



KAM AUTOMOTIVE SECTOR PROFILE

Publication funded by:



[Confederation of Danish Industry](#)

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The main rationale of the KAM Automotive sector profile is to highlight key action areas to address challenges hampering the growth of the sector as we aim to transform Kenya into a industrial led economy.



TABLE OF CONTENTS

Message from KAM AUTOMOTIVE SECTOR CHAIR	ii
Message from the KAM CEO	ii
I. INTRODUCTION	1
1.1 Key automotive industry drivers	2
1.2 The main features of Global Automotive Industry	2
2. AUTOMOTIVE INDUSTRY IN KENYA	3
2.1 Introduction to the Automotive industry in Kenya	3
2.2 Industry performance	4
2.2.1 Registered vehicles in Kenya	4
2.2.2 New registration of road motor vehicles in Kenya	4
2.2.3 New vehicle registration compared with used vehicle registration	6
2.2.4 Export of new vehicles	7
2.2.5 Used vehicles age limit	7
2.4 Support to the Big 4 Agenda	8
2.5 Challenges/constraints inhibiting growth and development of the automotive sector in Kenya	8
3. THE SUB-SECTORS	9
3.1 Motor vehicle assemblers	9
3.2 Mobius Motors Ltd	10
3.3 Regulatory framework	12
3.4 Definitions of CBU, SKD and CKD	12
3.5 Local content	13
3.6 Taxation structure	13
3.7 Rule of Origin	13
3.8 Key challenges facing Assemblers in Kenya	14
4. BODY BUILDERS	15
4.1 KS372 standard	16
4.2 Public Service Vehicles	16
4.3 Key challenges facing body builders	16
5. TRAILER ASSEMBLERS	17
5.1 Types of locally manufactured trailers	17
5.2 Rules of origin	18
5.3 Legal and Regulatory framework	18
5.4 Taxation	18
5.5 Key challenges facing trailer assemblers	18
6. MOTORCYCLE SUB-SECTOR	19
6.1 Drivers of the motorcycle sub-sector growth	19
6.2 Industry Capacity	19
6.3 Legal & Regulatory framework	21
6.4 Taxation	21
6.5 Rules of Origin	21
6.6 Key challenges facing motorcycle sub-sector	21
7. PARTS AND ACCESSORIES MANUFACTURERS	22
7.1 Locally available parts and components for motor vehicles and Motorcycles	23
7.2 Legal and Regulatory Framework & Rules of Origin	24
7.3 Key challenges facing motor vehicle part manufacturers in Kenya	24
8. RECOMMENDATION	25
Reference	26
Annex I and 2	27

MESSAGE FROM KAM AUTOMOTIVE SECTOR CHAIR



The KAM Automotive brings together various companies from the following sub-sectors: Motor vehicle assemblers, Trailer assemblers, Motorcycle assemblers, Parts and components manufacturers, and Body builders' sub-sectors.

The Sector is an enabler of the achievement of our development goals as a country, including the Big Four Agenda, hence has the potential to create more jobs and lead to economic growth if fully supported.

We laud the government's efforts towards supporting the sector, including directing that all government ministries, departments, agencies as well as other public entities prioritize procurement of locally assembled motor vehicles, tricycles and motorcycles.

However, the sector continues to face a myriad of challenges, that hinder its development.

The Profile outlines the recommendations to challenges facing the Sector, some of which include finalizing and implementing the National Automotive Policy (NAP) to provide an institutional, legal and regulatory framework, which will create transparency and setting up the National Automotive Council to ensure effective implementation of NAP. Additionally, flexible financing and payment plans for the sector to encourage spending, tax incentives and exemptions on the purchase of machinery used to manufacture motor vehicles and conducting a market survey to fully comprehend the sector's value chain that may be enhanced or identify potential.

The government should also fast-track the comprehensive review of East African Community Common External Tariff (EAC CET) to minimize the number of stays of application among member states. This will ensure that local manufacturers face fair competition with importers as well as achieve an overall economic gain for the sector.

We shall continue to work with the government to continue driving the sector's growth.

Ashit Shah
KAM Automotive Sector Chair

MESSAGE FROM THE KAM CEO



The Automotive sector is a key pillar of the global economy, and a driver of macroeconomic stability as well as technological advancement.

A supporter of a variety of adjacent industries (steel, mining, metal, fuel, plastic, rubber, glass, leather and textiles for car interiors), the sector has a multiplier effect on economic growth and development. It helps generate government revenue, creating economic development, encouraging people development, as well as fostering research, development and innovation.

The sector is driven by the ever-changing consumer needs and interest, state of the economy, globalization, innovation and technology, and regulatory environment.

Kenya's Automotive Sector is well established, compared to its East African counterparts. Dating back to the 1960s with the local assembly of the Volkswagen Beetle, the Sector has grown to 5 major assemblers. Combined, they have a capacity to assemble 46,000 units annually and employ over 1,500.

We also have a local car manufacturer, Mobius, the second home-grown Original Equipment Manufacturer (OEM) in the region, with brand recognition across East Africa. The company has assembled 53 units since its incorporation in 2009.

The sector continues to face challenges inhibiting its growth, among others, importation of vehicles, absence of a National Automotive Policy/Council, lack of skilled labour force, lack of research and development and lack of long-term financial solutions for the sector to enable investments in technology.

This Profile gives a deep dive into these challenges, and recommendations to drive the sector's growth. We hope that all stakeholders, including government and private sector shall work together to further nurture this critical pillar of our economy.

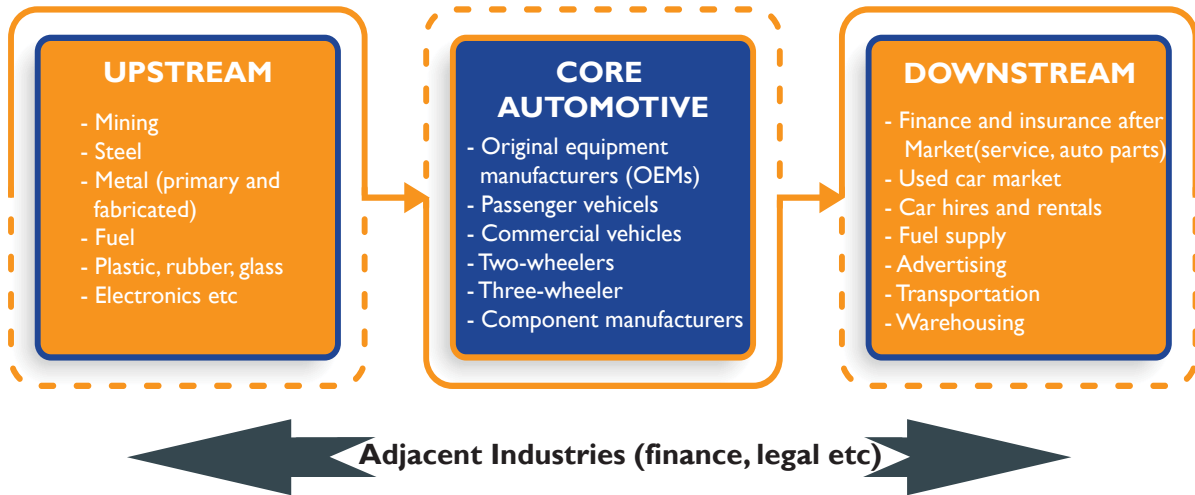
Developing a strong automotive sector has the potential to spill over into other sectors of our economy, thus leading to job and wealth creation.

Phyllis Wakiaga
KAM Chief Executive

I. INTRODUCTION

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 (figure 1). This leads to a multiplier effect on growth and economic development. According to a 2020 report by the International Labour Organization (ILO), the global direct employment in the industry was estimated at nearly 14 million workers in 2017.

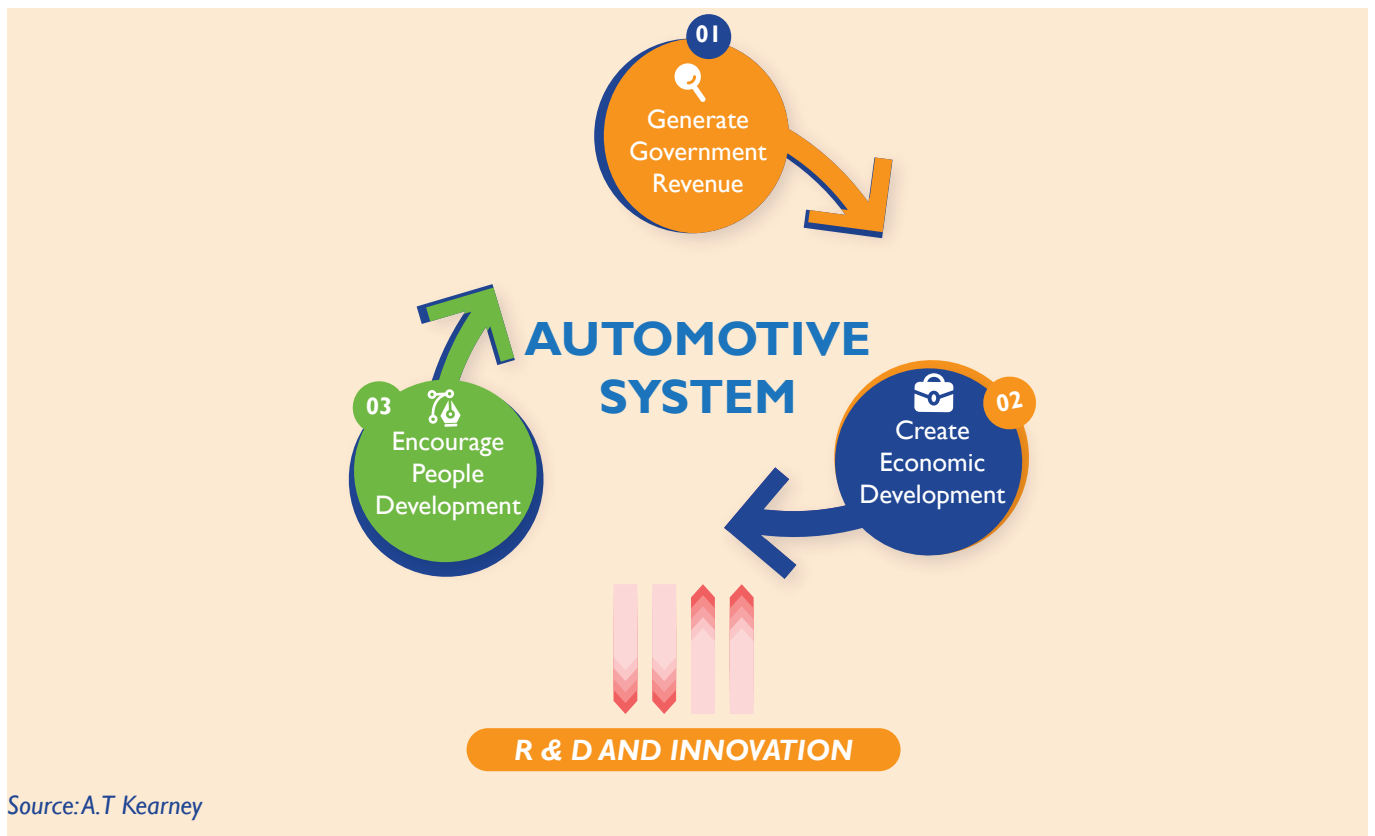
Figure 1: The core automotive industry supports upstream and downstream industries



Data source: A. Kearney (2014)

Generally, the automotive industry supports in generating government revenue, creating economic development, encouraging people development, and fostering R&D and innovation (figure 2). Therefore, developing a strong automotive sector could potentially result in spill-overs into agricultural and construction equipment manufacturing as well as other specialist equipment Manufacturing.

Figure 2: Importance of automotive industries to the general economy



Source: A.T Kearney

1.1. Key automotive industry drivers

<p>ECONOMIC CONDITIONS</p>	<p>Ideally people are more likely to purchase vehicles when economic condition are favourable which gives momentum to the automotive industry.</p>	
<p>CONSUMER DEMAND AND INTEREST</p>	<p>Globally, market for niche vehicles is growing as consumers demand more variation of body shape and styling.</p>	
<p>GLOBALIZATION</p>	<p>Today, modern global competitive industry operates in a global competitive marketplace resulting from globalisation form automotive industry.</p>	
<p>TECHNOLOGY INNOVATION</p>	<p>Automotive companies seek to take advance of sophisticated technology to address the competitive pressure and to meet increased customer expectations on quality and cost.</p>	
<p>REGULATORY ENVIRONMENT</p>	<p>Legislation , for instance those relating to emission and recycling, have a strong impact both on vehicle technologies and production.</p>	

1.2. The main features of Global Automotive Industry

The global automotive industry has concentrated structure (Elena, 2018). According to the author, the sector has exhibited the following features:

- (1) The sector's core product is a passenger car. Up to 90% of the global motor vehicles production is made up of passenger cars (UNECE, 2016), on account of an increasingly more mobile and dynamic society.
- (2) Industry life cycle – maturity. The global automotive industry operates in conditions of oversupply and excess production capacity, which increases the intensity of competition and causes a gradual decrease in companies' profit rates (OICA, 2017).
- (3) Industry stakeholders are large multi-brand multinational corporations. There are about 30 automotive manufacturing companies, the largest and strategically important being American multinational corporations – General Motors, Ford, Chrysler; European – Volkswagen, PSA Peugeot - Citroen, Renault - Nissan, Fiat Group, BMW; Japanese – Toyota, Honda, Suzuki, Mitsubishi, Mazda, Fuji Heavy Industries (Subaru); and Korean –Hyundai, KIA, Daewoo (Hertenstein, Williamson, 2018; OICA, 2017).
- (4) The consolidation level of industry stakeholders is high. Over 70% of production is concentrated in the 7 largest companies - Toyota, General Motors, Ford, Renault - Nissan, Volkswagen, Hyundai, Honda (Liu, 2018; OICA, 2017).
- (5) The main critical determinants of competitiveness in the industry are resource intensity, first of all, in terms of the expenditures connected with components (up to 40% in the structure of cumulative expenditures for manufacturing and merchandising), with labour force (up to 20%), marketing (up to 20%); technological leadership (R&D spending is up to 8% of sales); product quality and brand reputation (Hertenstein, Williamson, 2018; OICA, 2017).
- (6) Dependency on external factors and overall economic conditions is high. The reason for this is the ramified structure of intrasectoral and intersectoral linkages in the automotive industry and the deep integration of manufacturing and merchandising into a single interdependent system.



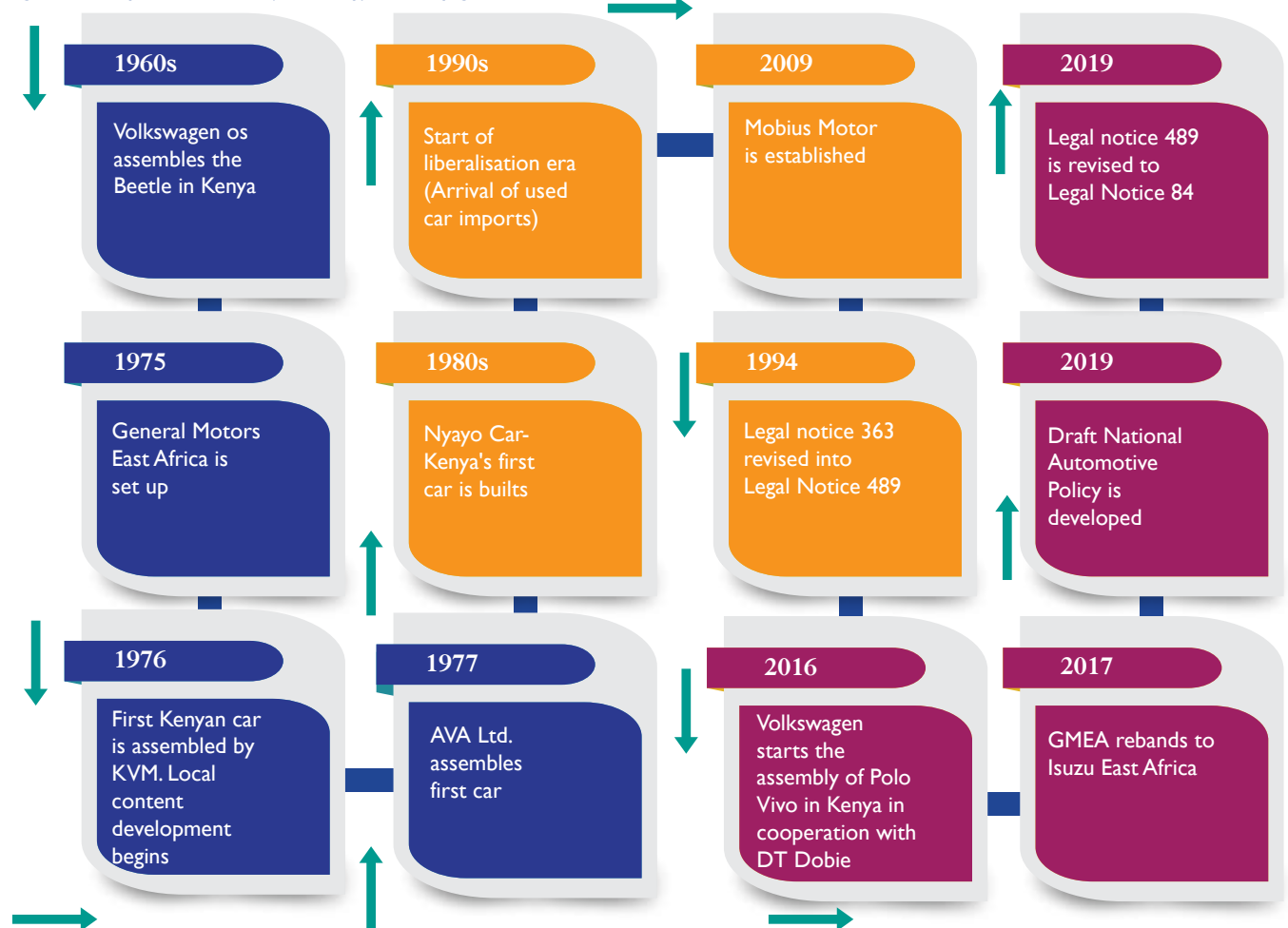
2. AUTOMOTIVE INDUSTRY IN KENYA

2.1 Introduction to the Automotive industry in Kenya

Kenya's Automotive industry is well established compared to its peers in the East Africa Community region. The industry dates back to 1960 when Volkswagen assembled the Beetle in Kenya¹ (figure 3). In 1974, Leyland Kenya Ltd was established as a joint venture between the Kenyan government and Leyland UK and later rebranded to Kenya Vehicle Manufacturers (KVM) Ltd in 1989. In 1975, General Motors Kenya (GMK) was established as a joint venture between General Motors and the Kenyan government for the assembly of GM vehicles but started production after 1977. In 2003, GMK changed its name to General Motors East Africa (GMEA) and later in April 2017, it was renamed to Isuzu East Africa (IEA). The Associated Vehicle Assemblers Ltd (AVA) was established in 1975 and started assembling in 1977. In the 1980s, the original Kenyan car, the Nyayo, was created and as of 1986, it was the first automobile independently developed in Africa. In 1990, the Nyayo Motor Corporation was established and was later renamed to the Numerical Machining Complex Limited to manufacture metal parts for various local industries. In 2009, Mobius Motor was established and has since assembled 53 units. In 2016, Volkswagen re-entered the Kenyan market and started to assemble the Polo Vivo in cooperation with DT Dobie using KVM workshop.



Figure 3: Kenya automotive (assembly) industry growth/ Evolution



Source: Own conceptualization

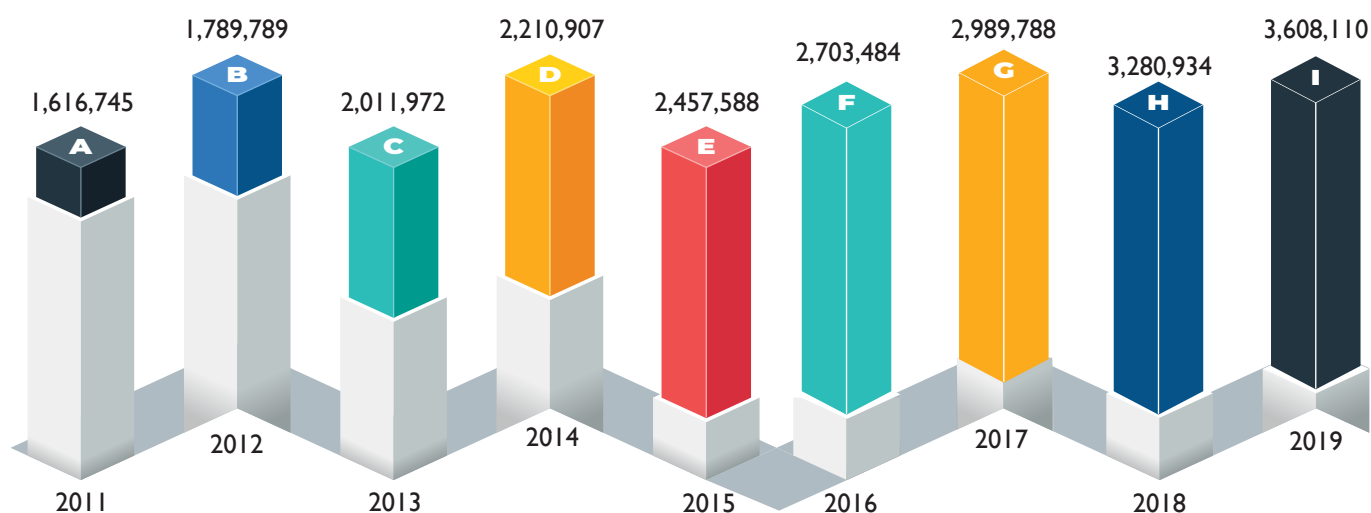
¹Stopped Production In 1977

2.2 Industry performance

2.2.1 Registered vehicles in Kenya

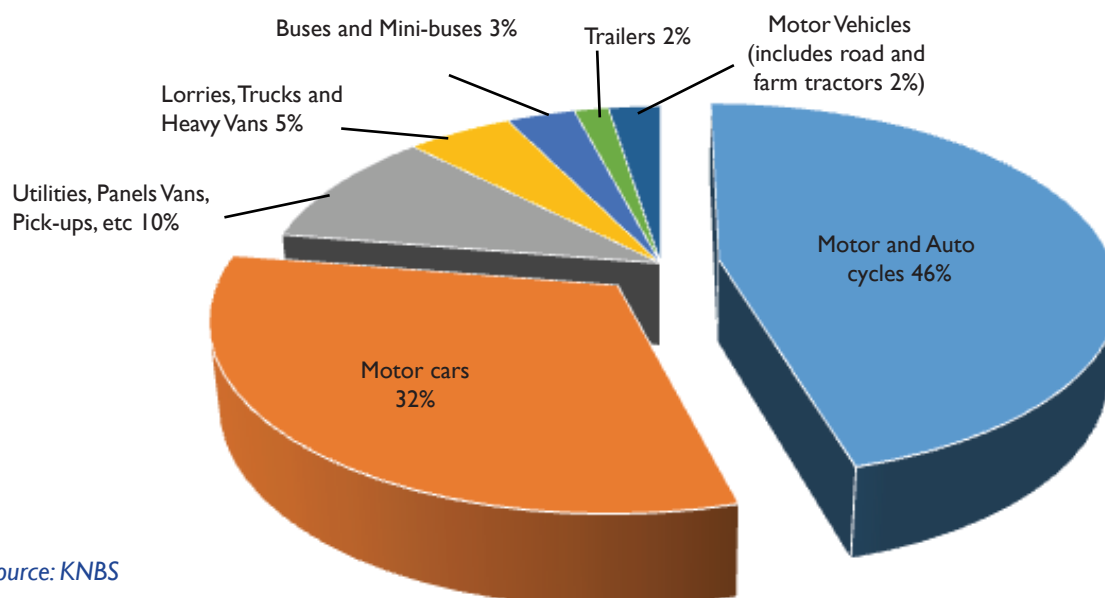
According to Kenya National Bureau of Statistics (KNBS), the number of registered vehicles increased by a compound average growth rate of 9% between 2011 and 2019, rising from 1.6 million in 2011 to 3.3 Million in 2019 (figure 4). This was largely driven by motor and auto cycle and motor cars sub-sectors which accounted for 46% and 32% respectively for all vehicle registered in 2019 (figure 5). Figures for Kenya's motorization rate differs depending on the source and range between 26 and 40 vehicles per 1,000 persons. This is forecast to increase to 70 in 2030, reflecting vehicle ownership growing faster than Kenya's population.

Figure 4: Number of registered vehicles in Kenya, 2011-2019



Data source: KNBS

Figure 5: % share of new registered road motor vehicles in Kenya, 2019



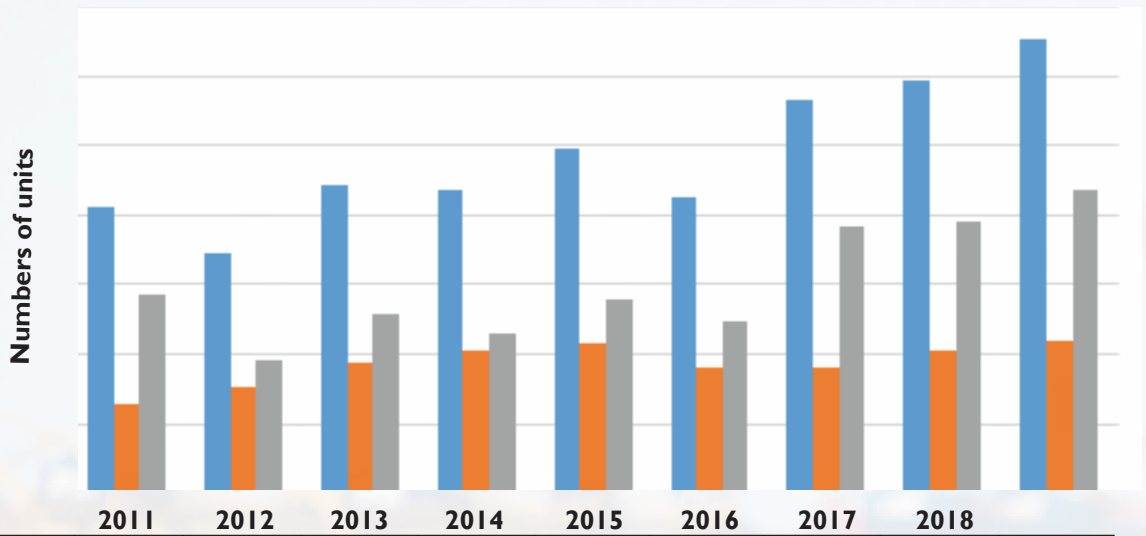
Data source: KNBS

2.2.2 New registration of road motor vehicles in Kenya

The number of newly registered motor vehicles in Kenya increased from 205,841 in 2011 to 327,176 in 2019 (Figure 6). During the period under review, newly registered motor vehicle and motor cycles increased by 73% and 52% respectively. Additionally, station wagons panel van, picks ups and lorry trucks accounted for 81% of new registration of road motor vehicles in 2019 figure 7.

² Mobius is yet to go fully commercial

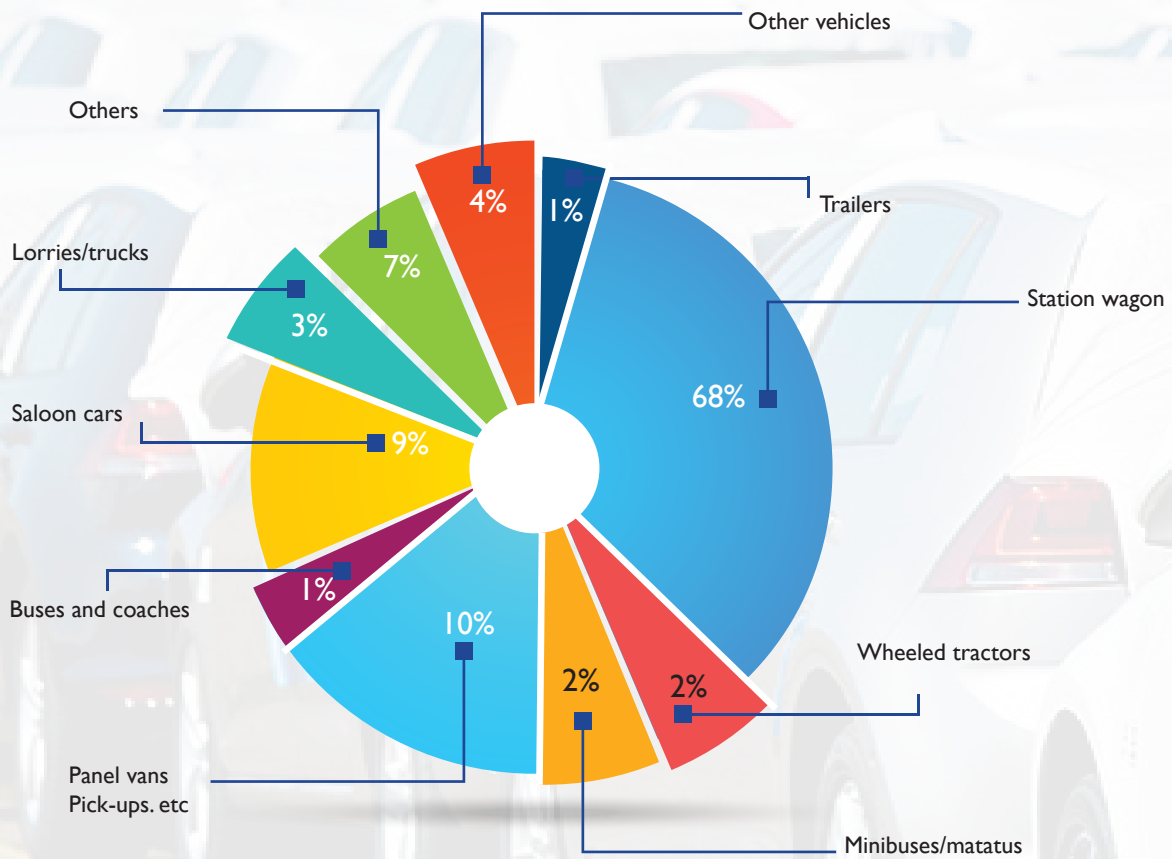
Figure 6: New registration of road motor vehicles 2011-2019



	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total New Registration	205,841	173,044	222,178	218,057	247,181	213,715	282,672	297,289	327,176
Motor Vehicle Total	63,846	77,229	94,817	102,606	107,761	90,176	91,071	102,036	109,751
Motor Cycle Sub-total	142,355	95,815	128,161	115,451	139,420	123,539	191,601	195,253	217,425

Data source: KNBS

Figure 7: % share of total new registration by type of motor vehicles, 2019



Data source: KNBS

2.2.3. New vehicle registration compared with used vehicle registration

KNBS does not differentiate between the registration of new vehicles and the re-registration of used vehicles, whereas the Kenya Motor Industry (KMI) only records new vehicles sold. According to KMI database, the sale of new vehicles averaged 12,000 units between 2011-2019. Sales of new vehicles in Kenya is driven by the demand for transportation in the construction, mining, agri-business, tourism, and energy and retail sectors. The government and in particular its law enforcement and security authorities are significant buyers of new vehicles.

In 2019, KMI reported a total of 12,981 units of new vehicle sales while the total new registration of motor vehicles recorded in the same year was 109,751 (table 1). Therefore, new vehicle sales constituted only 12% of new registrations with the remainder (88%) being imports of used vehicles.

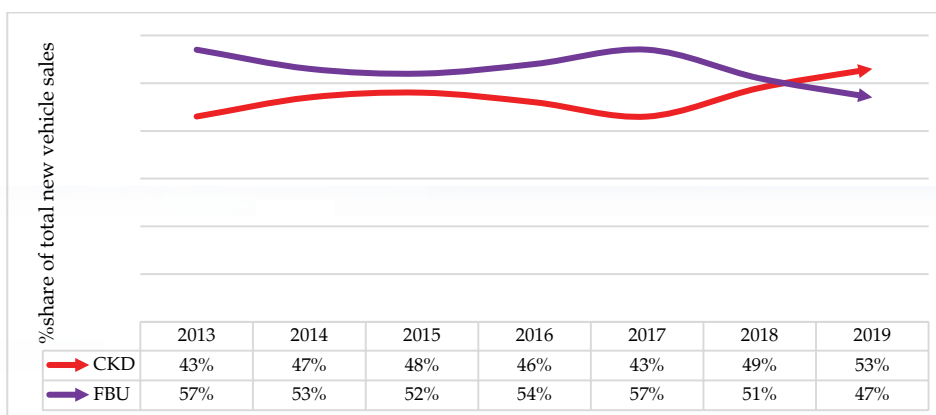
Further analysis shows that in 2019 only 53% of new vehicles sold were assembled domestically with the remainder (47%) being imported (figure 8). Hence imports, of both used and new vehicles, made up over 90% of new vehicle registrations in 2019. Importation of used automotive limits the scope for new car manufacturing. Regional analysis indicates that the EAC region currently loses more than US\$ 2.01 billion in foreign exchange for importation of motor vehicles per year.

Table 1: Share of new vehicle and used vehicle registration, 2011-2019

	2011	2012	2013	2014	2015	2016	2017	2018	2019
New vehicles	12,186	12,352	14,168	17,296	19,523	13,535	10,722	14,003	12,981
Used Vehicles	51,300	64,877	79,849	85,310	88,238	76,641	80,349	88,033	96,770
Total	63,486	77,229	94,017	102,606	107,761	90,176	91,071	102,036	109,751
% share of used vehicle	81%	84%	85%	83%	82%	85%	88%	86%	88%
% share of new vehicles	19%	16%	15%	17%	18%	15%	12%	14%	12%

Data source: KMI & KNBS

Figure 8: Completely Knocked Down compared to Fully Built Units new vehicle sales, 2013-19



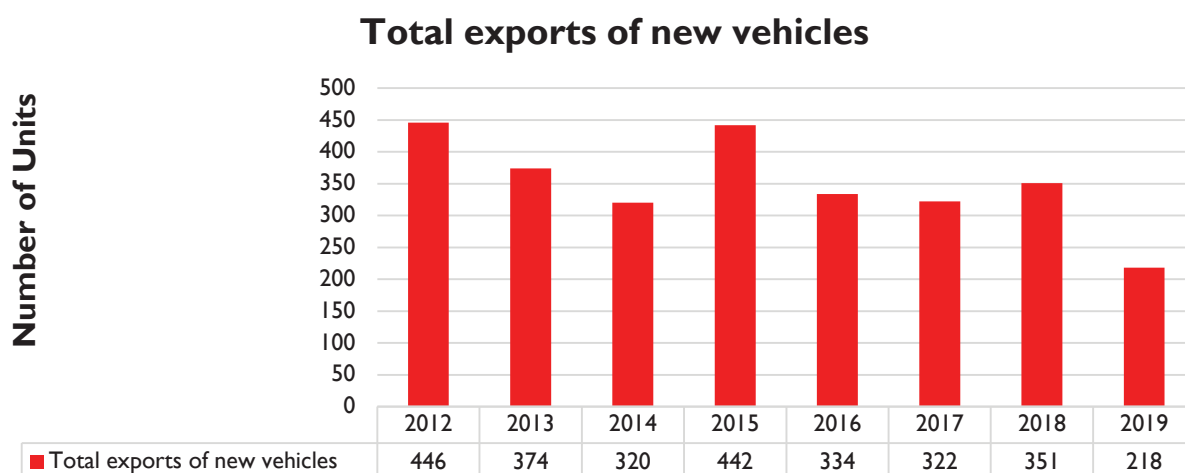
Data source: KMI



2.2.4. Export of new vehicles

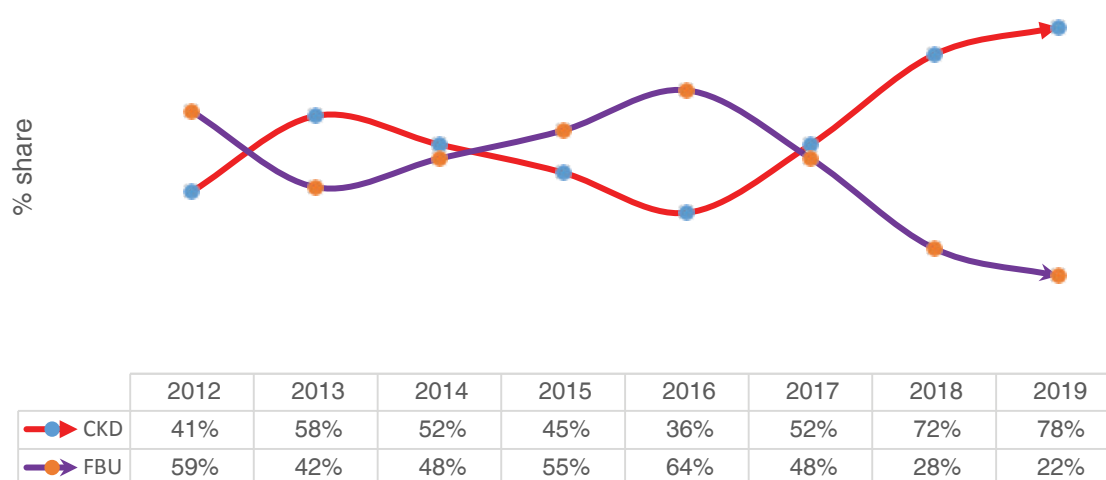
Further, KMI data shows that total exports of new vehicles decreased by 51% from 446 units in 2012 to 218 units in 2019 (figure 9). However, there is an upward trend for exports of locally assembled vehicles. There was a just of sales in spike in the number of new units sold. The share has jumped from 41% in 2012 to 78% in 2019 with more locally assembled vehicle sales increase (figure 10). 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.

Figure 9: Exports sales of new vehicles



Data source: KMI

Figure 10: % share of Completely Knocked Down units compared to Fully Built Units new unit sales, 2012-2019



Data source: KMI

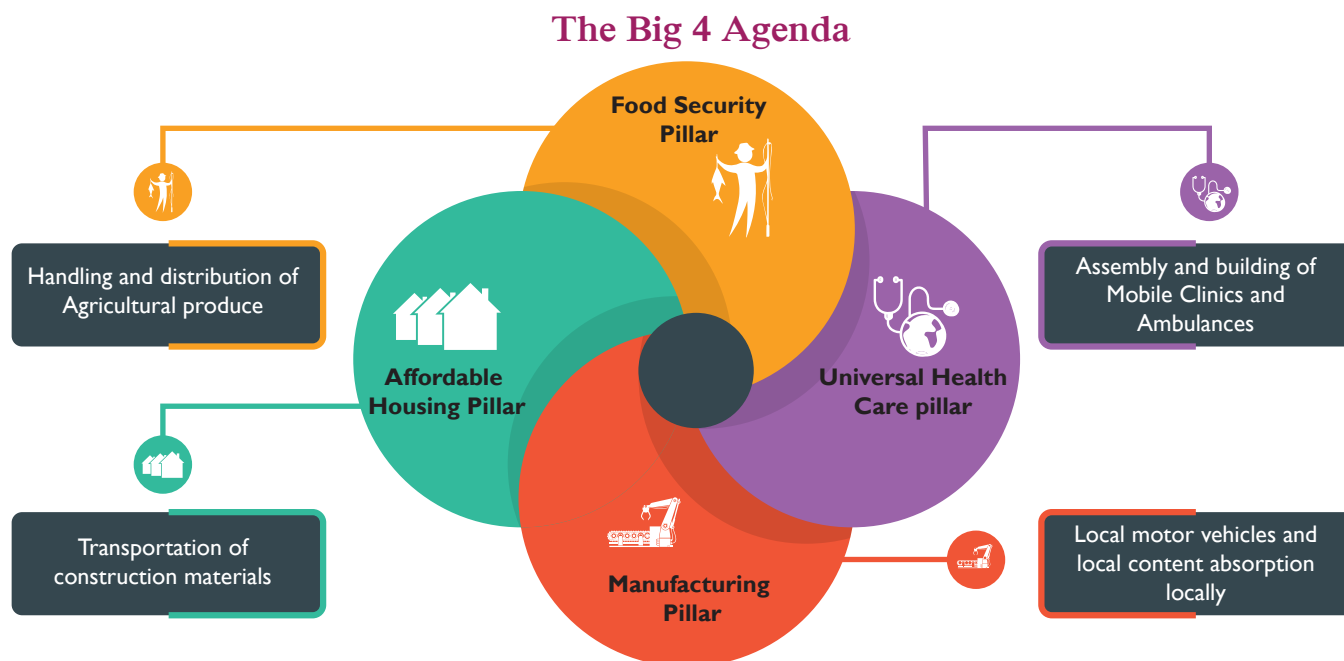
2.2.5. Used vehicles age limit

Kenya is implementing an eight (8) years age limit for imported second vehicles while Tanzania allows imports of cars as old as ten (10) years. Uganda's parliament passed legislation in 2018, banning the import of vehicles older than 15 years. There is no formal age limit for Burundi, Rwanda and South Sudan. Lack of clear policy across the region on age limits has been identified as a factor contributing to increased imports of used vehicles, while also posing adverse impact on environments, safety and health.

³ See: <https://www.theeastafrican.co.ke/tea/business/uganda-tightens-rules-for-used-car-importation-1371752>

2.3. Support to the Big 4 Agenda

The automotive industry is seated in an opportune place to strategically drive the success of all the Big 4 Economic Pillars as follows:



Source: Own conceptualization

2.4. Challenges/constraints inhibiting growth and development of the automotive sector in Kenya.

- (1) **Importation of used vehicles:** There is an increase in the importation of used vehicles in the Kenyan market leading to reduced demand for locally manufactured vehicles. This is due to imported second-hand products having an unfair cost competitiveness advantage, which inhibits the growth of local producers.
- (2) **National Automotive Policy (NAP):** In the absence of an approved NAP and the National Automotive Council (NAC), there lacks an institutional, legal and regulatory framework for the automotive industry.
- (3) **Lack of skilled labour force:** 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.
- (4) **Research and Development (R&D):** Lack of incentives to undertake R&D discourages innovation and new technological development within the automotive sector. Components used for the development of prototypes for R&D are subjected to payment of duties and taxes which is a disincentive to R&D.
- (5) **Technology advancement:** Acquisition of the latest technology for assembling and manufacture of spare parts is hindered by the lack of affordable long-term financing options for the sector.
- (6) **Homologation of vehicles:** Homologation is a national process that determines the types of motor vehicles to be manufactured locally, to promote economies of scale and guarantee volumes for assemblers, component manufacturers and aftermarket operations. The absence of homologation of vehicles has affected local parts manufacturing in terms of perceived quality and market positioning.
- (7) **Tax incentives:** There are inadequate tax incentives in place for the automotive sector, which discourages local manufacturing. Incentives aimed at increasing local manufacture of parts and vehicles for the domestic and export markets will ensure optimal utilization of the sector's plant assembly capacity, whose current production utilization is at 30%.
- (8) **Lack of incentive to absorb local content:** The current framework does not incentivize assemblers to source components and parts from local parts manufacturers.
- (9) **Poor enforcement of the provision in the Public Procurement and Asset Disposal Act, 2015** on preferences and reservations for local goods as well as the lack of monitoring framework for implementation of the Buy Kenya build Kenya strategy.

3. THE SUB-SECTORS

The automotive industry in Kenya is primarily involved in the assembly, retail and distribution of motor vehicles and grouped into five main sub-sectors namely: Motor vehicle assemblers, Trailer assemblers, Motorcycle assemblers, parts and components manufacturers, and Body builder's sub-sectors.

3.1 Motor vehicle assemblers:

There are 4 main motor vehicle assemblers in Kenya namely: Trans Africa Limited and Associated Vehicle Assemblers (AVA), in Mombasa, Kenya Vehicle Manufacturers in Thika, and Isuzu East Africa Limited in Nairobi, Industrial Area (Table 2). Combined, they have capacity to assemble about 46,000 units per year (currently operating below capacity utilization) and directly employ over 1,500 people. Total investment by motor vehicles assemblers is estimated at USD 148 million (EAC, 2019). The Assemblers currently operate at a single shift and have a capacity to do three shifts a day. Finally, the fifth company 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 3 shows various brands that are assembled locally.

Table 2: Motor vehicle assembly plants in Kenya

S/N	Assembler	Est. Investment 2019(USD)	Installed Capacity	Utilized capacity	Ownership	Brand	Type of vehicle	Location of plant
1.	Isuzu East Africa	100Million	12,000	3751(31%)	100% foreign	Single	MCV HCV	Nairobi
2.	Associated vehicle Assemblers (AVA)	20Million	10,000	2860(29%)	100% local	Multiple	LCV HCV	Mombasa
3.	Kenya Vehicle Manufacturers	20Million	18,000	1000(6%)	35% Local 65% Foreign	Multiple	LCV HCV	Thika
4.	Trans Africa Limited	5 Million	1000	400(40%)	-	Multiple		Mombasa
5.	Mobius Motors Ltd	2.5 Million	5760	0	100% foreign	Multiple		Mombasa
	Total	147.5	46,760	8,067(20%)				

NB: LCV - Light Commercial Vehicles; MHV - Medium Heavy Commercial; HVC - Heavy Commercial Vehicles, MUV (Multi-Utility Vehicles) and SUV (Sport Utility Vehicles)

Data source: KAM and EAC (2019)

Table 3: Brands of locally assembled vehicles

ASSEMBLY PLANT	BRANDS & FRANCHISE HOLDER
Isuzu East Africa Limited, Nairobi	<ul style="list-style-type: none"> ▶ Specializes in the assembly of Isuzu commercial vehicles, Passage Service Vehicles (PSV), Pick-ups, Buses, Light and heavy trucks
Associated Vehicle Assemblers, Mombasa	<ul style="list-style-type: none"> ▶ 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	<ul style="list-style-type: none"> ▶ 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	<ul style="list-style-type: none"> ▶ FAW and IVESCO trucks and road tractors

⁴ Companies that make the final product for sale to the consumer are called original equipment manufacturers (OEMs).

3.2 Mobius Motors Ltd

Mobius Motors is an automotive company based in Kenya, that designs and manufactures affordable passenger vehicles as full manufactured units. Mobius started conceptualisation 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.

Mobius follows an internationally recognisable development process in the design and development of its motor vehicles. This is illustrated below.



Research and development form the foundation of any Industry. Mobius undertakes its research and development in their offices situated AT Sameer Business Part. The research begins with 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, specialised 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 trialling and early fitment and evaluation. May also involve for example use of 3D printed parts to speed up prototyping of a concept.

To support local vehicle manufacturers the following is recommend:

Issue	Recommendation
Lack of supportive legal framework for locally manufactured vehicles. The current frameworks support locally assembled and used vehicles	1) Review and amendment of the Legal Notice 84 (The Tax procedures- Unassembled Motor Vehicles and Trailer) Regulation, 2019) to include the following: <ul style="list-style-type: none"> ✓ Amendment to be done on Schedule 2, Part c, Point 4c - page 358 "Vehicle on chassis body to be fully trimmed. This clarity is needed to guide this type of vehicles. ✓ Either introduce a six schedule to include OEM parts and manufacturing guidelines or introduce a new section for OEM regulations. <ul style="list-style-type: none"> ○ Does an OEM need to assemble parts and sub assemble parts in a bonded warehouse? ○ For purposes of insurance to guide on repairs, the OEM needs be covered for any repairs the respective OEM part ought be used. ○ Obligation of an OEM in case of a faulty part hence guide recalls/repairs. 1) Registration as an Original Manufacturer The objective is to have the OEM get benefits for manufacturing under bond or incentives meant for OEM e.g. exporting of kits to the region hence tax exemption, importing of parts within region to be exempted of duties. This is to encourage localisation regionally. This will encourage systematic graduation from CKD assembly to be OEM
Lack of incentives to support research and development: research and development take an average of 5 years. The parts developed and sourced internationally attract import duty and excise ranging from (10 to 25) % in addition to 2.0% RDL and 3.5% IDF. The fully built units attract 14% duty	Inclusion of Automobile research and development parts in Customs Act Schedule 5: . Define modalities to implement schedule 5 for Research and development of parts and fully built vehicles in addition to disposal of the same. <ul style="list-style-type: none"> ○ Limit the number of units to be built under R&D ○ Disposal of redundant parts ○ Disposal of excess parts ○ Disposal of built units

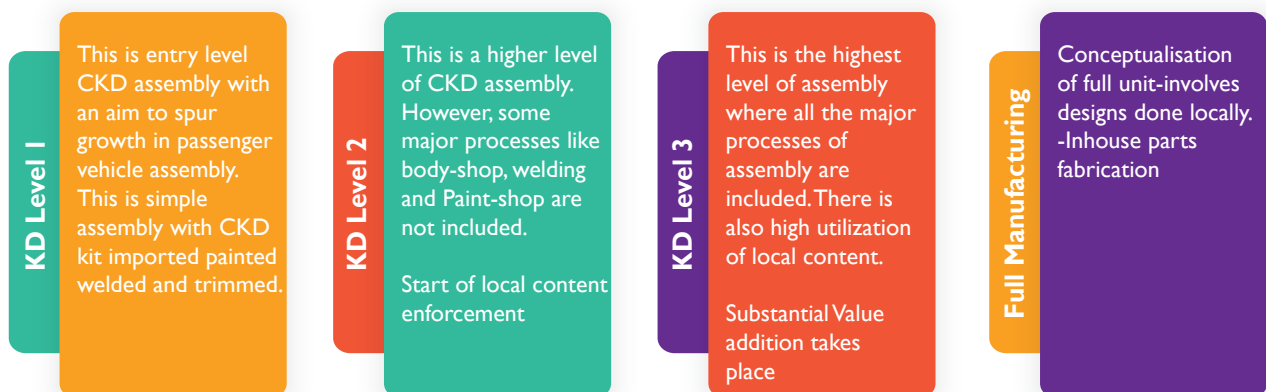
⁵ http://www.dhl.co.ke/content/dam/downloads/ke/express/PDF/kenyan_fifth_schedule_import_exemptions.pdf.

3.3 Regulatory framework

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
 - 1) 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
 - 1) Part 1: It show 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 and second schedule (see attached list - Annex 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 attached Annex 2)
- d) Fourth Schedule: Highlights the parts or sub-assemblies that constitutes the Completely Knocked Down knits for trailers. Figure 11 shows basic flow of shifting automobile assembly

Figure 11: Basic flow of shifting Automobile assembly



Source: Authors Illustration

3.4 Definitions of CBU, SKD and CKD

CBU (Completely Built Up)

The term CBU stands for “Completely Built Unit” as a type of manufacturing process adopted in the automotive manufacturing field. In this process, a manufacturer imports a vehicle to a different country as a completely built unit. It is also referred to Fully Build unit (FBU). In such, no more manufacturing or assembly is required once the vehicle reaches its destination country so that it can be sold immediately. However, such vehicles may need to undergo the “Pre-Delivery Inspection.”

SKD (Semi knocked down)

“Working” finished vehicles, subsequently knocked down into a very limited number of parts. -The term SKD stands for “Semi Knocked-Down” as another type of manufacturing process which the automotive manufacturers adapt. In this process, the manufacturer partially strips down a vehicle at the origin and reassembles it in another country. Because the manufacturers cannot sell them immediately as SKD units, they need some more manufacturing or assembly once the vehicles reach their destination country as SKD units. Such vehicles will also need to undergo the assembly, inspection, quality control, and testing before they leave the assembly/manufacturing plant. They also need to undergo the “Pre-Delivery Inspection”

CKD (Completely knocked down)

The term CKD stands for “Completely Knocked-Down”. It is another type of manufacturing process adopted in the automotive manufacturing field. In this process, vehicle parts are imported from an Original Equipment Manufacturer(s) for assembly in a different country. The vehicles parts may include parts produced in the country of assembly. For CKD category, more manufacturing or assembly is required once the vehicle reaches its destination country as CKD unit. Such vehicles need to undergo the assembly and inspection before they leave the manufacturing plant. They will also need to undergo the “Pre-Delivery Inspection”

CKD (Completely knocked down)

Vehicle units are locally conceptualised and parts developed locally to a degree of thirty percent local content. The vehicles are to undergo rigorous type approval testing and approval by NTSA and KEBS before registration. The registration process in connection with KRA needs to be developed.

3.5 Local content

The third schedule, part one and two of the regulation seeks to specifically promote the development of the local content in the country in the relation to manufacture of vehicles. Legal Notice 84 of 2019 schedule 3 encourages localization.

There have been challenges in driving absorption of local content among assemblers due to various factors including slow integration and technology advancement among components and parts manufacturers in the country. Table 4 shows items locally sourced and imported parts and components. Implementation of Legal Notice 84, Schedule 3 will go a long way to boost local content absorption.

Table 4: Locally sourced parts and components

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

3.6 Taxation structure

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 (Table 5). 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 5: 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% ⁵ CIF	25% CIF
VAT	14% ⁶	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% ⁷)	
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

3.7 Rule of Origin

Rules of Origin are the laws, regulations and administrative procedures that determine a product's country of origin that is, its nationality. Under the EAC Rules of Origin (2015), locally assembled vehicles are accorded preferential treatment across member states under rule 4b (Box 1).

RULE 4

Origin criteria

Goods shall be accepted as originating in a Partner State where the goods are-

- Wholly produced in the Partner State as provided for in rule 5; or
- Produced in the Partner State incorporating materials which have not been wholly obtained there, provided that such materials have undergone sufficient working or processing in the Partner State as provided for in rule 6.

⁵ Electrical cars for new and used vehicle is charged at 10% (2019 Finance bill)

⁶ CIF + Import Duty + Excise Duty)

⁷ See: <https://www.kra.go.ke/en/individual/importing/learn-about-importation/procedures-for-motor-vehicle>

Table 6 specifically highlights general rule of Chapter 87 (covering motor vehicle sector) and list of products and working or processing operations which confer originating status. It applies for HS Code 87.01 to 87.07

Table 6: List of products and working or processing operations which confer originating status

HS Heading No.	Description of the Products	Origin Criteria (Working or processing carried out on non confers originating status)
Chapter 87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof; except for:	Manufacturing to start from Completely Knocked Down kits (It applies for HS Code 87.01 to 87.07).

Source: EAC Rules of Origin (2015)

3.8 Key challenges facing Assemblers in Kenya:

- 1) Lack of regional policy to regulate the sector and accord certainty to investors.
- 2) Competition from cheap used motor vehicle imports.
- 3) Exemptions and stays of application on CET rates in the region especially for units that are locally manufactured.
- 4) High cost of financing and lack of financial institution with risk appetite to fund sector ventures.
- 5) Lack of harmonized vehicle standards in EAC particularly on used car imports age limit.
- 6) Lack of sufficient funds and incentives to support Research and Development. (R&D)
- 7) Insufficient availability of automotive parts in the region.
- 8) Slow technological upgradation due to lack of incentives.





4. BODY BUILDERS

Kenya has a vibrant passenger bus body building industry that dates back to early 1920. Over the period of time, the industry has grown not only to serve the needs of our country, but the entire East and Central Africa region. Among countries we manufacture bodies for include Uganda, Tanzania, Democratic Republic of Congo, Rwanda and Burundi. Indeed, the expansion of our market, advancement in technology, coupled with the ever-changing expectations of our consumers, has seen the industry align itself with best practices in the world, with the aim of not only providing our customers with world class buses that are durable, safe and comfortable, but also keeping abreast with technological advancement in the industry worldwide.

The industry is guided by National Standard on Passenger Body Construction Regulation - KS 372(2014). Companies that meet the requirements are approved by National Transport and Safety Authority (NTSA) to manufacture passenger bus bodies. According Kenya Association of Bus Manufacturers (KABM), there were 15 approved and licensed passenger vehicle bodybuilding companies as of 31st December 2019. (Table 7). The approval is done through a vetting process by a committee set up by the Government. Committee 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 7: List of approved and licensed passenger vehicle body building companies, 2019

ITEM	Body Builder	Location	Dealership/Products
1	Associated Vehicle Assemblers (AVA)	Mombasa	Simba Colt/Mitsubishi, Scania
2	Labh Singh Harnam Singh	Nairobi	Independent – All Models
3	Jasraj Enterprises	Nairobi	Independent – All Models
4	Kenyon Ltd.	Nairobi	Independent – All Models
5	Kenya Vehicle Manufacturers Ltd	Thika	DT Dobie, CMC & GoK; Mercedes, MAN, All Models
6	Master Fabricators Ltd.	Nairobi	Independent – All Models
7	Uni-Truck Ltd.	Nakuru	Toyota – Hino + All Models
8	Thika Motor Dealers (TMD)	Nairobi	Isuzu
9	Plateau Motors Ltd.	Machakos	Independent – All Models
10	Choda Fabricators Ltd.	Nairobi	Independent – All Models
11	Malva Coach Builders	Nairobi	Independent – All Models
12	Central Farmers Garage	Nairobi	Isuzu
13	Banbros Ltd.	Nairobi	Independent – All Models
14	Banbros Ltd.	Nairobi	Independent – All Models
15	Banbros Ltd.	Nairobi	Independent – All Models

Data source: KABM

4.1 KS372 standard

This applies the National Standard KS 372 on Passenger Vehicle Body Construction. KS 372 is a transformational tool for passenger bus bodybuilding industry. The standard is progressive and provides room for innovation and creativity within the confines of stipulated requirements. It also provides a level playing field for all industry players, outlining the process for vehicle body design, construction and approval. It is a laudable platform that will facilitate continuous improvement in the industry, for it establishes a benchmark for quality and safety levels. To achieve its intended objectives, the various government agencies charged with the responsibility of its implementation should ensure compliance to the standard by all classes of vehicles covered in the standard.

4.2 Public Service Vehicles

Majority of Public Service Vehicles (above 14 seats) have their body works done locally. Therefore, the sector has strong linkage with body building industry in Kenya. The number of PSV licenses issued to matatus increased by 28.2% from 36,815 in 2018 to 47,183 in 2019. However, licenses issued to buses decreased by 32.4% from 13,273 in 2018 to 8,969 in 2019. This has been attributed to the launch of the SGR passenger train. PSV licenses issued to minibuses also decreased from 7,861 in 2018 to 7,786 in 2019 (Table 8).

Table 8: Licenses issued to Public Service Vehicles, 2014 - 2019

	2014	2015	2016	2017	2018	2019
Matatus (1-14 Seaters)	15,936	17,138	17,926	37,382	36,815	47,183
Buses (34 and above seaters)	5,155	6,182	7,210	12,064	13,273	8,969
MiniBuses (15-33 seaters)	6,062	7,186	8,213	4,246	7,861	7,786
Total	27,153	30,506	33,349	53,692	57,949	63,938

Data source: KNBS



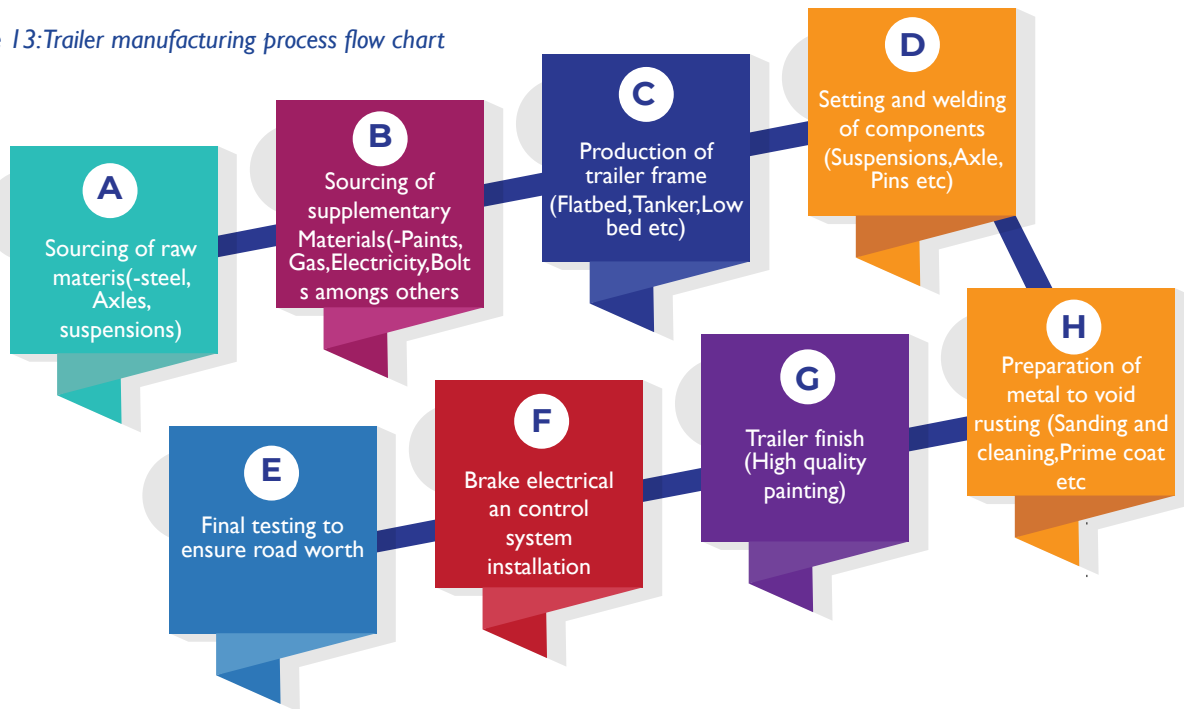
4.3 Key challenges facing body builders:

- (i) **Lack of specific HS Codes** to allow the importation of CKD Kits for buses. The industry proposes a split to allow the importation of CKD kits for buses to be assembled locally. The move is timely in order to offer the sub-sector any opportunity to supply the Bus Rapid Transit (BRT) buses. The BRT project requires low-floor level buses, and no dealer is currently able to assemble such buses in the country without importing CKD kits.
- (ii) **VAT on buses** is a disincentive for local assembly of buses. The industry proposes zero-rating of locally made buses. It will increase industry growth by 30%.

5. TRAILER ASSEMBLERS

There are four main trailer assemblers in Kenya namely, Transtrailers Limited, Hans Kenya Limited, RT East Africa Limited and Bhachu Industries Limited. Combined, they have the capacity to assemble about 4,400 units per year and directly employ 773 people. Total investment by trailer assemblers is estimated at USD 114 million (EAC, 2019). Figure 13 shown trailer on a manufacturing process.

Figure 13: Trailer manufacturing process flow chart



Data source: EAC, 2019 (Motor Vehicles and Trailers Verification Report)

5.1 Types of locally manufactured trailers:



Photos courtesy: Bhachu Industries Ltd

Locally Sourced	Imported	
1) Steel sheets and plates	1) Steel sheets, coils and plates	7) Landing legs
2) Consumables	2) Steel beams	8) Hydraulic jacks for the tipping trailers
3) Paint	3) Bolts and nuts	9) Bushing for the trailers
4) Leaf springs	4) Axles	10) Wire Harness
5) Square steel pipes	5) Suspension assembly kits to include air bellows and leaf springs	11) Tyres
	6) Break and lighting systems	12) Trailer CKD kits

Data source: EAC, 2019 (Motor Vehicles and Trailers Verification Report)

5.2 Rules of origin

EAC Rules of Origin (RoO), 2015 apply to Kenyan assemblers when exporting to EAC partner states as per table 9.

Table 9: Origin criteria for trailers

HS Heading No	Description of the Products	Origin Criteria (Working or processing carried out on non-originating materials that confers originating status)
87.16	Trailers and semi-trailers; other vehicles not mechanically propelled and parts thereof.	Manufacture from materials of any heading, except that of the product.

Source: EAC RoO, 2015

5.3 Legal and Regulatory framework

Trailer assemblers are also governed by Legal Notice 84 of 2019 (The Tax Procedures–Unassembled Motor Vehicles and Trailers, Regulation). Specifically, the Fourth Schedule provides the definition of Completely Knocked Down Kits for trailers, which highlights the parts or sub-assemblies that constitutes the CKD for trailers.

5.4 Taxation

Type of taxes or fees	Locally assembled trailer	Imported new trailer	Imported secondhand trailer
Import Duty	0%	10% (8701.20.90)	25%
VAT	14%	14%	14%
Import Declaration Fees	1.5%	3%	3%
Railway Development Levy	1.5%	2%	2%

5.5 Key challenges facing trailer assemblers

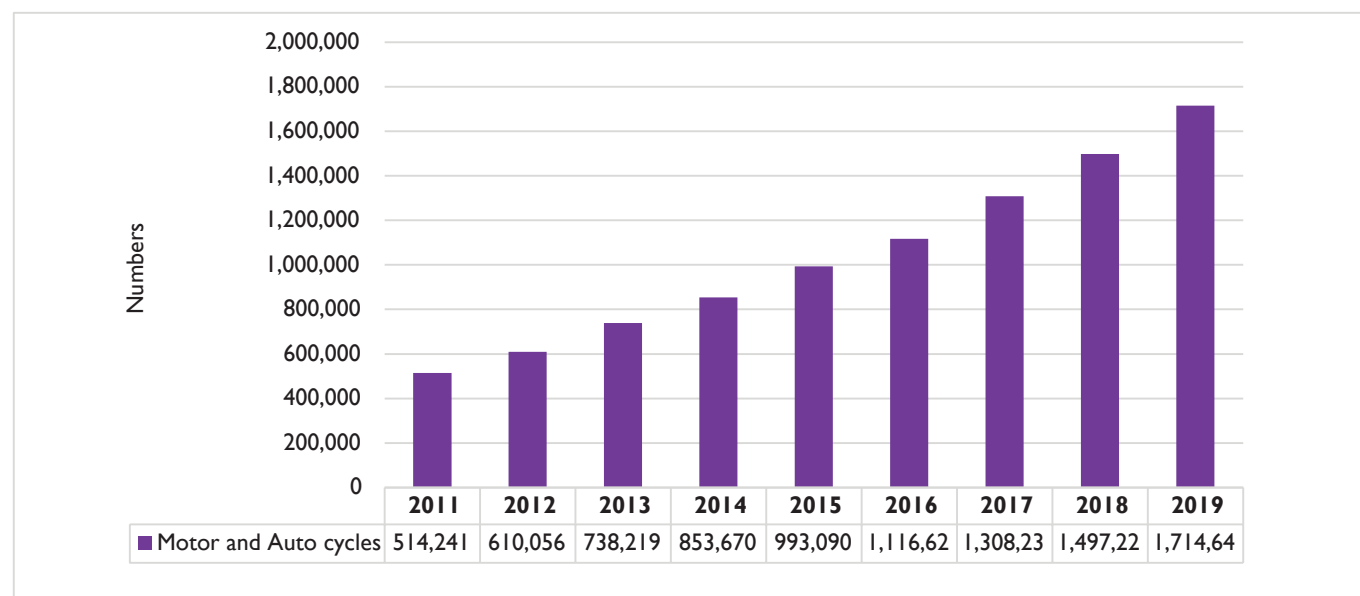
- 1) Lack of regional policy to promote regional value chain.
- 2) Duty rate on imported trailers of 10% does not favour local manufacturer/assemblers of trailers as most parts of manufacturing trailers attract same duty rate as that of an imported complete trailer.
- 3) Exemption granted on imported trailers to implement government/donor funded project, which denies opportunity to local assemblers/manufacturers to supply locally assembled/manufacturers.
- 4) Lack of local manufacturers of automotive and steel in Kenya and the region hence all steel raw materials are imported outside the region.

⁸ Includes Tour vans

6. MOTORCYCLE SUB-SECTOR

Kenya's motorcycle assembly industry has a short history compared to the motor vehicle assembly. However, in recent years, Kenya's demand for motorcycle taxis, commonly referred as "boda bodas", has risen because of their ability to move efficiently in urban centres and rural areas with poor road networks. The number of registered motorcycles in Kenya between 2011 and 2018 grew by 233% from 514,241 units in 2011 to 1.7 Million units in 2019 (figure 14). In 2019 alone, the number of newly registered motorcycles increased by 11.4% to 217,425 units (Table 10). This was mainly driven by an 11.2% increase in the number of newly registered motorcycles and autocycles that rose from 188,994 units in 2018 to 210,103 units in 2019. Newly registered three-wheelers increased by 17.0 per cent from 6,259 units in 2018 to 7,322 units in 2019. The sub-sector growth rate is estimated at 17% annually upto 2030 (EAC, 2017) and will be driven by personal mobility needs of the relatively affluent population. The average annual market demand for motorcycles in Kenya is about 200,000 units.

Figure 14: No. of registered motorcycles and autocycles, 2011 -2019



Data source: KNBS

Table 10: Number of new registration motorcycles, 2011-2019

Item	2011	2012	2013	2014	2015	2016	2017	2018	2019
	140,215	93,970	125,058	111,124	134,645	119,724	186,434	188,994	210,103
Three-wheelers	2,140	1,845	3,103	4,327	4,775	3,815	5,167	6,259	7,322
Motorcycle sub-total	142,355	95,815	128,161	115,451	139,420	123,539	191,601	195,253	217,425

Data source: KNBS

6.1 Drivers of the motorcycle sub-sector growth

Key macroeconomic variables supporting growth include rapid urbanization because of rising employment levels and improving disposal income and the rise in dual income households. Key drivers for motorcycle sector growth include:

- 1) Need for sustainable personal mobility in densely populated countries.
- 2) Lack of efficient public transport system in emerging markets such as Kenya to increase the adoption of motorcycle as alternative means of transport.
- 3) Inadequate road infrastructure and chronic traffic congestion to spur demand growth.
- 4) Development of motorcycle lane to encourage demand.
- 5) Rise in number of women motorists to fuel a boom of the market.

6.2 Industry Capacity

According to Motorcycle Assembler Association of Kenya (MAAK), there are 28 approved motorcycle assemblers in Kenya, making over 55 types of motorcycles. Most of these assemblers have an assembly plant with a fully integrated manufacturing system involving design, component manufacture and assembly. However, only 9 out of 29 have well established assembly plants (table 11). Legal Notice 112 of 24th June 2020 is expected to boost growth and development by eliminating unscrupulous assemblers.

⁹ Motorcycle refer to self-propelled vehicle with two (2) or three(3) wheels

Table 11: List motorcycle assemblers, capacity, and brands, 2020

Name	Capacity	Brand Name	Location of the plant
1. Toyota Kenya	2,000	Yamaha	Nairobi
2. Makindu Motors Ltd	25,000	Skygo/Yamaana/Fly Boy	Makindu
3. Captain Motorcycles Man. Co. Ltd	35,000	Captain, Tiger, Dayun	Nairobi
4. BMG Holdings Limited	3,550	Lifan/Jincheng	Nairobi
5. Car and General Trading Limited	60,000	TVS	Nakuru
6. Auto Industries Limited	100,000	Boxer	Nairobi
7. ABSON Motors Limited	15,000	Haojin	Mombasa
8. Honda Motorcycle Kenya Limited	25,000	Honda	Nairobi
9. Kibo Africa Limited	2,000	Kibo	Nairobi
10. King Ming Kenya Limited	6,000	-	-
11. Toprich Motorcycle Kenya Limited	3,000	-	-
12. Jetxin (Kenya) Company Limited	10,000	-	-
13. Haojue Holdings (Kenya) Limited	5,000	-	-
14. Sonlink (Kenya) Company Limited	5,000	-	-
15. Pentagon Agencies Limited	10,000	-	-
16. High Time Trading Limited	1,000	-	-
17. CMC Motors Group Limited	3,000	-	-
18. Premier Trading Company Limited	5,000	-	-
19. Jiyuan Company Limited	2,000	-	-
20. Kemonia Group Limited	3,000	-	-
21. Big Race Motors Limited	1,000	-	-
22. Questworks Limited	6000	-	-
23. Kenchina Enterprises Company Limited	2,000	-	-
24. Kanos Kenya Motors Ltd	5000	-	-
25. Penta Power Ltd	5000	-	-
26. Kiri EV Limited	300	-	-
27. Urban Manufacturing Ltd	6000	-	-
Total	339,850		

Data source: MAAK & EAC Gazette Notice 11 of July, 2020



6.3 Legal & Regulatory framework

The motorcycle assembly industry in Kenya is governed by Legal Notice 112 dated 24th June 2020 (The Tax Procedures–Unassembled Motorcycle regulation).

The regulation is divided into three parts:

Part I: Preliminary Citation and interpretations

Part II: Approval for assembly of motorcycle, which provides procedures for securing and acquiring assembly license

Part III: Motorcycle Completely Knocked Down kits, which provides for the following:

- 1) Breakdown of Completely Knocked Down kits
- 2) Parts to be sourced locally
 - a) Applicable Within 6 months upon publication of the regulation:
 - i) Centre or main stand
 - ii) Crash guards
 - iii) Pillion handlebars or rear carrier or grip sets
 - iv) Right third rider footrest or pillion set
 - v) Left third rider footrest or pillion rest
 - vi) Side stand or kick stand or prop stand and
 - vii) Battery liquid, acid or fluid
 - b) Applicable within 12 months upon publication of the regulation
 - i) Air cleaner filter
 - ii) Wire harness
 - iii) Seat
 - iv) Battery
 - v) Brakes not or stopper
 - vi) Headling stay
 - vii) Main stay or bar step

6.4 Taxation

Type of tax or fees	Locally assembled Motorcycle (assembled under CKD)	Imported Fully built motorcycle vehicles
Import Duty	10% under EAC Duty Remission Scheme	25%
VAT	14%	14%
Excise tax	0	11065.23 per unit
Import Declaration Fees	1.5% of CIF	3.5% of CIF
Railway Development Levy	1.5% of CIF	2.0% of CIF

6.5 Rules of Origin

Under the EAC Rules of Origin (2015), locally assembled vehicles are accorded preferential treatment across members states under rule 4 b.

HS Heading No	Description of the Products	Origin Criteria (Working or processing carried out on non-originating materials that confers originating status)
87.11	Motorcycles (including mopeds) and cycles fitted with an auxiliary motor; with or without side-cars; side-cars	Manufacture in which the value of all the non-originating materials used does not exceed 70% of the ex-works price of the product

6.6 Key challenges facing motorcycle sub-sector

- 1) Taxation: Import duty of 10% for CKD kits for assembly of motorcycles. The sector proposes that this is zero-rated.
- 2) Lack of regional motorcycle regulation to drive sector growth through value chain integration.
- 3) Poor enforcement of the provision in the Public Procurement and Asset Disposal Act, 2015 on preferences and reservations for local goods as well as lack of monitoring framework for implementation of the Buy Kenya Build Kenya strategy.

7. PARTS AND ACCESSORIES MANUFACTURERS

The 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% (Table 12).



Table 12: List of parts and components manufacturer with capacities

	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)	Mutsumoto 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%			

Data source: APMA



7.1 Locally available parts and components for motor vehicles and Motorcycles

List of Locally Manufactured Components & Parts	
Motor Vehicle	Motor cycles
Batteries	Center Stand Comp
Battery Cables	Crash Guard
Filters (Oil, Air & Fuel)	Pillion Handle Bar
Exhaust Pipes and Silencer	Third Rider Foot, Rest Right
Leaf Spring Assembly	Third Rider Foot, Rest Left
Seat Frames	Side Stand
Seat Foam Pad (Polyurethane Foam)	Battery Liquid, Acid or Fluid
Seat Upholstery	Air Cleaner Housing Assembly & Air Filter
Interior Trim	Wiring Harness
Shackle Pins for Leaf Springs	Seats
Wheel Studs	Air Clear Filter
U-Bolts, U-Bolt Nuts & Centre Bolts	Wire Harness
Wiring Harness	Brakes note or stopper
Automotive Booklets (Drivers Manuals & Service Booklets)	Heading stay
Vehicle Vin Plates & Decals	Main Stay or bar step
Vehicle Vin Plates & Decals	
Automotive Fasteners (Rivets, Nuts, Bolts & Washers)	
Specialized Chassis Metal Components (X-Members, Tyre Carriers, Chassis Reinforcements Members, Bus Dash Board Components, Exhaust Systems Etc)	
Spare Wheel Carrier	
Automotive Paints & Painting Preparation Chemicals	
CKD TJM Bull bars/Roof racks	
Bull bars	
Roof racks	
Side bars	
Rear bars	
Tow bars	
Jerry can holder	
Tyre carriers	
Long range fuel tanks	
Roll over protection structures internal/external - to Mining and Oil/Gas/Petroleum standards	
Metal bodies steel/aluminium	
Metal sport Lids	
Tour vehicle conversion	
Rear Pickup steel plate protection plates	
Specialized vehicle conversions/body works	
Under body protection kits	
Suspension – Shocks, coils/leaf springs, bushes, shackle kits etc	

7.2 Legal and Regulatory Framework & Rules of Origin

Legal Notice 84 (2019) and 112 (2020) for unassembled motor vehicles, trailers and unassembled motorcycles respectively, which prescribes what items should be sourced locally

HS Heading No	Description of the Products	Origin Criteria (Working or processing carried out on non-originating materials that confers originating status)
87.08	Parts and accessories of motor vehicles of headings 87.01 to 87.05	Manufacture in which the value of all the non-originating materials used do not exceed 70% of the ex-works price of the product.
87.14	Parts and accessories of vehicles of headings 87.11 to 87.13.	Manufacture in which the value of all the non-originating materials used do not exceed 70% of the ex-works price of the product.

Data source: EAC Rules of Origin (2015)

7.3 Key challenges facing motor vehicle part manufacturers in Kenya

- 1) Unfair competition from counterfeit/substandard imports
- 2) High production cost due to, among other things, high electricity cost and unreliability
- 3) Lack of an apex body to regulate/enforce adherence to local content
- 4) Duty on critical inputs for manufacturing components and parts
- 5) Tedious process of Duty Remission Scheme for materials not locally available



8. RECOMMENDATION

Proposed intervention	Comments	Key stakeholder group
Finalization and implementation of a National Automotive Policy (NAP)	Finalization and implementation of the NAP will provide an institutional, legal and regulatory framework, which will create transparency in economic activities in the automotive manufacturing sector in Kenya.	● Ministry of Industrialisation, Trade and Enterprise Development
Setting up of a National Automotive Council (NAC)	The primary role of the NAC would be to ensure the effective implementation of the NAP and establish a harmonised environment for the automotive sector.	● Ministry of Industrialisation, Trade and Enterprise Development
Financing/payment plans	During this economic crisis, end consumers in the automotive sector are focused on conserving cash. Flexible financing and payment plan by financial institutions may encourage spending within the sector.	● Financial institutions
Tax incentives and exemptions	Tax incentives and exemptions should be given on purchase of machinery used in the manufacture of motor vehicles including buses, tools and spare parts to incentivise local companies to manufacture motor vehicles. Additionally, this will enhance the local automotive value chain given that parts manufactured locally may be used to assemble new vehicles or recondition old vehicles.	● Financial institutions
Value chain	Conducting a market study would be useful to understand areas within the automotive value chain that may be enhanced as well as identify the potential for motor vehicle parts being manufactured locally.	● Ministry of Industrialisation, Trade and Enterprise Development
EAC Common External Tariff (CET)	The government should fasttrack the comprehensive review of EAC CET to minimize the number of stays of application among member states. This will ensure that local manufacturers face fair competition with importers as well as achieve an overall economic gain for the sector in the long term. It should: <ul style="list-style-type: none"> - Provide tariff split for motorcycle to allow importation of Motorcycle CKD at zero rate. - Provide tariff split for importation of CKD kits for assembly of buses. - Provide a tariff split to allow importation of three-wheel CKD kit for local assembly at zero rate. 	● Ministry of Industrialisation, Trade and Enterprise Development
Motor vehicle age limit	The GoK should advocate for the harmonization of the age limit for imported vehicles within the EAC and consider setting up assembly plants (or invite investors OMEs) to spur growth of the local motor assembly industries	● Ministry of East African Community and Regional Development ● Ministry of Industrialization, Trade and Enterprise Development
Incentives for research, design and development	At present, customer expectations of vehicle reliability, safety, and quality are at the highest. Therefore, increased spend on research, design and development will encourage innovation and new technological development within the automotive sector to meet the ever-changing customer demands.	● Ministry of Industrialisation, Trade and Enterprise Development ● Nation Treasury ● Businesses
Finalization and enforcement of a Local Content Policy (LCP)	It is imperative that local automotive manufacturers are incentivized by the GoK through the purchase of locally assembled motor vehicles and vehicle spare parts for own use. This can be enforced through the finalization and implementation of LCP.	1) Ministry of Industrialisation, Trade and Enterprise Development
Setting up of a modern national level training institute	The automotive manufacturers will find it easier to fill positions requiring higher skills given that the local workforce will have been trained. It is also important to get Industry engaged in reviewing the training curriculum to ensure that training is in line with Industry needs. This will also help manage the longevity of the workforce particularly around working practices	2) Ministry of Industrialisation, Trade and Enterprise Development

Proposed intervention	Comments	Key stakeholder group
Financing	Access to capital (equity/debt) will cater for capital expenditure requirements, particularly for modern, innovative technology as well as working capital requirements.	● Financial institutions Strategic investors
Financing	Access to capital (equity/debt) will cater for capital expenditure requirements, particularly for modern, innovative technology as well as working capital requirements.	● Financial institutions Strategic investors

	KD LEVEL 4			KD LEVEL 3			KD LEVEL 2			KD LEVEL 1		
Details	This is highest level of assembly where design and local content (above 30% in value) is embedded. There is need to amend Legal Notice 84 (Tax Procedure on Unassembled Motorvehicle and Trailers regulations to accommodate this			This is the second highest level of assembly where all the major processes of assembly are included. There is also high utilization of local content.			This is a higher level of CKD assembly. However, some major processes such as body-shop, welding and Paint-shop are not included.			This is entry level CKD assembly with an aim to spur growth in passenger vehicle assembly. This is simple assembly with CKD kit imported, painted, welded and trimmed.		
	Excise Duty	Capital Allowance on Investment	Corporate Tax	Excise Duty	Capital Allowance on Investment	Corporate Tax	Excise Duty	Capital Allowance on Investment	Corporate Tax	Excise Duty	Capital Allowance on Investment	Corporate Tax
Incentive	0%	200%	100% discount for 15 years	0%	150%	50% discount for 10 years	0%	12.50%	30%	20%	0%	30%

Reference:

1. Kenya National Bureau Statistics (2020), Economic Survey report
2. Black, Anthony & McLennan, Thomas. (2016). The Last Frontier: Prospects and Policies for the Automotive Industry in Africa. International Journal of Automotive Technology and Management. 16. 193. 10.1504/IJATM.2016.079232.
3. AT Kearney, (2014), The contribution of the Automotive Industry to Technology and Value Creation
4. Organization International des Constructeurs d'Automobiles (OICA). (2019). Statistics. Retrieved from OICA
5. International Labour Organization, (2020)
6. UNCTAD (2020). Trade and Development Report Update: Global trade impact of the coronavirus (COVID-19) epidemic, UNCTAD/DITC/INF/2020/1, Geneva, 4 March.
7. Banerji, S. (2020), Coronavirus Impact: Supply Chain Disruption to Cost Suto Industry Rs 6,080 crore, 30 March

Annex I:

- 1) Batteries
- 2) Battery Cables
- 3) Engine Filters
- 4) Exhaust Pipe and Silencers
- 5) Leaf springs assembly and leaf springs
- 6) U-Bolt,U-Bolt nuts and Central Bolts
- 7) Wiring harnesses
- 8) In Vehicle Literature
- 9) Vehicle VIN Plates and decals
- 10) Radio,USB,Compact Disc or DVD Players
- 11) Automotive paints and painting preparation chemicals
- 12) Speed governors and Accessories
- 13) Seat frames
- 14) Seat foam pads(Polyurethane foam)
- 15) Seat upholstery
- 16) Soft interior trim
- 17) Canvas
- 18) Spare wheel carrier
- 19) Shackle pin from leaf springs
- 20) Windscreen, side and rear glass and
- 21) Radiators

Annex 2:

- 1) Oils
- 2) Greases
- 3) Fuels
- 4) Hydraulic fluid
- 5) Sealer
- 6) Adhesives
- 7) Paint
- 8) Toughened flat glass
- 9) Canvas hoods, covers and screens
- 10) Soft trim upholstery
- 11) Sound deadening material
- 12) Pre-mixed metal, pre-treatment chemicals
- 13) Hydraulic jacks
- 14) Scissor jack; and
- 15) Tool kits

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