third Rider Foot, Rest Left*
6. *Side Stand*
7. *Battery Liquid, Acid or Fluid*
8. *Air Cleaner Housing Assembly & Air Filter*
9. *Wiring Harness*
10. *Seats*
11. *Battery*
12. *Brakes note or stopper*
13. *Heading stay*
14. *Main stay or bar stop*

2.1.2 Local content utilization

Local content absorption in automotive assembly has been low for a long period of time regardless of the legal instruments in place (30% local content requirement). This is largely because OEMs by practice work with certified and trusted parts producers that do not give

room to errors that may result in compromising guarantees on quality and performance of specific vehicles. Additionally, the duty charged on imported parts for assembly is not prohibitive enough to compel assemblers and parts producers to work closely to have parts manufactured in Kenya. The parts industry has therefore existed on the bigger part to serve the aftersales market.

Table 4: Key Synoptic Statistics on the Industry in 2017 (Commercial vehicles segment)

Current Capacity Utilization (Total production)	Installed Capacity		34,000 on single shift (can do up to 3 shifts)
	Operating Capacity	16%	5490 Units
	Value of Imported Raw Materials	70%	KES. 31,500,000,000
	Value of locally produced local content	30%	KES. 13,500,000,000
Market	Locally Consumed	94%	5180 Units
	Exported	6%	310 Units

Source: KAM & KRA Records, 2018

The synopsis scenario presented above shows that a great fraction of parts is still imported. The combined plant utilization capacity of assemblers is still way below 50%, and if the market can be protected further, and models homologated to boost assembly locally; local content value could increase by over 3 times what it is today. That ideally comes with added capacity to produce, job creation and economic value add to the Kenyan economy. It can be argued that until assembly of passenger cars takes off in Kenya on a large scale, production and absorption of local content will for a long time stay minimal. Passenger cars have the greatest number of parts and are the most advanced in technology and associated electronics. Such parts will call for serious investments under the right protection to take off and stay afloat. The current list of locally made items are less complicated in terms of technology and design, but nonetheless must meet the quality, price, and volume requirements of OEM assemblers. It is highly anticipated that implementation of Legal Notice 84, Schedule 3 will go a long way to boost local content absorption.

Table 5: Locally sourced parts and components

Locally sourced parts		Inputs/consumable
1) Leaf springs 2) Wiring harnesses 3) Batteries 4) Exhaust system 5) Filters 6) Seats and frames 7) Upholstery and lining 8) Foaming	9) U bolts 10) Battery cables 11) Brackets 12) Paints 13) Lubricants 14) Steel sheets, plates, square pipes, beams 15) Windscreens and glasses 16) Radiators 17) Weather strips and rubber parts	1) Water 2) Welding consumables 3) Welding gas 4) Electricity 5) Labour 6) Body work for truck chassis

Source: KAM 2020

2.1.3 Barriers to increasing local content

Several issues come into play when assessing the impediments to increasing local content absorption for the automotive sector in Kenya. Key among the many factors are the following:

i. **Cost of quality:** The average cost of setting a good quality management system for a single OEM product is estimated at USD 80,000. With the possibility of producing several products for the market, local manufacturers interviewed find extremely high. OEMs set the bar too high that local companies find it financially stretching to cope, leave alone the fact that models of vehicles are changing every 3 or so years.
    - *In developed and developing automotive hubs, governments subsidize access to such technologies through setting up Research & Development (R&D) funds that can be partly used to acquire needed technologies.*

ii. **Complex quality requirements for SMEs**: the level of staffing and technical expertise available to SMEs are basic operational skills. The technicalities and specification measurements that come with quality system requirements often dictate skills upgrading or recruitment of the right caliber of experts to implement. Both options are costly and end up making locally made products too expensive for the OEM to accommodate. Dropping such requirements automatically means the product cannot be taken by the assemblers.
    - *GIZ should consider facilitating placement of experts to train department champions in manufacturing companies who can then transfer execution knowledge to the production teams, including achieving inhouse ability to run quality management systems.*

iii. **Lack of parts specifications:** Intellectual property rights have continued to stay in the way of local part manufacturers in a bid to produce parts to the requirements of OEMs. There is no OEM company that is willing to release the specifications. The best they give are quality requirements; and therefore, the onus is on the part manufacturer to find the part, send it to Turkey or Asia for analysis to tell the component specifications and material combinations before any attempt to produce the part locally commences. This is time consuming, costly, and considered an intentional move to kill off local competition with imported parts. It should be noted that such conditions are made by OEMs in Europe and Asia and simply dictated on franchise holders in Kenya, who in turn pass them on to local assemblers.
    - *Coupled with an enhanced R&D component for the industry, a combination of several interventions like UN-ECE certification for Kenya could give OEMs the much-needed confidence to share specs with auto component manufacturers. In the meantime, GIZ should support the parts manufacturing sector by setting up collaborations with testing labs in Europe to allow for parts dissection and analysis to tell and meet the specification requirements of OEMs.*

iv. **Used cars taking up market for locally assembled new vehicles:** Production of auto components is demand driven. So is the assembly of new vehicles from knocked down kits. The dominance (85%) of used cars in the Kenyan fleet means so little can be assembled locally, and therefore so few locally made parts can be accommodated within the 30% allowance for commercial vehicles. This challenge can further be understood from the perspective that there are limited volumes to warrant investment in new parts. This serves in part to explain the stagnant growth to new products from existing auto part manufacturers.

- *In a homologated vehicle environment, best practice the world over is to significantly reduce the age of used car to be imported, and eventually phase out the importation of used cars provided the domestic production has reached sufficient levels for both the domestic and export market. Kenya has over the years been reducing age limits from 10 to 5 years, and on to the proposed 3 years. Emission standards too have to follow suit and progress from Euro 2 and 3, to Euro 4, 5 and 6 progressively. The proposed NAC in collaboration with KAM, Kenya Revenue Authority (KRA) and KEBS have the potential to implement such regulations provided the government remains willing to put them in place.*

v. **Issue of guarantees by OEM:** Some parts are regarded as very safety critical and therefore directly affect the ability of the OEM to offer guarantee on a vehicle. The resultant effect is that some parts like radiators, brake system, engine related parts etc. are a no-go zone for local parts manufacturers to supply assemblers.
    - *Sub-assembly of safety critical parts would be a first step in the right direction to eventually manufacture the parts locally, subject to market demands (domestic and export). Since such safety critical parts are already being manufactured for the aftersales market, effort should be put at securing joint ventures with OEMs (Tier 1 & 2) to improve the product and gain brand recognition of parts made in Kenya; which further paves way for improvement of the export potential.*
vi. **Weak implementation of legal notices promoting local content**:– The lack of a National Automotive Council, due to the delayed approvals of the draft Automotive policy, has on the large part left no authority directly mandated and charged with ensuring there is full compliance and implementation of legal notices promoting local content absorption. This hurdle is coupled with favorable importation tariffs that provide for imported parts to stay price competitive with locally produced parts regardless of the incentives offered locally.
    - *The proposed National Automotive Council (NAC) within the Draft Automotive Policy of Kenya is a comprehensive solution to weak implementation of legal notices as the NAC would be charged with ensuring compliance. Short of the NAC, GIZ should support the private sector advocacy calls for compliance through the automotive desk of Kenya Association of Manufacturers (KAM) since they are best placed to call at government agencies to implement the regulations.*
vii. **Cost of financing:** Short term commercial loans that are more readily available to SMEs are not ideal financing for manufacturing sector. Kenya lacks a vibrant industrial development bank that offers affordable long-term financing to facilitate growth in the sector. Existing rates of 11% - 13% on the shilling, plus 10.5% on the dollar; coupled with stringent terms like dollar cash flows for USD loans, and restricted capex financing in terms of where to buy machinery, all serve to limit growth of local content. There are opportunities for growth and diversification to new parts, but financing greatly eludes manufacturing sector generally; for which the automotive sector has not been spared.
    - *A purely government instituted and capitalized industrial development bank dedicated to serving the manufacturing sector is required in Kenya. This would offer non-commercial long-term financing so adequately needed in the manufacturing sector. In the short-term, a well-crafted automotive corporate bond could serve the purpose in the medium-term future.*

It is therefore imperative that any support to the sector considers finding short to medium term, and long-term solutions to such impediments to growth of the local content absorption in the automotive sector.

2.1.4 Value of imported auto components

Auto components imported into Kenya come in the form of fully built units (used and new – HS 87), auto parts for aftersales and knocked down kits (HS 8707, 8708) for assembly in Kenya.

Motor Vehicles

According to KNBS/KRA records 2020, the number of newly registered motor vehicles increased by 7.6 per cent from 102,036 units in 2018 to 109,751 units in 2019, with the number of station wagons registered increasing by 13.0 per cent to 72,512 units. The number of new mini-buses registered more than doubled from 812 units in 2018 to 1,932 units in 2019. This may be attributed to improved performance of public transport coupled with increased acquisition of buses by learning institutions. The number of newly registered saloon cars decreased by 5.1 per cent to 9,971 units while that of panel vans and pick-ups dropped by 9.2 per cent to 10,189 units in 2019. Similarly, the newly registered wheeled tractors shrunk by 55.1 per cent from 4,040 units in 2018 to 1,815 units in 2019 while trailers dropped from 2,083 units to 1,639 units during the same period.

Table 6: New Registration of Road Motor Vehicles, 2015 - 2019

	Numbers				
Type of Vehicle	**2015**	**2016**	**2017**	**2018**	**2019***
Saloon Car	14,369	12,490	11,376	10,504	9,971
Station Wagons	54,120	46,123	55,322	64,179	72,512
Panel Vans, Pick-ups, etc.	13,878	12,722	9,866	11,220	10,189
Lorries/Trucks	13,785	9,632	7,460	6,514	6,518
Buses and Coaches	2,342	1,765	1,072	1,065	1,339
Mini Buses/Matatus	581	519	459	812	1,932
Trailers	3,905	2,829	1,953	2,083	1,639
Wheeled Tractors	2,259	2,478	2,703	4,040	1,815
Other vehicles	2,522	1,618	860	1,619	3,836
Total	107,761	90,176	91,071	102,036	109,751

*Source: Kenya National Bureau of Statistics/Kenya Revenue Authority * provisional*

Although no concrete justification is provided by literature as to why trading figures fluctuate year by year, anecdotal evidence points to consumer preferences, government legal regimes, and cost of importing fully built units for used cars. As Kenya proposed stricter age-limit for used cars in 2019, vehicles with an engine capacity of 1500 cc and below would be exempt from the new three-year age limit[15], to keep certain models within the reach of first-time buyers unable to afford more. Such political decisions influence outcomes of actual imports for specific periods. Deloitte 2014 points to a number of influencers for choice of vehicle, namely:

[15] https://www.reuters.com/article/kenya-autos/kenya-to-restrict-second-hand-imports-to-boost-domestic-car-sector-idINL8N1ZN3Z2?edition-redirect=ca

generational views, connection to technology and software, and sustainability and environmental concerns among others.

In terms of value of global imports, Kenya imported USD 1,209,441 (thousands) (vehicles and parts and accessories thereof) in 2019. The top 10 Leading exporters to Kenya were: Japan (50.1%), China (14.1%), India (12.3%), Germany (5%), South Africa (4.9%), United Kingdom (4.1%), Thailand (1.3%), United States of America (1.1%), United Arab Emirates (1%), and France (0.9%). Global growth in imported value reduced by 5% (2015-2019) and fell by 1% (2018-2019) with a sharp decline in value of Germany and South African imports, respectively.

Table 7: Global & Top 10 Exporters of vehicles other than railway or tramway rolling stock, and parts and accessories thereof to Kenya in 2019

Exporters	Value imported in 2019 (USD thousand)	Share in Kenya's imports (%)	Growth in imported value between 2015-2019 (%, p.a.)	Growth in imported value between 2018-2019 (%, p.a.)
World	1,209,441	100	-5	-2
Japan	606,370	50.1	1	1
China	170,719	14.1	-13	5
India	149,157	12.3	0	9
Germany	60,379	5	-16	-7
South Africa	58,980	4.9	-10	-13
United Kingdom	49,838	4.1	-12	4
Thailand	15,203	1.3	-3	0
United States of America	12,977	1.1	-13	36
United Arab Emirates	11,622	1	5	-39
France	10,922	0.9	3	14

Sources: ITC calculations (2020 based on Kenya national bureau of statistics

The 10 major exporters have been predominantly Europe and Asia, and account for more than 90 percent of the volumes and value. However, USA automotive exports in Kenya in 2019 saw an exponential growth of 36% as South Africa plunged 13%. Nonetheless, the volumes and values remain predominantly European and Asian sources.

Auto Parts

It should be noted that auto parts dealers generally consider imported parts as superior to locally manufactured parts in Kenya. One hundred and twenty-nine (129) spare part dealers were sampled mainly in Nairobi and Thika. Out of the 129 part dealers surveyed, 33 (25.6%) deal exclusively with used vehicle parts, 59 (45.7%) deal with both new and used parts while 36 (28.7%) deal exclusively with new parts. Out of the 129 part dealers surveyed, 121 (93.8%) sell their parts exclusively to the local market while 8 (6.2 %) sell both locally and to the export market, mainly in East Africa. However, the export value is minimal ranging between 5% and 20% of their sales. Out of the 129 part dealers surveyed, 107 (83%) directly import all their parts, 14 (10.8 %) Directly import some and source others from other local dealers while 8 (6.2%) source their stock exclusively from other local dealers. Out of the 129 part dealers surveyed, only 14(10.8%) import part of their stock from Europe. Others 104 (80.6%) imports mainly from Asia with only 5 (3.9%) importing from other sources including Egypt, South Africa Australia and USA.

Most vehicles occupying the largest portion of Kenyan country roads have an Asian origin (for example Toyota, Isuzu and Honda); hence imported parts are mostly from the Asian countries such as Japan, China and UAE. Most respondents indicated affordability, quality, and variety as the main reasons why they import from the named countries, but also cited the affordable cost of importation (CIF). Therefore, any offers by parts dealers in Europe and Asia that meets the importers preference on quality, cost and ease of importation attracts importers; and in part accounts for the continually fluctuating trade figures.

In terms of value, the main auto parts imports to Kenya include—oil filters and air filters, brakes and servo-brakes, suspension systems, clutches, road wheels, gear boxes, radiators, drive axles, steering wheels, bumpers, safety belts, silencers, and safety airbags.

In 2019, the value of the total imports for auto parts for tractors and vehicles for the transport of ten and more persons were over USD 100 million. Leading exporters to Kenya were China (30%), Japan (25%), UAE (6%), Germany (5%) and Thailand (5%); and have continued to dominate for the past five years.

Table 8: Parts and accessories for tractors, motor vehicles for the transport of ten or more persons imported by Kenya (USD thousand)

Exporters	Imported value in 2015	Imported value in 2016	Imported value in 2017	Imported value in 2018	Imported value in 2019
World	90,766	87,140	84,296	97,310	100,217
China	24,322	25,555	22,413	27,352	30,742
Japan	20,604	20,256	21,929	25,681	25,655
United Arab Emirates	4,851	8,106	8,996	8,921	6931
Germany	7,031	5,554	5,341	6,127	5,647
Thailand	3,211	2,939	3,385	3,739	5,044

Sources: ITC calculations based on Kenya national bureau of statistics.

As a single product, in terms of value, the brakes and servo-brakes and their parts took the largest share followed by suspension systems and parts thereof, clutches, road wheels, gear boxes, and radiators. It can be observed that silencers mufflers have significantly reduced.

Table 9: Single product values for most traded parts

Product	Imported value in 2015	Imported value in 2016	Imported value in 2017	Imported value in 2018	Imported value in 2019
Brakes and servo-brakes and their parts, for tractors, motor vehicles for the transport of ...	10,159	10,761	9,344	10,959	11,588
Suspension systems and parts thereof, incl. shock-absorbers, for tractors, motor vehicles	12,466	10,936	10,687	12,726	11,479
Clutches and parts thereof, for tractors, motor vehicles for the transport of ten or more persons	8,110	6,663	7,428	8,730	8,458
Road wheels and parts and accessories thereof, for tractors, motor vehicles for the transport	5,891	5,628	4,851	6,601	6,454

Gear boxes and parts thereof, for tractors, motor vehicles for the transport of ten or more	2,673	2,667	2,365	4,125	4,740
Radiators and parts thereof, for tractors, motor vehicles for the transport of ten or more	5,472	4,009	3,930	3,925	4,495
Drive-axles with differential, whether or not provided with other transmission components	4,154	3,764	2,659	3,880	3,161
Steering wheels, steering columns and steering boxes, and parts thereof, for tractors, motor	1,792	1,598	1,736	2,321	2,165
Bumpers and parts thereof for tractors, motor vehicles for the transport of ten or more persons	2,119	2,245	1,792	2,312	2,054
Safety seat belts for motor vehicles	228	205	303	418	697
Silencers "mufflers" and exhaust pipes, and parts thereof, for tractors, motor vehicles for	3,894	521	408	591	641
Safety airbags with inflator system and parts thereof, for tractors, motor vehicles	141	173	218	164	231

Sources: ITC calculations based on Kenya national bureau of statistics.

SUPPLYING MARKETS FOR POPULAR AUTO PARTS IMPORTED BY KENYA

A. **Suspension systems:** Suspension systems and parts thereof, including shock-absorbers, for tractors, motor vehicles commanded an imported value of nearly USD 11.5 million in 2019. The top ten exporters to Kenya of suspension systems and parts thereof, including shock-absorbers, for tractors and motor vehicles in 2019 were Japan, China, Germany, Thailand, Turkey, South Africa, UAE, India, United Kingdom, Malaysia, and Belgium. China was leading in 2015 but was overtaken by Japan in the subsequent years. Germany came in third. The value of the items imported from Germany declined in 2016 and have largely remained low.

Table 10: Supplying markets for suspension systems (USD Thousands)

Exporters	*Imported value in 2015*	*Imported value in 2016*	*Imported value in 2017*	*Imported value in 2018*	*Imported value in 2019*
World	12,437	10,940	10,690	12,722	11,480
Japan	2,935	3,590	3,747	4,493	4,544
China	3,564	2,384	2,342	2,889	2,767
Germany	1,197	766	714	812	766
Thailand	551	772	752	859	740
Turkey	561	629	497	751	630
South Africa	1208	993	1058	1056	489
United Arab Emirates	318	301	215	315	472
India	189	190	326	324	224
United Kingdom	460	309	258	224	149
Malaysia	159	152	95	72	124

Belgium	88	77	34	93	124
Poland	71	97	139	115	97

Sources: ITC calculations based on Kenya national bureau of statistics.

B. Oil Filters: Oil or petrol-filters for internal combustion engines had an import value that was close to USD 11 million in 2019. Leading exporters over the last five years were China, Germany, Japan, Belgium, and South Africa. The value of the imports has largely remained the same.

Table 11: Supplying markets for Oil filters (USD Thousands)

Exporters	Imported value in 2015	Imported value in 2016	Imported value in 2017	Imported value in 2018	Imported value in 2019
World	11,808	9,723	9,853	10,765	10,766
China	2,774	1,934	2,186	2,905	2,955
Germany	1,531	974	1,300	1,289	1,448
Japan	974	917	1109	1312	1167
Belgium	883	759	811	565	746
South Africa	989	768	640	753	489
United Kingdom	805	758	608	544	455
India	722	577	449	578	414
Thailand	348	223	207	192	407
United States of America	640	570	499	373	407
United Arab Emirates	430	434	158	298	273
Italy	258	260	209	277	248
Indonesia	282	174	246	237	229

Sources: ITC calculations based on Kenya national bureau of statistics.

C. Air Filters: Intake air filters for internal combustion engines costed the Kenyan importers over USD 7.5 million in 2019. China, Japan, Germany, Belgium, and South Africa are the leading exporters to Kenya.

Table 12: Supplying markets for Air filters (USD Thousands)

Exporters	Imported value in 2015	Imported value in 2016	Imported value in 2017	Imported value in 2018	Imported value in 2019
World	7,416	7,619	7,485	7,940	7,522
China	1,924	1,875	2,095	2,300	2,654
Japan	1,023	1,150	994	1082	1013
Germany	994	820	919	839	809
Belgium	1,015	1,029	1,017	917	786
South Africa	297	286	454	531	342
India	252	240	220	305	287
United Kingdom	362	585	285	219	262
Turkey	74	114	128	182	201
United States of America	357	344	359	209	177
Indonesia	112	63	72	72	111

Czech Republic	106	93	71	107	104
UAE	89	169	69	140	98

Sources: ITC calculations based on Kenya national bureau of statistics.

D. Safety Belts: Safety seat belts for motor vehicles import value was less than USD 1 million in 2019, largely because seatbelts are not replacement parts. Leading exporters included China (by far), UK, Japan, India, Thailand, and South Africa

Table 13: Supplying markets for Safety Belts (USD Thousands)

Exporters	Imported value in 2015	Imported value in 2016	Imported value in 2017	Imported value in 2018	Imported value in 2019
World	228	205	303	418	697
China	99	113	135	240	532
United Kingdom	19	20	95	92	98
Japan	29	28	36	36	21
India	6	2	6	13	10
Thailand	5	4	5	7	9
South Africa	11	10	10	9	7
Germany	6	6	6	10	6

Sources: ITC calculations based on Kenya national bureau of statistics.

E. Tyres: Pneumatic Tyres, new, of rubber (excluding having a "herring-bone" or similar tread and pneumatic - global imported value in Kenya in 2019 was close to US 1.8 million. Leading exporters were China, Japan, and UAE.

Table 14: Supplying markets for Pneumatic Tyres (USD Thousands)

Exporters	Imported value in 2015	Imported value in 2016	Imported value in 2017	Imported value in 2018	Imported value in 2019
World	560	1,112	1,149	1,766	1,792
China	301	977	833	860	1,610
Japan	69	0	0	7	48
United Arab Emirates	62	33	95	108	46
India	33	32	71	94	25
Czech Republic	0	0	0	4	16
Serbia	0	0	0	0	11
Ethiopia	0	0	0	0	10
United States of America	1	5	6	0	9
Taipei, Chinese	0	0	0	0	7
Sri Lanka	0	6	7	14	5
United Kingdom	2	0	2	1	4

Sources: ITC calculations based on Kenya national bureau of statistics.

F. Bumpers: Bumpers and parts thereof for tractors, motor vehicles for the transport of ten or more persons had an imported value slightly over USD 2 million in 2019. Top exporters were China, Japan, Thailand, and Tanzania

Table 15: Supplying markets for Bumpers (USD Thousands)

Exporters	Imported value in 2015	Imported value in 2016	Imported value in 2017	Imported value in 2018	Imported value in 2019
World	2,119	2,245	1,792	2,312	2,054
China	626	709	561	765	647
Japan	488	544	412	477	530
Thailand	156	165	150	194	283
Tanzania	0	82	158	261	130
Taipei, Chinese	155	134	125	157	98
United Arab Emirates	203	142	82	76	95
Malaysia	43	113	56	106	75
South Africa	125	109	107	97	70

Sources: ITC calculations based on Kenya national bureau of statistics.

2.1.5 Aftersales market

i. Fast moving parts

To understand the aftersales market, it was imperative to understand the fast-moving parts, since they on one part serve to understand the trade flows of imported parts; but also shed some light on possible areas of investment for import substitution – whether the investment is aiming to serve the assembly market or the aftersales market.

The fast-moving parts largely belong to the service category. These include filters, engine oils, brake system components, and coolants, among others. Because of the tare and ware associated with long haulage commercial vehicles, replacement bolts and nuts fall among the 10 most moving parts in the Kenyan aftersales market. A survey undertaken among 129 parts dealership enterprises located in Nairobi, Thika and Nakuru indicated that Oil Filters rank 1st as the most moving part, followed by air filters, brake pads and fuel filters respectively (*see Table 16*).

The next category of fast-moving parts is the Accident Parts. These include parts most vulnerable to direct clashes, side rubs and any forms of shocks. This category of parts is dominated by plastics, glass and metals located mostly at the front and rear of the vehicle.

Table 16: Ranking for Fast moving parts

Part	Rank	Part	Rank
Oil Filters	1st	Car Alarms	24th
Air Filter	2nd	Engine Oil Caps	24th
Brake Pads	3rd	Fly Wheel	25th
Fuel Filters	4th	Terminals	25th
Brake Shoes	5th	Drive Shaft Boot	25th
Bolts (Diverse)	6th	Doors	25th
Springs (Various)	7th	Pressure Plates	25th
Spark Plugs	8th	Bearings	26th
Nuts (Several)	9th	Tie Rods	26th
Engine Oils & Lubricants	9th	Wheel Hub	27th
Coolants	9th	Steering Rack	27th
Stabilizer links	10th	Differential	27th
Wiper Blades	11th	Brake Drums	28th

Side Mirrors	11th	Engines (Whole)	28th
Seals	11th	Constant Velocity Joints	28th
Hose Clips	11th	Door Seals	28th
Fog Lights	12th	Door Handles	28th
Bumper	13th	Hose Pipes	28th
Gaskets	14th	Lug nuts	29th
Radiators	15th	Car Trackers	29th
Piston Rings	16th	Air Compressor	29th
Fan Belts	16th	Exhaust Pipes	29th
Timing Belts	16th	Ball Joint	30th
Brake Discs	17th	Speed Cables	31st
Shock Absorbers	17th	Rack Ends	31st
Rims	17th	Brake Boosters	31st
Brake Calipers	17th	Drive belt	32nd
Gear Box	18th	Accelerator Cables	32nd
Steering boot	18th	Distributor Caps	32nd
Connecting rods	19th	Safety governors	33rd
Headlights	19th	Universal Joints	33rd
Engine Mounting	19th	Cylinder heads	33rd
Struts	20th	Timing Covers Propeller	33rd
Wind Screens	20th	Glow plug	34th
Engine Valves	21st	Bonnets	34th
Alternators	21st	Master Cylinder	34th
Tyres	22nd	Safety Belts	35th
Axles	22nd	Spoilers	35th
Engine Pistons	23rd	Decklid	35th
Wheel Studs	23rd	Ignition Keys	35th
Mudflaps	23rd	Airbag Sensors	35th
Engine Fans	23rd	Clutch Kit	36th
Piston Pins	24th	Fuel Sensors	37th
Batteries	24th	Bumper Rubber	37th
Pressure Plates	24th	Cowl Screen	38th
Clutch Disc	24th		
Exhaust Clamp/Bracket	24th		

Source: Field Survey Results 2020

Given the importance of Kenya's port to the hinterland it serves, long haulage transport and commercial vehicles consumes a lot of suspension parts including shock absorbers and springs. Kenya imported an estimated USD 58,294,000 worth of auto parts imports for the period 2015 to 2019, as compared to USD 52,811,000 for brakes and servo-brakes and parts thereof over the same period[16]. The fast-moving parts are also on one side attributed to increasing exports and re-exports of auto components as captured in the next section.

ii. Export potential

Generally, the Kenya Bureau of Statistics acknowledges that the value of domestic exports of transport equipment category increased by 4.5 per cent in 2019 on account of increase in the export value of parts and accessories.

In Kenya's automotive sector, facilities have been established and are producing products that have attained competitive/acceptable standards. Kenya has the potential to export to

[16] ITC calculations based on Kenya National Bureau of Statistics

neighboring countries especially the EAC—mainly supplying assembling plants and replacement markets.

Making Kenyan products more competitive in terms of price and quality is imperative for this export trade to grow. The Government has a role to play to ensure that Kenya products become more competitive by providing a conducive environment, reliable and adequate infrastructure, and finance (potentially through development banks), develop relevant skill, enhance protection through tariffs (especially locally produced auto-parts) on the supply side hence making Kenya products to be more competitive. Key undertakings to consider include equaling the 5 US Cents per kilowatt hour cost of power offered to automotive hubs in South Africa, instituting and developing an auto parts industrial park, as well as ensuring the EAC CET is implemented by the respective importing EAC markets. Needless to mention is the fact that when Kenya acquires a UN-ECE certification, regional, continental and global demand for parts made in Kenya is poised to grow tremendously.

The automotive sector has registered an upward trend for exports of locally assembled vehicles. Although industry data shows that total exports of new vehicles decreased by 51% from 446 units in 2012 to 218 units in 2019, the share of new assembled units from Kenya exported outside of Kenya has jumped from 41% in 2012 to 78% in 2019[17] with more locally assembled vehicle sales increasing. This demonstrates a surge of demand in the export markets for the locally assembled vehicles. The review of EAC Rules of Origin in 2015 has been attributed to the increased of number of exports of new vehicles assembled from CKD.

As a single product, in terms of value, the brakes and servo-brakes and their parts dominated followed by suspension systems and parts thereof, steering wheels, drive axles, and clutches. It is also worth noting that export of steering wheels and clutches have increased.

Table 17: Auto parts exports by Kenya 2015 - 2019

Product	*Exported value in 2015 (USD '000)*	*Exported value in 2016 (USD '000)*	*Exported value in 2017 (USD '000)*	*Exported value in 2018 (USD '000)*	*Exported value in 2019 (USD '000)*
Brakes and servo-brakes and their parts, for tractors, motor vehicles for the transport	120	356	619	715	533
Suspension systems and parts thereof, incl. shock-absorbers, for tractors, motor vehicles	78	158	270	324	243
Steering wheels, steering columns and steering boxes, and parts thereof, for tractors, motor	19	106	232	352	204
Drive-axles with differential, whether or not provided with other transmission components	35	74	125	190	154
Clutches and parts thereof, for tractors, motor vehicles for the transport of ten or more persons	58	118	120	170	103

[17] KAM 2020

Safety airbags with inflator system and parts thereof, for tractors, motor vehicles	0	14	25	24	69
Gear boxes and parts thereof, for tractors, motor vehicles for the transport of ten or more	52	38	19	66	58
Road wheels and parts and accessories thereof, for tractors, motor vehicles for the transport	43	89	65	56	57
Silencers "mufflers" and exhaust pipes, and parts thereof, for tractors, motor vehicles	3	9	21	63	50
Bumpers and parts thereof for tractors, motor vehicles for the transport of ten or more person	27	55	59	36	45
Radiators and parts thereof, for tractors, motor vehicles for the transport of ten or more	78	128	49	67	42
Safety seat belts for motor vehicles	4	12	8	28	16

Sources: ITC calculations based on Kenya national bureau of statistics.

IMPORTING MARKETS FOR THE PRODUCT EXPORTED BY KENYA IN 2019

For product: 8707 (Bodies, incl. cabs, for tractors, motor vehicles for the transport of ten or more persons,) total exports from Kenya in 2019 amounted to USD 408,000. The top 6 importers from Kenya—accounting for nearly 100% of the exports were: DRC (44.9%), Uganda (23.3%), Rwanda (18.4%), Tanzania 9.6%), South Sudan (3.7%) and India (0.2%). Due to price competitions with directly imported spare parts by destination markets, the annual growth in exported value of auto components under heading 8707 decreased by 35% for the period 2018-2019.

- Significant reductions were reported in DRC (21%) and Tanzania (23%)—Need to establish why?
- Significant growth (81%) in South Sudan

Table 18: Importing markets for the product 8707 exported by Kenya in 2019

Importers	*Value exported in 2019 (USD thousand)*	*Share in Kenya's exports (%)*	*Growth in exported value between 2015-2019 (%, p.a.)*	*Growth in exported value between 2018-2019 (%, p.a.)*
World	408	100	-11	-35
DRC	183	44.9	-21	-5
Uganda	95	23.3	6	-51
Rwanda	75	18.4	34	5
Tanzania	39	9.6	-23	-62
South Sudan	15	3.7	81	-57
India	1	0.2		

Sources: ITC calculations based on Kenya national bureau of statistics

For product: 8708 (Parts and accessories for tractors, motor vehicles for the transport of ten or more persons), global exports from Kenya in 2019 amounted to USD 4,378,000. The top 7 importers from Kenya—accounting for nearly 100% of the exports were Tanzania (31,8%),

Uganda (24.9%), South Sudan (10.2%), strangely UK (10.2%), Rwanda (5.2%) and South Africa (4.9%).

- Significant reductions were reported in South Sudan (26%) (2015-2019), Tanzania (25%) (2015-2019) and Rwanda (43%) in (2018-2019) and—Need to establish why?
- Significant growth (449%) in Nigeria

Table 19: Importing markets for the product 8708 exported by Kenya in 2019

Importers	Value exported in 2019 (USD thousand)	Share in Kenya's exports (%)	Quantity exported in 2019 (in tons)
World	4,375	100	379
Tanzania,	1,390	31.8	50
Uganda	1,089	24.9	100
South Sudan	447	10.2	89
United Kingdom	446	10.2	5
Rwanda	229	5.2	27
South Africa	214	4.9	9
Nigeria	128	2.9	2
Liberia	113	2.6	15
Burundi	107	2.4	14
Sudan	39	0.9	25
Japan	33	0.8	1
UAE	23	0.5	7
DRC	22	0.5	5

Sources: ITC calculations based on Kenya national bureau of statistics.

For product 87: (Vehicles other than railway or tramway rolling stock, and parts and accessories thereof, the value of Global exports from Kenya amounted to USD 84,494 (USD thousand). The top 7 leading importing markets for the products exported by Kenya in 2019 were Tanzania (38.8%), Uganda (37.9%), DRC (4%), UAE (3.3%), Chad (2.4%) Rwanda (2.3%) and South Sudan (2%). Annual Growth in exported value increased by 6% (2015-2019) and 1% (2018-2019). Significant growth was recorded in Tanzania 16% over the past 5 years, and the exports to UAE over the same period doubled.

Table 20: Importing markets for the product 87 exported by Kenya in 2019

Importers	Value exported in 2019 (USD thousand)	Share in Kenya's exports (%)	Growth in exported value between 2015-2019 (%, p.a.)	Growth in exported value between 2018-2019 (%, p.a.)
World	84,494	100	6	1
Tanzania,	32,808	38.8	16	0
Uganda	31,392	37.2	-2	-5
DRC	3,880	4.6	-3	47
United Arab Emirates	2,794	3.3	196	657

Chad	2,006	2.4	40	
Rwanda	1,975	2.3	10	88
South Sudan	1,723	2	-25	56

Sources: ITC calculations based on Kenya national bureau of statistics

2.2 Recent investments in the automotive sector

2.2.1 Multi-National Corporations (MNCs) in Kenya's Automotive Sector

The only multi-national cooperation in the automotive sector in Kenya that has significantly invested in automotive assembly is Isuzu East Africa Limited in Nairobi Industrial Area (formerly General Motors East Africa). The other 3 established motor vehicle assemblers in Kenya are: Trans Africa Limited, and Associated Vehicle Assemblers (AVA) in Mombasa; and Kenya Vehicle Manufacturers in Thika. Combined, the automotive assemblers have capacity to assemble about 46,000 units per year (currently operating below capacity utilization) and directly employ over 1,500 people. As of 2019, the total investment by motor vehicles assemblers is estimated at USD 148 million[17]. All motor vehicle Assemblers currently operate at a single shift and have a capacity to do up to three shifts a day. A new entrant, and the fifth company known as Mobius Motors Ltd specializes in the design and assembly of Mobius Brand motor vehicles. Mobius motors is the second home-grown Original Equipment Manufacturer (OEM) in the region, with brand recognition across East Africa. Since their incorporation in 2009, Mobius has assembled 53 units.

Table 21: Motor vehicle assembly plants in Kenya

Assembler	Est. Investment 2019 (USD)	Capacity Installed	Capacity utilized	Ownership	Brand	Type of Vehicle	Location of Plant
Isuzu East Africa	100Million	12,000	3751(31%)	100% foreign	Single	MCV HCV	Nairobi
Associated Vehicle Assemblers (AVA)	20Million	10,000	2860(29%)	100% local	Multiple	LCV HCV	Mombasa
Kenya Vehicle Manufacturers	20Million	18,000	1000(6%)	35% Local 65% Foreign	Multiple	LCV HCV	Thika
Trans Africa Limited	5 Million	1000	400 (40%)	-	Multiple	HCV	Mombasa
Mobius Motors Ltd	2.5 Million	5760	0	100% foreign	Multiple		Mombasa
Total	***147.5 Million***	***46760***	***8,067 (20%)***				

Data source: KAM and EAC (2019)

Comparatively, developed automotive hubs like South Africa have the presence of multiple MNCs in the automotive assembly business. Key MNC players include BMW, Ford, Toyota, Volkswagen, Mahindra, BAIC, Isuzu and Nissan. The components sector is well developed, that catalytic converters alone have 25 MNCs invested in South Africa because of the huge Platinum deposits and related platinum manufacturing. Out of the total manufacturing value add to South

African economy, manufacturing value add of automotive sector to the economy was 27.6% in 2019; contributing 6.4% to GDP[18].

Much as many vehicle brands are assembled in Kenya, they are not necessarily products of OEMs investing in assembly plants in Kenya, but rather franchise holders assembling under different plants on customer demand basis. The main brands currently assembled in Kenya, that may attract OEM investments in future subject to demand volumes surging, are detailed below.

- Isuzu East Africa Limited, Nairobi: Specializes in the assembly of Isuzu commercial vehicles, Passage Service Vehicles (PSV), Pick-ups, Buses, Light and heavy trucks.
- Associated Vehicle Assemblers, Mombasa
    - Simba Corp – Mitsubishi, FUSO, Mahindra plus Proton
    - TATA – Tata & Daewoo
    - Toyota East Africa – Toyota, Hino
    - Scania East Africa – Scania
    - Foton – Foton, Aumark
    - Volvo – Volvo
    - Beiben
- Kenya Vehicle Manufacturers (KVM) Thika
    - Cooper Motors Corporation - Nissan Diesel, Eicher, MAN
    - Crown Motors – Nissan
    - Peugeot (PSA Group) – Peugeot
    - Volkswagen – Volkswagen
    - Bus Body Building – 33-seater bodies for Hyundai, Eicher, Isuzu, Mitsubishi; 51-seater bodies for UD, TATA, Hino; 62-seater bodies for Scania, MAN, Ashok Leyland
- Trans Africa Motors: FAW and IVESCO trucks and road tractors

Ideal/Projected New Investments

As companies recalibrate to meet market demands and model changes for the existing assemblers, there is a need to invest in localization processes, machines, as well as technologies. Local component manufacturers will need to replace their machinery and equipment to stand a chance of competing with quality imported parts (especially safety critical parts) and supply OEMs. The following examples are used as base case financing requirement scenarios picked from existing attempts to recalibrate and meet market demands.

Table 22: Capex requirements for selected expansion projects

Internally Identified Required Process & Product Improvements	*Associated Estimated Investment Cost (Kshs)*
Quality management Systems (OEM requirements)	8,000,000
Existing part localization adjustments to newer vehicle models	50,000,000 – 100,000,000
Copper Brass Machinery	60,000,000
Plastic Aluminum plant (in EPZ)	400,000,000
New metallic vehicle part (in existing plant)	200,000,000 – 350,000,000
New Lubricant line (in existing facility)	5,000,000

[18] www.trade.gov International Trade Administration, USA

New filter models	300,000,000 - 500,000,000
Electro dipping plant	500,000,000

Source: Field data

In the automotive sector, the economic benefit derived from an investment in relation to its costs must be given careful consideration before an investment is done. For vehicle assemblers, volumes demanded significantly influence expansions of assembly capacity, for which few alterations may require to be undertaken or enhanced on the assembly line. For parts manufacturers, the return on investment is usually affected by the cost of machinery and equipment; for which fast technology changes can render the plant less relevant before it can fully recoup the benefits. Additionally, the tear and wear factor of machines and machine parts presents an additional stopper on returns hence implying that part producers must carefully consider source of equipment, technology applied, ability to service machines in-house etc. for the investment to make sense. As technology and vehicle models change, metal pressing requirements and related accessories (tools and dies) equally change or need re-designing. Dies are an essential tool used in the manufacturing industry, that work like molds to create objects in custom and often complex shapes from small fasteners and tool bits to large automotive components and machine parts.

In Kenya, the last 5 years have registered significant investments in the leaf springs and related bolts and nuts, filters for both air and oil, wiring harnesses, and upholstery. This is largely because the respective parts, save for filters, are required local content parts in the assembly of commercial vehicles in Kenya, whereas filters are on high demand in the aftersales market. Furthermore, vehicle model changes dictate parallel investments by auto component suppliers to catch up with the assembler. For the filters, regulatory guidelines on emissions dictate a shift to Euro emission level compliant filters hence necessitating continuous investments to catch up with the market regulations.

Local Manufacturing: Learning from Mobius Motors

Mobius Motors is an automotive company based in Kenya, that designs and manufactures affordable passenger vehicles as full manufactured units. Mobius started conceptualization of its first Kenyan passenger car - Mobius II in 2009. Mobius was founded in Kenya by Joel Jackson in 2011 and registered in Kenya to design and manufacture highly functional and safe cars with a vision "To make Africa Mobile". The first model- Mobius II units (50) were produced in Kenya Vehicle Manufacturers in Thika in the period 2014 to 2015. They are working on a second model which is an improved version of the first model. The second model has 40% local content in terms of value.

Research and development form the foundation of any Industry. Mobius undertakes its research and development from their premises at Sameer Business Part. The research follows the following steps:

VOC & VOB Requirements Development	*Entails the collection of varying voice of the customer, voice of business, voice of regulation to develop the requirements for the part to be designed.*
Design Concept in CAD	In designing concepts, specialized software is used to model parts in 3D. Additional analysis is then done using finite element analysis (FEA) to determine potential failure modes
Drawing and Part identification	Several thousand iterative models and drawings can be developed during the lifecycle of a part and all these are kept in purposely defined product lifecycle management (PLM) software for easy retrieval and updates.
Prototype Parts Manufacture	Once models and drawings are completed these are released to suppliers local and international for fabrication of initial samples. Several iterative revision builds can occur from concept, prototype, pilot before readiness for final production
Prototype vehicles manufacture	This covers the quick fabrication of parts for trialing and early fitment and evaluation. May also involve for example use of 3D printed parts to speed up prototyping of a concept.

Because of the high local content value in Mobius models, one can be quick to think that under the right local-content regulation environment, the Mobius vehicles are bound to be purchased in higher numbers. However, customer preferences come with vehicle specifications and applications that the Mobius product has not yet fully integrated. The SUV vehicle still lacks the aesthetics, safety assurance, and several user applications like air conditioning, radio systems, cameras, electronic controls etc. that corresponding SUVs in that category offer

even at reconditioned status. Mobius motors also hit the market with a relatively friendly price (approximately USD 10,000) but was still more expensive than some imported options. Like all assemblers, the company faces an uphill task of competing with imported used vehicles (for both domestic and export markets), and a general brand acceptance since the long existing international brands are equally aggressively targeting the same market.

Opportunities for growth in auto component manufacturing in Kenya

Most auto component manufacturers in Kenya survive on the replacement market more than supply to vehicle assemblers. This initially and essentially portrays a need for growth of assembly volumes before any significant growth investments can be done for parts manufacturers. Average plant utilization in parts manufacturing sector in Kenya stands at 36%, and the Kenyan auto parts export market earns a paltry $0.12 million each year (2015 – 2019 average – KNBS 2020).

To spur growth in manufacturing of auto components in Kenya, there is unavoidable need to invest in quality improvements so as to capture the unserved export market on one side, and also improve demand for parts by assemblers, who under the current 10% import duty regime find it more economical and safety critical to import than to buy locally. Impliedly, investing and enforcing quality in parts production should translate to increased uptake of locally made auto parts by vehicle assemblers either through protective tax regimes or mandatory regulatory enforcement.

All local content parts (*refer to Box 1&2, Page 5)* have manufacturing growth potential; and the capacity to spark SME trade companies serving as dealerships and service centres for the automotive sector in Kenya. Quality is a significant determinant of demand for auto parts. A booming production calls for extensive distribution networks at different levels, hence creating a network of SME dealerships in Kenya and beyond. Coupled with other measures like adopting the UN ECE certification, Made-in-Kenya auto components will command recognition and preference; and rising volumes positively influence price reduction and wider market presence.

Field surveys revealed that automotive SMEs are actively seeking and remain open to joint ventures opportunities with established manufacturers in Europe and Asia as a way of attracting expansion capital; but also growing market share due to the brand recognition and improvement associated with established European companies. Kenya's labour market continues to be very attractive compared to most automotive hubs in Africa due to its affordability, productivity levels, and skill set. Additionally, the education sector is increasingly becoming flexible and adaptive to support private sector to close the skills gap in the automotive manufacturing sector.

Model homologation when implemented could spur investments in the upstream auxiliary industries like the steel sector. Current automotive steel consumption is estimated to average 10,000 tons a year[19]. Nonetheless, vehicle model homologation could easily push the annual automotive steel consumption to about 50,000 tons, making it feasible for automotive steel companies to invest. Auto parts that are not particularly sensitive to vehicles models remain viable for growth even when homologation is possible. Such parts potentially include Upholstery for public transport vehicles, batteries, oil and air filters, lubricants, coolants, brake disc, brake drums, brake pads, brake linings, among others.

The Jua-Kali sector is Kenya has managed to come up with some auto products, and successfully sold them to the replacement market that aims at low-cost products on one end, but also to

[19] Field interviews with springs manufacturers

unsuspecting customers that have no idea on quality requirements for some parts. Parts like rubber products particularly rubber bushes are manufactured from recycled rubber in the Jua-Kali segment but carry along with them the limited tensile ability (inability to hold weight) and end up destroying suspension members and components in commercial vehicles. Quality in automotive parts therefore is more than what meets the eye. Such safety critical issues for parts made in a largely unregulated Jua-Kali sector are increasingly getting voiced by truck operators. Therefore, young enterprises aiming to undertake greenfield investments or graduate Jua-Kali sector into start-up auto component manufacturing SMEs must unavoidably deal with quality and operate in a regulated manufacturing environment. This however is expected to follow the due process investment mainly feasibility assessment (technical and economic); product development, testing and standardization; and eventually scaling up. Start-ups and expansions in

Critical areas for GIZ to focus to grow automotive related manufacturing potential should be skewed towards providing a line of credit through commercial banks targeting automotive SMEs, skills enhancement through placement of automotive experts in manufacturing SMEs, and quality enhancement initiatives to spark import substitution and export market improvement.

2.2.2 Automotive sector financing in Kenya

The main source of credit to the manufacturing sector is the commercial banks accounting for more than 99% of credit advanced to the sector. Allocation of credit by public financial institutions to the manufacturing sector is infinitesimal[20] yet comes in at a range of 10-13%, making it not different from commercial loans. This situation has not spared the automotive sector.

Table 23: Amounts of credit advanced to the manufacturing sector by financial institutions (Ksh. Million)

Institution	Category	2013	2014	2015	2016	2017
Industrial Development Bank (IDB) limited	Public	339.1	74.2	252	129.8	200.1
Development Bank of Kenya (DBK)	Public	230	66.6	341	292.3	130.5
Kenya Industrial Estates (KIE) Limited	Public	104.5	194.3	120.8	165.3	181
Industrial and Commercial Development Corporation (ICDC)	Public	431.6	234	421.2	495.6	791
Sub-total		**1105.2**	**569.1**	**1135**	**1083**	**1302.6**
Commercial Banks	Private	181,457.10	237,355.80	289,727.80	274,725.40	310,502.90
Grand total		**182,562.30**	**237,924.90**	**290,862.80**	**275,808.40**	**311,805.50**
% of public sector credit to manufacturing		0.61	0.24	0.39	0.39	0.42
% of private sector credit to manufacturing		99.39	99.76	99.61	99.61	99.58

Data source: KNBS, 2018a

[20] KAM 2019

The current financial sector in Kenya does not provide a long-term product that manufactures require. Access to finance has consistently been cited as a problematic issue for manufacturers and cuts across all sectors (KAM, 2018). The Government has intervened in the credit market through its own financial institutions such as DBK, KIE and ICDC, but access to long-term finance, and in particular financing for the perceived high-risk sectors such as the SMEs remains a major challenge, and clearly an industrial development bank is very much needed in Kenya.

By definition, a development bank is a specialized institution that mobilizes resources for medium and long-term financing. It is "a chosen instrument for facilitating and stimulating economic growth". A development bank plays a major role in economic development through its ability to influence the capital formation process. This process involves, in part, the establishment of industrial enterprises, which in turn provides a basis for entrepreneurial development. In considering economic development, effective entrepreneurship is one of the most crucial elements of the overall investment process[21].

With specific regard to the automotive sector, financing challenges include but are not limited to the following:

I. Financing cost is very high (11%-13% capex financing on the shilling; 10.5% on the dollar) yet return on capital is so poor.
II. Lack of a pure industrial development bank in Kenya.
III. Short term commercial loans (3-5 years) not ideal for manufacturing.
IV. Cumbersome duty remission scheme.
V. Lack of a working capital facility.
VI. Failure to refinance until 1 year after moratorium.
VII. Local banks are largely risk averse, and do not want to touch SMEs.
VIII. Dollar financing being strictly tagged to dollar inflow (commercial bank requirement).
IX. Lack access to grant funding for Opex costs (expert costs on process improvements).

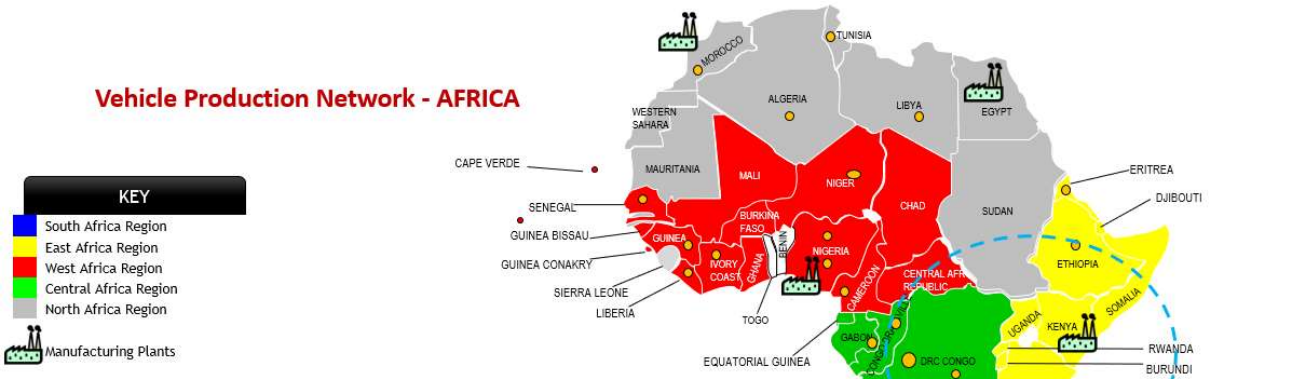
2.3 Kenya's competitiveness in Automotive manufacturing

Kenya remains a strategic automotive hub for Africa because of its strategic location to service Sub Saharan Africa (SSA) for the motor vehicle market and the parts aftersales market. Geographically, Kenya remains the key sea trade route for many neighboring markets in Uganda, Democratic Republic of Congo, South Sudan, Rwanda, and Burundi, respectively.

Within Africa, Kenya is recognized as one of the five automotive manufacturing hubs, joining the ranks of South Africa, Egypt, Morocco, and Nigeria. The EAC market[22] with an average motorization rate of 17 vehicles per 1,000 inhabitants, and an estimated combined fleet of over 300,000 vehicles of which about 85% are used; all serve to provide a unique unmet demand for new vehicles and servicing parts thereof that Kenya can take advantage of.

[21] Development banking in Kenya: a case study of Industrial Development Bank Limited (B. Onkoba Ongeri, 1991)
[22] Projections based on weighted population growth rates and GDP per capita – IMF projections

For many products on the market, industry captains attest to the fact that Kenyan made products like filters (air/oil), leaf springs, bolts and nuts are a preferred quality compared to imported new or used parts. Field interactions with parts dealers indicated that leaf springs and filters made in Kenya are some of the fast-moving parts due to customer preference based on quality and pricing.



	Kenya	South Africa	Egypt	Morocco	NIGERIA
ISUZU	ISUZU East Africa	ISUZU Motors South Africa	General Motors Egypt		
NISSAN	Nissan Kenya	Nissan South Africa	Nissan Motors Egypy		
TOYOTA/ HINO	Toyota Tusho Kenya	Toyota South Africa Motors /Imperial Hino Trucks	Toyota Egypt/ Al-Futtaim		
MITSUBISHI/FUSO (Daimler)	Simba Colt (AVA)	Daimler	Ghabbour Auto		
SCANIA	Scania East Africa	Scania South Africa	Scania Egypt		
RENAULT				Renault, PSA, SOMACA	
Honda, Peugeot, Ford					Honda, Peugeot, Ford
Peugeot Volkswagen	KVM (Peugeot, Volkswagen)				

The hinterland that receives used vehicles through the Indian ocean cost line is huge. This area stretches to central part of Africa, and the Horn of Africa namely Ethiopia and Somalia. Even though several Chinese firms are already assembling passenger and LCV vehicles in Ethiopia, Japanese and European brands assembled in Kenya would fetch a big demand because of the performance and durability aspects inherent to the assembled brands in the country. With Kenya as an East African assembly hub, economies of scale would avail affordable automotive products that would compete with existing small-scale assembly in neighboring markets.

Kenya is a member of the East African Community (EAC), COMESA and most recently the AfCFTA. Kenya continues to engage in strategic trade partnership agreements with selected world leading economies to promote bilateral trade to increase market access for Kenyan made products, with USA and the United Kingdom as the latest add-ons in trade agreements. Additionally, Sub Saharan Africa (SSA) is largely an underserved market for new vehicles, and Kenya is logistically well positioned to supply products into SSA easily than their South African and Moroccan counterparts, who on the large part have concentrated on exports to Europe and the Americas. Better still, Kenya is well connected to SSA through very good inter-country

transport infrastructure in terms of water ways in the Great Lakes region, rail networks, and road networks in addition to prominent cargo handling airports like Goma in DRC and Nairobi.

As Kenya strives to improve the investment climate, it has demarcated Export Processing Zones (EPZs) and Special Economic Zones (SEZs) that offer industrial space and amenities to produce and export duty free. Many more places are still being curved out to serve as SEZs that will promote manufacturing in the near to long-term future. On the low side, the cost of industrial power for Kenyan manufacturing at 16 US cents per kilowatt hour is still one of the highest in Africa. The aim for Kenya remains to equal or better the South African rate of 5 US cents per kilowatt hour if Kenyan automotive products are to stand a chance against those made from the rest of the hubs in Africa.

Nonetheless, several investment benefits are currently available to manufacturers including automotive sector players. They include the following:

- 0% CET duty and 0% Excise Duty on imported Completely Knocked Down (CKD) material
- Duty Free remission on all our raw materials.
- Finished product duty increased to 25%
- Manufacturing machines are duty free.
- 150% Industrial building allowance for factories outside Nairobi
- Government allows duty remission for special type of steel (SUP9A and EN8&9) that we use as raw material and is not locally produced.
- Import of Machinery duty free
- Import of Machinery spares duty free
- Import of engineering steel at 0% under duty remission
- Investment allowance on new machinery

2.4 Existing import and export duties for Auto components and automotive products from Kenya

To import a vehicle into Kenya, the vehicle must comply with the Kenya Bureau of Standards requirements of Legal Notice No. 78 of 15th July 2005 (Verification of Conformity to Kenya Standards Imports Order, 2005) and KS1515:2000 Kenya Standard Code of Practice for Inspection of Road Vehicles. In Particular, the Imported Vehicle;

- Must be less than 8 years old form the year of first registration.
- Will be subject to roadworthiness inspection by a KEBS appointed inspection agent in the country of export.
- Must be Right Hand drive

Taxes Applicable in Motor Vehicle Importation

All vehicles imported for use in Kenya attract an Import Declaration Fee (IDF) of 3.5% of CIF and Railway Development Levy (RDL) of 2% of CIF tax and are depreciated based on the year of manufacture and registration. Vehicles imported as CKDs attract 0% import duty but can only be imported by a licensed manufacturer. CKD kits are assembled in a KRA Bonded Warehouse facility and are only then required to pay IDF fees. However, as soon as these are removed from the bonded facility and are used in Kenya, they are subject to Value Added Tax (VAT), excise duty and the RDL. Vehicles assembled in Kenya for export are not subject to domestic taxes.

Table 24: Duty rates for imported vehicles, 2019

Type of tax or fee	*Imported (Unassembled under CKD)*	*Imported New vehicles*	*Imported secondhand vehicles*
Import Duty	0%	25%[23] CIF	25% CIF
VAT	14%	14%	14%
Excise tax		30%: Private passenger vehicles of petrol engine whose engine capacity exceeds 2500cc 30%: Private passenger vehicles of Diesel engine whose engine capacity exceeds 3000cc All Other Vehicle Categories (20%)[24]	
Import Declaration Fees (IDF)	1.5% of CIF	3.5% of CIF	3.5% of CIF
Railway Development Levy (RDL	1.5% of CIF	2% of CIF	2% of CIF

Data source: KRA & Deloitte, cited in KAM 2020.

When it comes to parts, a 10% import duty is applied, respectively. For most auto component manufactures, one of their key competition challenges emanates from this import duty since VAT paid on their locally manufactured products makes the cost end up more expensive than the imported products that are highly subsidized. The Kenyan government should consider protecting the auto parts industry through an elevated import duty since local manufacturing comes with economic value add (employment and taxes) to the country than imported products.

[23] *Electrical cars for new and used vehicle is charged at 10% (2019 Finance bill)*

[24] *See: https://www.kra.go.ke/en/individual/importing/learn-about-importation/procedures-for-motor-vehicle*

Import duties applicable to bodies and parts/accessories

87.07	**Bodies (including cabs), for the motor vehicles of headings 87.01 to 87.05.**			
	8707.10.00	- For the vehicles of heading 87.03	u	25%
	8707.90.00	- Other	u	25%
87.08	**Parts and accessories of the motor vehicles of headings 87.01 to 87.05.**			
	8708.10.00	- Bumpers and parts thereof	kg	10%
-	Other parts and accessories of bodies (including cabs):			
	8708.21.00	-- Safety seat belts	kg	0%
	8708.29.00	--	kg	10%
	8708.30.00	Brakes and servo-brakes; parts thereof	kg	10%
	8708.40.00	- Gear boxes and parts thereof	kg	10%
	8708.50.00	- Drive-axles with differential, whether or not provided with other transmission components, and non-driving axles; parts thereof	kg	10%
	8708.70.00	- Road wheels and parts and accessories thereof	kg	10%
	8708.80.00	- Suspension systems and parts thereof (including shock-absorbers)	kg	10%
-	Other parts and accessories:			
	8708.91.00	-- Radiators and parts thereof	kg	10%
	8708.92.00	-- Silencers (mufflers) and exhaust pipes; parts thereof	kg	10%
	8708.93.00	-- Clutches and parts thereof	kg	10%
	8708.94.00	-- Steering wheels, steering columns and steering boxes; parts thereof	kg	10%
	8708.95.00	-- Safety airbags with inflater system; parts thereof	kg	0%
	8708.99.00	-- Other	kg	10%

EAC Customs Union - Common External Tariff 2017

Relatedly, assemblers still prefer to pay duties on some parts listed under LN 84 of 2019 since the cost is comparable and the quality of imported OEM parts is more assured.

Section 3

3.1 Automotive Sector potential to propel growth of young enterprises both in the formal and informal segments

In 2019, the leading industries providing wage employment in the private sector were manufacturing; agriculture, forestry, and fishing; and wholesale and retail trade and repair of motor vehicles, accounting for 15.9, 14.4 and 13.0 per cent of the total private sector employment, respectively. The annual average earnings in the private sector increased by 8.2 per cent to 780.1 thousand in 2019, compared to a growth of 7.9 in the public sector, over the same period.

Table 25: Average Wage Earnings (Ksh) per Employee, 2015- 2019

PRIVATE SECTOR					
	2015	2016	2017	2018	2019*
Mining and quarrying	425,268.8	453,206.1	513,360.1	539,997.7	631,213.0
Manufacturing	370,925.6	395,058.0	438,217.8	480,109.0	529,968.4
Wholesale and retail trade; repair of motor vehicles and motorcycles	567,591.9	617,753.6	678,269.3	742,485.4	821,477.7
Transportation and storage	1,177,969.1	1,203,429.8	1,304,985.7	1,395,859.5	1,500,622.1
PUBLIC SECTOR					
Wholesale and retail trade; repair of motor vehicles and motorcycles	1,082,241.8	1,196,994.4	1,260,092.0	1,367,185.3	1,543,570.9

Data source: KNBS - Economic Survey 2020.

The advantage automotive sector employment brings to the rest of the economy is a very high job multiplier effect. According to the report compiled by the Center for Automotive Research (CAR) USA 2018, excluding executives, researchers, engineers, managers, support staff, and the like; factory worker jobs multiplier is approximately 11. That is, for every job on an automobile or light-truck assembly line, ten additional jobs are created or supported in the economy. Counting employees directly working for car manufacturers in USA, parts suppliers, and car dealers, the total is 1.55 million people. The secondary, or intermediate, jobs total – those employees that are working at companies that support manufacturers, parts suppliers, and dealers – is another 2.3 million. Finally, the spin-off jobs – those jobs created by the direct and intermediate workers spending their paychecks is another 3.3 million jobs. Putting this in Kenyan context, 1,500 people currently employed on assembly lines have a multiplier of 2,182 jobs in downstream sector, as well as over 3,000 jobs in support sectors to downstream automotive sector. Any additional production triggers more jobs and job spin-offs.

In the component sector, each components sector player as of 2017 employed on average 256[25] people and contributed over KES 40 million annually in tax revenues to government. Given the right incentives and stable predictable auto policy environment, auto parts have the capacity to employ a lot more people, create further spin-offs, and spur the growth of iron and steel industry due to the high consumption of steel as a key raw material. Regional supply chains can

[25] Average is calculated based on concrete statistics provided by 7 key component manufacturers in Kenya 2017

be built, joint ventures can be attracted, and Kenya can become a regional and continental hub of auto parts supplying both assembly and aftersales markets in EAC and Africa at large.

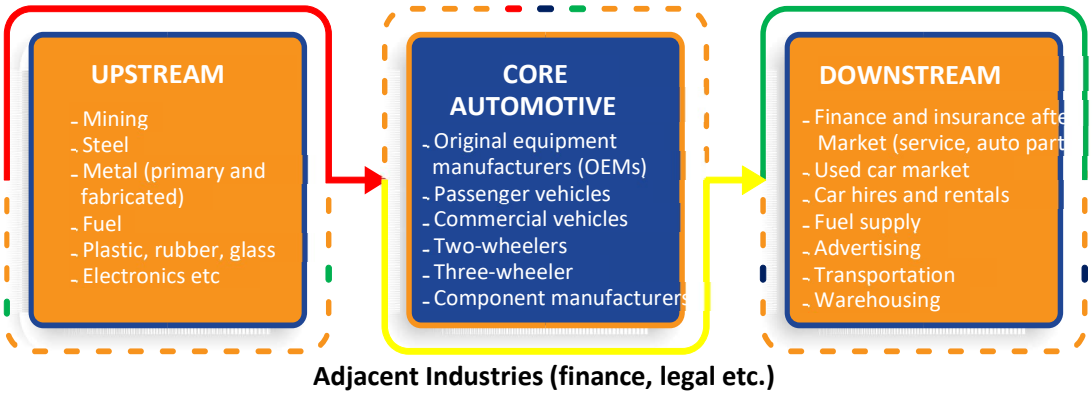
According to Kenya Association of Bus Manufacturers (KABM), there were 15 approved and licensed passenger vehicle bodybuilding companies as of 31st December 2019 (for which approval is done through a vetting process by a committee set up by the Government and comprises membership from National Transport and safety NTSA, Kenya Bureau of standards (KEBS), Kenya Accreditation Service (KENAS) and KABM). The industry directly employs 3,000 people and a further 4,000 in downstream support industries. It has an installed annual capacity of 36,000 buses.

Table 26: Job multiplier effect for automotive sector in Kenya

Assembly Sector	Jobs	CAR Job Multiplier %age factor	Jobs per %age point
Direct Vehicle Assembly Jobs	1500	22%	68.2
Downstream jobs	2182	32%	
Support sectors to downstream	3136	46%	
Bus Body Building Direct Jobs	3000	22%	136.4
Downstream jobs	4364	32%	
Support sectors to downstream	6273	46%	
Trailer Assemblers' direct jobs	773	22%	35.1
Downstream jobs	1124	32%	
Support sectors to downstream	1616	46%	
Component manufacturing direct jobs[25]	5120	22%	232.7
Downstream jobs	7447	32%	
Support sectors to downstream	10705	46%	

Source: KAM 2020 Automotive sector brief (direct jobs), Author's computations

The automobile industry is a pillar of the global economy and a main driver of macroeconomic growth and stability, and technological advancement in both developed and developing countries, spanning many adjacent industries. The core automotive industry (vehicle and parts makers) supports a wide range of business segments, both upstream and downstream, along with adjacent industries. This leads to a multiplier effect on growth and economic development.



Data source: A. Kearney (2014)

Data from automotive component manufacturers provides indicative data as to the levels of direct jobs that can be created if any of the listed components below is to be manufactured and or assembled from knocked down kits.

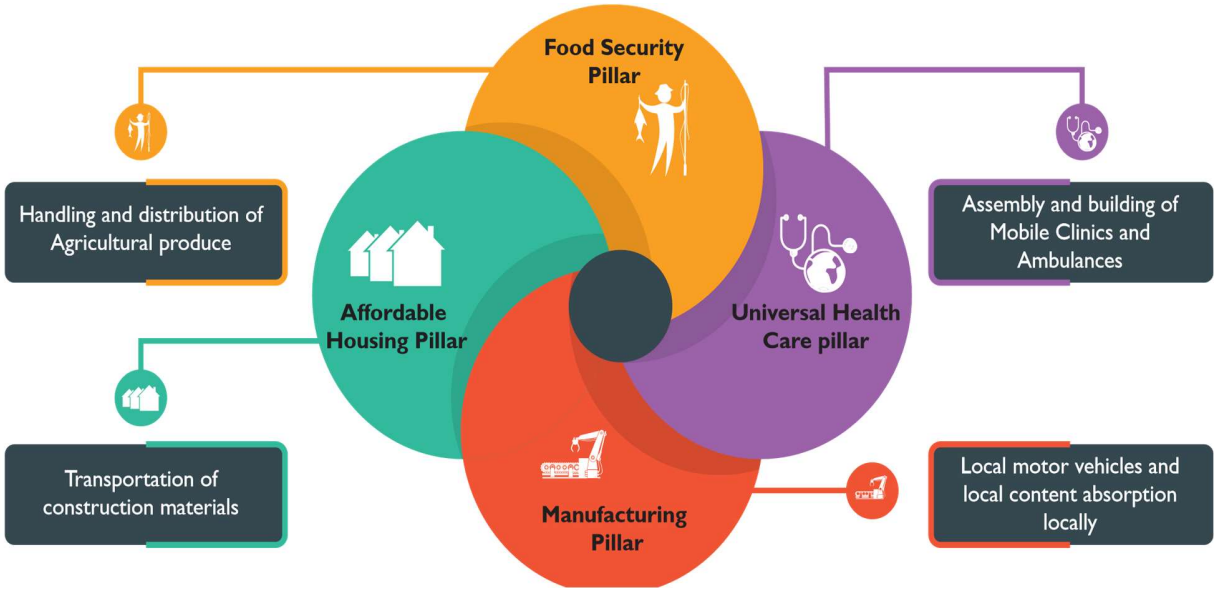
Table 27: Potential direct job creation impact for selected parts

Potential	Project No. Employees
Tyres, tube and airbags suspension	1600
Wheel rims	100
Plastic components	100
Body panels	100
Chassis frames	100
Shock absorbers	100
Radios and accessories	100
Speed limiters	35
Refrigeration kits-	100
Assembly of automotive jacks	100
Truck hydraulic systems	100
Fuel tanks	20
Safety belts	50
Vehicle lights, lenses, mirrors & bulbs	100
Rubber products	100
Wiring harnesses	1000
Radiators	100
Wheel studs	200
Brake pads	100
Brake linings	100

Data source: Field data

As the government of Kenya strives to deliver on its promises – supported by development partners, the automotive industry is seated in an opportune place to strategically drive the success of all the Big 4 Economic Pillars as follows:

Automotive Industry and the Big 4 Agenda

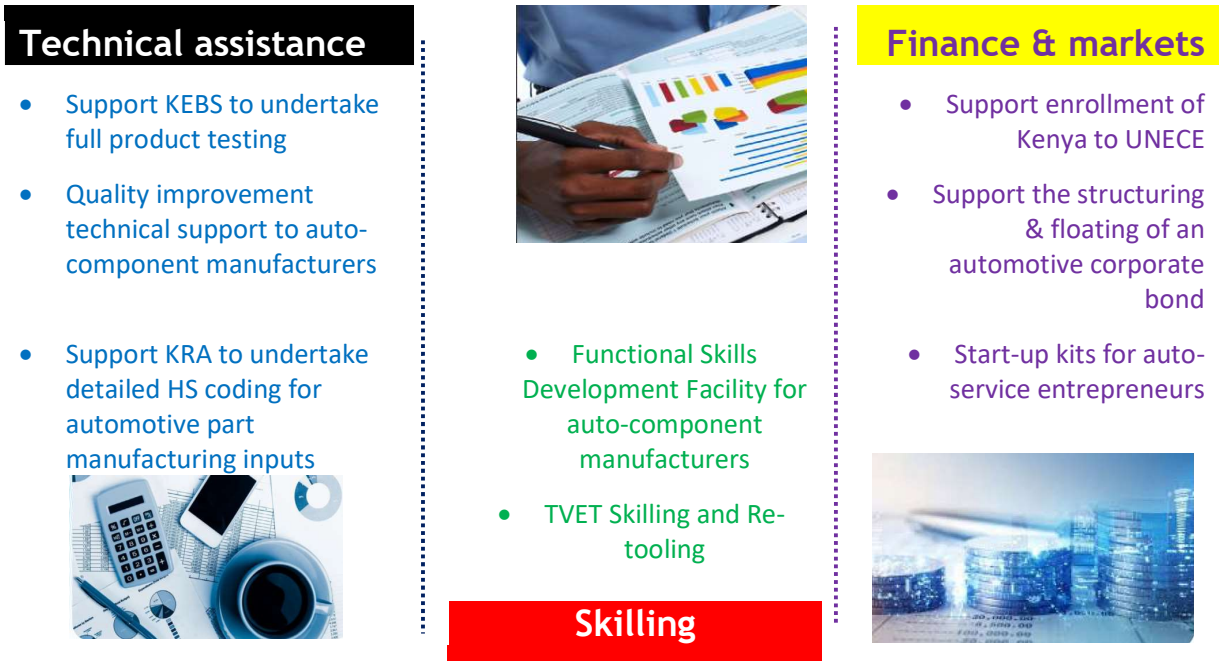


Adapted from KAM Automotive Sector Profile 2020

The potential of automotive sector to create new enterprises, avail steady employment and generate government revenues while supporting other downstream and upstream sectors is undoubtedly immense. Supporting to enhance the automotive sector in Kenya will require technical assistance and advisory services, provision of, equipment and financing, as well as investing in the development of a workforce with relevant skills to sustain the industry among other options.

3.2 Key Strategic areas of Focus in developing Kenya's Automotive Sector

Proposed GIZ Automotive Sector Strategic Support Framework



A three-pronged approach to supporting the automotive sector is proposed based on industry views, growth plans, and GIZ desired areas of intervention with an overarching goal to create new jobs, brownfield expansions or new enterprises in the automotive sector. Detailed and specific support options are elaborated to help pinpoint GIZ to the right form of support.

Proposed essential priorities:

1. **Export Oriented Auto Component Manufacturing:** Support initiatives that can significantly open the export market for auto components. Kenya has an opportunity as an automotive hub to seek and acquire UNECE certification and regulation to have their auto parts exported to Europe and the rest of Africa to be used in assembly of vehicles destined for European markets and beyond. According to the Working Party No. 29 – World Forum for Harmonization of Automotive Regulations; Kenya as a member of United Nations can apply through the UN Secretary General, domesticate the regulations to guide part manufacturers, and get a number that is tagged on each part exported out of Kenya. This would trigger immense benefits (employment, FDI, foreign exchange earnings etc.) to the country and the region. South Africa today manufacturers VW Pollo for the world. Nigeria as another case example has finished the certification process and acquired its country number E63 2018/19. Such a certification for Kenya would attract OEMs since Kenya has a relatively affordable yet better trained workforce than most automotive hubs in Africa. GIZ needs to prioritize working with Ministry of Industry and private sector players and support (through coordination and financing preparatory

steps) UNECE certification process for Kenya to increase export of auto components manufactured in Kenya. This entails general awareness, funding the involvement of technical experts for process audits and technical knowledge to aid the actors in the process, and facilitating the discussions between government and automotive sector players. Crowding in automotive development focused entities like the African Association of Automotive Manufacturers (AAAM) will potentially strengthen the drive, and hopefully aid to realize faster and better. AAAM aims at promoting coherent and enabling policy for automotive manufacturing in Africa, making such a move largely beneficial to the cause of AAAM.

2. **Automotive corporate bond:** Manufacturers require finances for investment and working capital. Credit advanced by these public financial institutions is too low to be impactful, which averages about 0.5% of the total credit advanced to the manufacturing sector. Financing accessed on short time horizons is insufficient to support industrial development, which requires long-term financing. Given the economic value add potential of automotive manufacturing through employment creation, tax revenue contribution, and export market opportunities; GIZ could consider funding the structuring of an automotive corporate bond that would in part materialize the long call for incentivizing saving institutions and pension funds to invest in the manufacturing sector; and attract automotive sector biased international financing. In a situation where ECE certification for Kenya has been dully undertaken, the export potential of auto part manufacturers will be immensely improved, and a greater chance to see JVs and OEM interests in parts manufacturing based in Kenya. Such a facility and additional lines of credit can potentially be used to attract German and other European parts manufacturers to strategically invest in Kenya's automotive hub and position themselves to benefit from the growing African automotive supply chain.

https://www.afreximbank.com/joint-press-release-aaam-and-afreximbank-sign-an-mou-to-drive-automotive-investment-in-africa/

AAAM AND AFREXIMBANK SIGN AN MOU TO DRIVE AUTOMOTIVE INVESTMENT IN AFRICA

Cairo, Johannesburg, 18 February 2021: – The African Export-Import Bank (Afreximbank) and the African Association of Automotive Manufacturers (AAAM) have entered into a Memorandum of Understanding (MoU) for the financing and promotion of the automotive industry in Africa.

Under the terms of the MoU, Afreximbank and AAAM will work together to foster the emergence of regional value chains with a focus on value-added manufacturing created through partnerships between global Original Equipment Manufacturers (OEM), suppliers, and local partners.

To support the emergence of the African automotive industry, they will collaborate to provide financing to industry players along the whole automotive value chain. The potential interventions include lines of credit, direct financing, project financing, supply chain financing, guarantees, and equity financing, amongst others.

The MoU also provides for them to support, in conjunction with the African Union Commission and the AfCFTA Secretariat, the development of coherent national, regional and continental automotive policies, and strategies. With an integrated market under the AfCFTA, abundant and cheap labour, natural resource wealth, and a growing middle class, African countries are increasingly turning their attention to support the emergence of their automotive industries. Therefore, the collaboration between Afreximbank and AAAM will be an opportunity to empower the aspirations of African countries towards re-focusing their economies on industrialization and export manufacturing and fostering the emergence of regional value chains.

3. **Guarantee Scheme for Quality Testing:** Related to the above, GIZ could consider a guarantee scheme (through a local or international intermediary bank) where quality testing equipment could be supplied to the parts manufacturers by European companies and a flexible payment arrangement ensues subject to the cost associated with the quality assurance system. For companies willing to work with affordable laboratories in Europe, Asia and other parts of the world, GIZ could avail a linkage platform within which local part manufacturers can connect with affordable laboratories out there and have their products certified and accredited for the open market under a subsidized scheme.
4. **Tailored Expert Support to Auto Component SMEs:** Recalibrating current manufacturing to meet the car of the future (eco-friendly motor vehicles, electric motor-vehicles, bio-fuel engines etc.) calls for deep support to auto component manufacturers to develop products to the required specifications. This on one part - subject to a needs' assessment; calls for tailored support by sending experts to train inhouse, and create quality champions that can transfer knowledge to teams in the sections of production they are involved in. On another part, GIZ could consider as part of the business incubation centre, to have a facility (fully equipped lab with a fair capacity to undertake R&D) that focuses on production processes and offers technical support and a central research laboratory dedicated to product improvement. This in part is because localization of parts can take up to 2 years at times before the product is acceptable to the OEM; but also, because it is a very costly process since OEMs do not often (if anything) release part specifications to auto part manufacturers in Kenya. The experience has rather been that several quality process-checks, and related machines are required of the part producing company to put in place at its cost if it is to stay supplying the OEM assemblers. Some of these quality systems are not cash-flow friendly as companies must borrow on commercial terms to invest in these systems. It is important to understand that statements of requirements from OEMs on expected quality standards are often rather complicated for an SME. Additionally, quality aspects require practical support, yet quality experts are expensive to recruit and maintain. A programme that is put in place to offer support on ground is not only timely, but also very relevant for the growth of SMEs in motor vehicle parts manufacturing.

Additional focus areas

5. **Institutional Support to KEBS:** There is a clear need to support KEBS to be fully involved in product testing and improvement including R&D on quality improvement. The practice has generally been that the industry has an up-to-date and at times advanced knowledge on product requirements and quality aspects than the regulator. There is need to invest in bringing the regulator up to speed with the industry. Given the financing capabilities, commendable regard, and existing development mandate; GIZ could directly fund the placement of automotive standards experts within KEBS to support private sector efforts at meeting market standards and new product enrollment on the market. Although no specific list of needed equipment was availed; KEBS expressed interest in receiving support in form of testing equipment for the existing laboratories. A careful assessment

of equipment gaps and related infrastructure needs can be undertaken to come up with precise support requirements for KEBS to serve the automotive sector more meaningfully. Just like KEBS and KRA contracts private companies to undertake roadworthiness tests of motor vehicles, public-private partnerships can still be introduced with accredited laboratories to test component parts for quality compliance.

6. **Support detailed HS coding for Auto Component Inputs:** Initiate and support KRA to undertake a detailed HS coding for component part inputs, including the grading of automotive steel. On the first part, creating specified HS codes for component parts will help track and regulate the trade of component parts, but also help to focus mid-term import substitution protection schemes that may require customs interventions. On the side of automotive grade steel, duty remission is a cumbersome process requiring the automotive steel importer to create a bond, account for use of material and then cancel the bond within 6 months. Technical and expertise support to grading the automotive steel (coupled with possible testing gadgets availed to customs office) will help realize the long-awaited call from the private sector to zero-rate automotive grade steel. This process, however much deemed complex and difficult to differentiate automotive steel from civil construction steel by customs authorities; some steel grades like SUP 9A – flat bars used in production of leaf spring can hardly be used to produce anything else since they cannot be welded due to their high carbon content, but rather only transformed through heat treatment to manufacture leaf springs for LCVs and HCVs.
7. **TVET Skilling & Re-tooling:** From experiences of TVET institutions piloting the dual training programme, TVET instructors need to be exposed to current technology, tools and computer electronics associated with latest models of automotive products. This implies that a Continuous Learning and Improvement Programme (CLIP) for TVET instructors is a pre-requisite for mass roll-out of the dual training programme across the country. Needless to mention is the dire need for re-equipping the training labs in the respective TVET institutions. Field visits revealed that some engine models displayed and available for TVET participants to work with are 15+ years old. Such vehicle models are almost outlawed or are soon to be outlawed from the Kenyan market. Precisely, TVET institutions are not well equipped to prepare a graduate mechanic for a 5-year age limit vehicle. As Kenya moves to Euro 4 ad Euro 5 models, plus the clear need to go hybrid, complete electric and solar powered vehicles; production and maintenance of such preferred models may suffer simply because the workforce available is not prepared enough to deal with them.
8. **Start-up kits for auto service entrepreneurs:** most graduates of the dual training model are considered good quality for the local assembly sector to employ. Experience by training institutions running the dual training model has shown that some of the course participants struggle to complete the course because of the pressure from potential employers to keep them whenever they are undertaking apprenticeship training, plus the need to earn income. Anecdotal evidence points to motor vehicle repairs as the highest employers for Kenya's "street industry"[26]. Furthermore, garages on average

[26] Street industry is a coined terminology defining the freelance mechanics lining up Kenyan streets to offer auto repair services to drive-in clients.

employ 2-3 core staff (usually partners with different areas of specialization) and about 10 – 15 casual mechanics who are either multiskilled or specializing in any repair section such as vehicle electronics, engines, body works etc. When a graduate auto mechanic is supported with a comprehensive kit to run a repair workshop, over 10 other juakali mechanics are given an opportunity to practice, earn income, and grow to eventually be independent. To benefit from such support, GIZ can consider an additional short entrepreneurship course offered at a GIZ Business Development Centre to prepare mechanics to be business managers ready to grow the start-up enterprise into a sustainable business. Such businesses will in turn offer apprenticeship opportunity placements for future participants.

9. **Functional Skills Development Facility:** Establish and support a functional Skills Development Facility (SDF) that targets component manufacturers whose workforce skilling requirements are complex, evolving, and are not covered entirely by available training institutions. Component manufacturers have often had to bring in experts from India and China among other places to train factory workers in machine applications, new technology, new production methods, or new product development, among others. Such costs have also served to limit growth for some companies as well as failing to meet product quality requirements. A cost-sharing approach to expert placements for inhouse trainings can be considered and adopted as a mechanism to fill vacancy gaps and create the required workforce to take on new product development and manufacturing in Kenya's automotive sector.

Targeted support for SMEs and Start-Ups in Automotive Sector:

1) Capacity building to facilitate mindset change within SME manufacturers: there exists a general restricted thinking, which has blocked SMEs from graduating to large enterprises. SMEs need to broaden their thoughts, and trigger investment appetite for new parts as well as scaling up on existing products.
2) For small scale operators, technological training support especially on quality control and basic design can be extended to SMEs. This can be done through in-house training or through an established business and technology incubation centre.
3) GIZ can also create a collaborative environment/ arrangement where SMEs can gain from contract manufacturing for selected volume parts, specializing in them and selling them to the assemblers or the aftersales market.
4) Tailored financing for Capex light investments that do not attract large financiers can be structured to benefit micro level SMEs. Structuring such a financing package requires the involvement and partnership of a manufacturing friendly local bank that becomes the implementor; and then GIZ can source for impact investors with a bias to auto component manufacturing to invest in the local bank for a minimal rate of return so as to accord affordable financing to auto component SMEs.
5) Less complex manufacturing that involves few processes like cutting, bending, welding and or shaping finished metal into an auto part without any further transformation to the existing metal material can benefit from catalytic support in terms of design equipment, cutting tools, dies and molds, plus customized light metal press systems. GIZ can source such equipment from philanthropies on behalf of selected small

enterprises that have potential and or significant development impact in terms of creating employment opportunities and other economic spillovers.

6) Across the world, within the automotive industry itself, most of the direct jobs are largely in the auto components sector, which is dominated by Small and Medium Enterprises (SMEs) and is highly fragmented which creates a lot of inefficiencies in the sector. The highly disorganized and fragment producers predominantly caters for the aftermarket[27]. These SMEs face peculiar challenges like lower productivity, outmoded technologies, information gap, and certain structural barriers to low-cost finance and technology[28]. This is also true for Kenya. There are many MSMEs across the country making simple non-critical vehicle parts especially for garage repairs. There is a critical need to reduce the fragmentation, create synergies and increase quality and efficiency in the sector, a role which GIZ can undertake.
    - *GIZ can organize programs through which automotive MSME can come together, form appropriate associations, and learn best practices to improve their businesses and create competitiveness. The program should also be geared towards changing the mindset of the MSMEs and motivating them to advance within the value chain. The program can be organized and be tailor made for enterprises at different levels and categories of parts making, and can take lessons from Thailand[29] (Subcontracting, and networking with MNEs to enable SMEs to upgrade their technological and managerial abilities under favorable circumstances; supporting programs for capacity building as a new holistic approach to integrating all players - including supporting public policies to enhance inter-firm linkages, and strengthening the absorptive capabilities of Thai manufacturers and workforce to maximize the benefits of global integration).*
    - *The South African model - an industrial restructuring project - allowed firms to evaluate their relative performance, both in terms of meeting customer demands and improving their competitiveness against direct competitors. The close cooperative working relationship between university researchers and local firms ultimately led to the decision to formally establish the Durban Auto Cluster (DAC) in 2000, with a membership of 30 automotive firms. Following the establishment of DAC, several firms with the potential of becoming OEM-accredited suppliers were identified, and the DAC committed itself to support their upgrading process with a variety of support activities. Several black-owned SMEs became accredited OEM suppliers and large component producers because of this initiative.[30]*
7) The Case of a Business incubator: GIZ may develop a business incubator accessible to all members of the automotive value chain. The incubator should serve as breeding ground for young enterprises and should have facilities that are able to serve enterprises at different levels. SMEs should be attached to it for a set period through established criteria for entry and graduation. Discussions with the proposed automotive associations will inform the nature and structure that it may take. Eventually, the centre should become self-sustaining through membership fees and affordable training fees charged to user enterprises.

[27] Defining the Role of the Government in the Transnationalisation Efforts of the Indian SMEs in the Auto Components Sector.
[28] https://www.motorindiaonline.in/industry-news/automotive-supply-chain-why-smes-must-embrace-energy-efficiency/
[29] SMEs in the Thai Manufacturing Industry: Linking with MNES 2008
[30] Creating Business Linkages: A Policy Perspective, UNCTAD 2010

- *Once established, the centre should also be able to provide continuous business management training for the various stage enterprises tailored for their specific needs. A prior training need assessment must be conducted with industry players. The centre should also offer training mainly geared towards sound business management making the enterprise graduate to the next level as opposed to stagnating.*

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