REPUBLIC OF KENYA

Draft National Automotive Policy

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State Department for Industrialization

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1 EXECUTIVE SUMMARY

The Automotive industry has been identified as one of Kenya's manufacturing sector contributor to the Big Four Agenda, enabling the achievement of the country's industrialization and economic transformation.

Kenya's motor vehicle industry growth reached its zenith in 1980s by which time, the country boasted of three major assembly plants producing about 13,000 vehicles and a relatively vibrant parts manufacturing subsector. A memorable milestone to date was the local production of the Nyayo Car in 1987. The downward tumble for the industry began in early 1990s with economic liberalization and the resulting importation of cheap used vehicles that has persisted to date. Currently, vehicles assembly plants in Kenya are operating at an average of 16%, producing just about 5000 vehicles against an installed capacity of 34,000 vehicle single shift, while many local content manufacturers have closed shops.

In order to address the challenges affecting vehicle industry including the lack of dedicated legal, institutional regulatory framework, importation of parts by Franchise holders instead of procuring from local parts manufacturers, influx of used fully built units, among others, the National Automotive Policy was developed. The overall objective of this policy is to provide the domestic industry with opportunities to achieve competitiveness in manufacturing of automotive products.

The National Automotive Policy takes a holistic approach to propose measures that aim at unlocking the industry potential across the entire value chain and related sectors of the economy. The policy therefore aims to;- provide legal, institutional and regulatory framework for the development of the automotive industry; support motor vehicle and motorcycle Assembling; harmonize

standards; forge collaboration mechanisms in the industry; facilitate market Access for sector products and services including access to preferences and reservation in public sector procurements; promote innovation, research and development and technology; facilitate local component/parts manufacturing; and support development of incentive schemes for investments and reinvestments.

To set the industry on long term growth path therefore, the above outlined measures are expected to be implemented within a period of 12 years.

2 BACKGROUND

2.1 Introduction

The development of the National Automotive policy is guided by the Constitution of Kenya 2010 and especially provisions in the Fourth Schedule (Distribution of Functions between National Government and County Governments) that bestows the role of industrialization on the National Government. The Policy is also premised on the Kenya Vision 2030 blue print, which aims to transform Kenya into a newly 'industrialized middle-income country providing a high quality of life to all its citizens by 2030'. The Executive Order No. 1 of 2018, the Kenya Industrial Transformation Programme framework as well as the 'Big 4' development strategy have highlighted the need for local manufacturing, technology transfer and development, employment and wealth creation that have informed the development of the Policy.

The National Automotive Policy has been developed through a consultative stakeholder involvement and informed by Kenya's developmental agenda and industry needs. Stakeholder views from the Consumers; the Assemblers; the Auto Component Manufacturers; Government; Auto Dealers; Global Players; and training, research and development institutions were incorporated in developing the Policy. The policy objectives, implementation outline, the guiding principles and measures are aligned to domestic, regional and international obligations, including and not limited to The Paris Agreement, enforced from November 2016 which sets the objective of limiting the global temperature rise in this century below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius.

2.1.1 The Historical Trend

Globally, the automotive industry has been a pillar of industrialization of many economies and a key driver of macroeconomic growth and technological advancement. As a sector, the automotive industry has been a major force in the industrial and economic development of nations all over the world. The industry has consistently contributed heavily 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, South Africa and several other emerging economies.

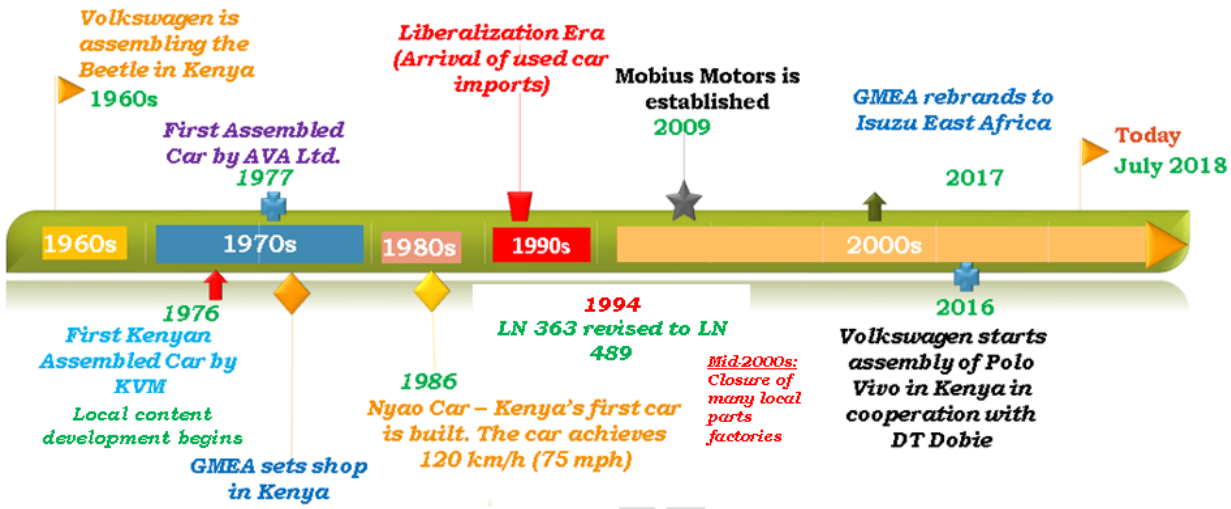
Africa is the final frontier for the global automotive industry, offering regional and global automotive manufacturers an attractive growth market, with substantial long-term potential. Despite automotive production having been in South Africa for nearly 100 years, there has been limited automotive production taking place elsewhere across the continent. Nigeria achieved significant production In the 1980s and 1990s, some decades ago in Zimbabwe. Production occurs in Egypt and more recently Morocco. Smaller production activities take place in Kenya.

2.1.2 Situation Analysis and Sector Performance

In Kenya, growth of the automotive industry was slowed by the liberalization of the economy which allowed cheaper imported second hand vehicles. Since then to date, the vehicle assembly industry has struggled to stay afloat; and the components industry whose lifeline depended on a protected market saw many manufacturing entities gradually close shop. The liberalization era (opening of the market) of the 1990s and the revision of LN 363 to LN 489 where local content was not mandatory for as long as a penalty of 25% was paid equally contributed to the heavy decline of the local parts manufacturers. By the mid-2000s, many local content manufacturers had closed shop.The

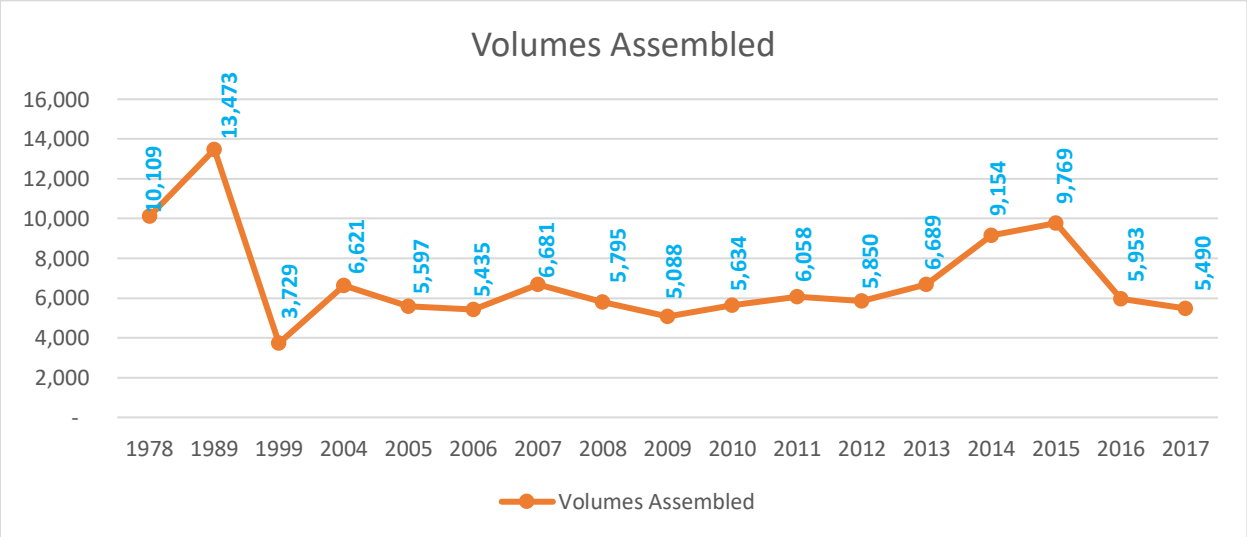
automotive development timelines and volumes assembled in Kenya respectively are indicated below:-

Diagram 1: Automotive Development Timeline for Kenya



The automotive development timelines above and the production volume trends in graph 1 and 2 below give a summary of the milestones for the sector in Kenya. It also shows some significant decline in volume since the 90's.

Graph 1: Volume of locally assembled vehicles, 1978-2017



Graph 2: Installed vs Utilized Capacity, 1978-2017

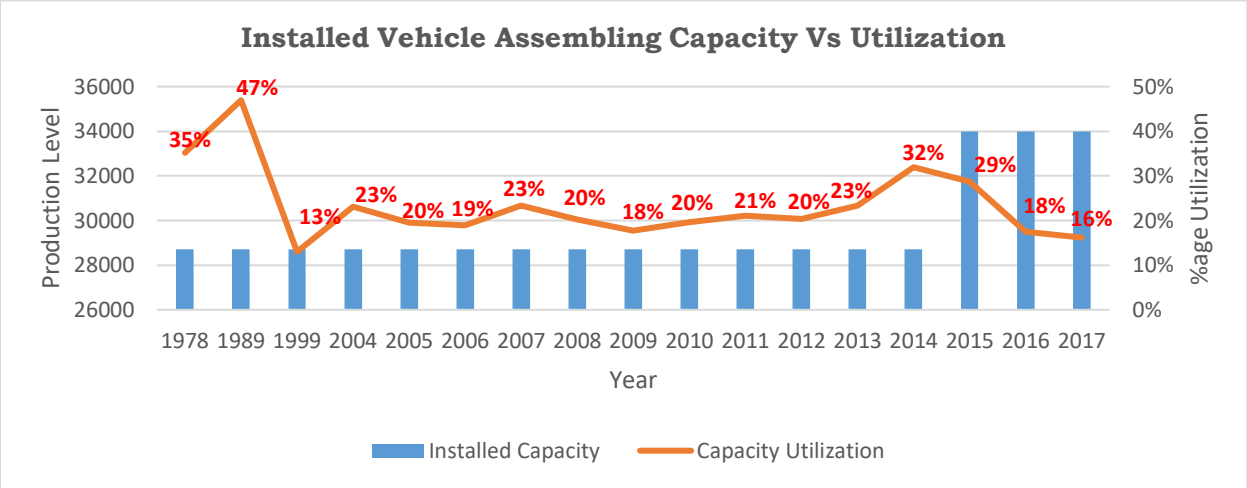


Table 1: New Vehicle Sales in Kenya

	2014	2015	2016	2017
Locally Assembled	8,087	9,295	6,163	4,607
EAC Exports (locally assembled)	320	442	334	322
FBU Imported	9,199	10,228	7,371	6,115
Total	17,606	19,965	13,868	11,044

Source: Kenya Motor Industry Association (KMIA)

2.1.2.1 Importation of Fully Built Units in Kenya

Currently, the vehicle population in Kenya stands at over two (2) million, which comprise of both imports and local assembly. Of the imports, it is important to note that a very large variety comprise of second hand brands, which comprise over 85% of imported Fully Built Units (FBUs) as shown in the Table 2 below:

Table 2: Vehicle Import Volumes in Kenya

Year	*Total FBUs Imported*	*Value in KES*
2012	63,759	43,735,108,433
2013	81,089	52,721,912,458
2014	89,703	68,253,096,445
2015	94,368	75,574,652,834
2016	75,198	57,509,517,554

2017	86,626	62,509,431,788

Source: KRA Records 2018

Table 3: Value of Imported FBUs (KShs Billions)

Year	***Total Import Value – Unassembled***	***Total Import Value – FBUs***
2017	*10.7*	62.5
2016	*14.3*	57.7
2015	*18.9*	75.5
2014	*18.4*	68.2
2013	12.3	52.7
2012	*10.5*	43.3
Totals	***85.2***	***360.3***

Source: KRA Data, 2018

The challenge with respect to importing used vehicles is that, first, they are costly to maintain. Secondly, they contribute towards the loss of local manufacturing opportunities, including exporting jobs. It also constitutes a major drain of foreign exchange resources and reserves to an average of 60.05 billion KES per year between 2012 and 2017 as indicated in Tables 2 and 3 above. Were these units to be assembled or manufactured locally, there would be accrued socio-economic benefits that are realised through employment creation, service provision, technology transfer, and research and development, in addition to local content uptake.

Finally, the numbers of vehicles imported, for which used vehicles comprise on average 85%, indicates that the country imports sufficient volumes to sustain a viable motor industry in Kenya even without considering exports, meaning that the local assemblers and manufacturers are unable to realise full volume benefits, as market volume is a precondition for successful growth of the automotive industry including parts manufacturing.

From the statistics provided above, the current capacity of approximately 9,000 units can be up scaled to single shift capacity production of 34,000 units, which

accounts for 38% of total imported FBUs using 2017 figures. This can therefore be up scaled to full capacity, of 3 shifts producing 102,000 units, over 85% of used FBUs. The potential is immense under the right policy and investment conditions. This shows that Kenya's automotive industry has potential to significantly contribute to the manufacturing sector, and to the government's target to increase its share to the GDP from the current 9.2% to 15% by 2022 as part of the Big Four Agenda.

2.1.2.2 Local Motor Vehicle Assembling

In 2017, Kenya's motor vehicle assembly industry had an annual turnover of USD 600 million (including regional dealerships), employed over 12,000 people of which 3,000 people are directly employed in assembly plants, 3,690 people in downstream spin offs, and 5, 782 in support sectors excluding dealerships outside of Kenya. The commercial car assembly consumed locally produced materials to a tune of USD 135 million. The industry contributed annual tax revenues to government of Kenya to a tune of USD 80 million.

The main vehicles being assembled are commercial vehicles especially Trucks and Buses, which are well designed to meet the tough Kenyan and African tropical conditions. A brief synopsis is indicated in the Tables 4, 5 and 6 below.

Table 4: Capacity Utilization – 2017

Capacity Utilization (Total production)	Installed(Full) Capacity		34,000 on single shift (can do up to 3 shifts)
	Operating Capacity	16%	5490 Units
	Turnover Annually		KES. 60B
Value of inputs	Value of Imported Raw Materials	70%	KES. 31.5B
	Value of local content	30%	KES. 13.5B
Market	Locally Consumed	94%	5180 Units
	Exported	6%	310 Units
Employment at this stage	No. of Direct Jobs		3,000 People

Total Revenue to Government		KES 8B	

Source: KAM & KRA Records, 2018

In addition to local assembly lines as indicated in Table 5 below, there are body building and construction companies for trucks and trailers, which contribute to the motor vehicle industry. Some of the players include; Bachu Industries, HK Motors Limited, Lalbhai Singh and Avic International Limited.

Table 5: Motor Assembly plants capacity utilization

Assembly Plant	Brands & Franchise Holder	Capacity Utilization
Isuzu East Africa Limited Nairobi	• ISUZU EA–Isuzu	23%
Associated Vehicle Assemblers Mombasa	• SIMBA CORP– Mitsubishi, FUSO • TATA – Tata • Toyota East Africa – Toyota, Hino • Kenya Grange – Scania • Foton – Foton, Aumark • Volvo – Volvo • Daewoo	35%
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	2%
National Average for Motor Vehicle		20%

2.1.2.3 Motorcycle Assembling

Kenya's Motorcycle assembly has a short history compared to the Motor Vehicle assembly. However, in recent years, Kenya's demand for Motorcycle taxis *(bodabodas),* three wheelers (*tuktuk*), and quad bike/cycle has massively gone up mainly because of their ability to move efficiently in urban centers and in the

rural areas with poor road networks. This has increased the demand for new Motorcycles and has put some vibrancy in the sector.

At present, there are several assemblers in the Motorcycle sector in Kenya, including Auto Industries, Car & General, Honda Motorcycles, Toyota (Yamaha), Ryce E.A, KIBO, Captain, Makindu Motors, Abson Motors and BMG Holdings, among others. Whereas the motorcycle assembly industry is dominated by about two players as indicated in Table 6 below, there are also several informal/make-shift Motorcycle assemblers.

Table 6: List of motorcycle assembler and respective market share

No.	Company	Brands or Franchise holder	% Mkt Share
1	Auto industries ltd	Bajaj	39.04
2	Car & general	TVs	21.29
3	Captain motorcycles	Captain, Tiger, Dayun	13.39
4	Honda	Honda	7.64
5	Makindu motors	Skygo	7.03
6	Abson motors	Haojin	4.75
7	RyceE.A.	Hero	0.99
8	Toyota	Yamaha	0.98

Source: MAAK

The motorcycle assembly industry is operating at about 50% capacity. However, there are various challenges which are negatively impacting on the growth of Motorcycle assembly industry. Among the challenges is lack of access to incentives for CKDs, and regulations. This is compounded by the absence of a clear automotive policy framework.

2.1.2.4 Local Automotive Component Manufacturing Sector

Component manufacturing in Kenya dates to the 1970's. It comprises mainly of spares for after sales market rather than local assembly lines. The businesses are not able to compete against similar brands from Europe and Asia. The

competition is also against used spare parts from Japan and Asia, and others extracted locally from motor vehicles deemed to be no longer road-worthy.
There are about 25 motor vehicle component manufacturers, with a combined average capacity utilization of 36% as listed in Table 7 below. Each manufacturer is estimated to employ 256people and contributes over KES 40 million annually in tax revenues to government. The list of parts locally manufactured is presented in Annex 1.

Motorcycle component production is a relatively new phenomenon in Kenya, which has a potential to produce some components such as side stand, crash guard, pillion handle bar, right third rider foot rest, left third rider foot rest, and center stand. These are however, basic and low level knowledge technologies. More investment is required to expand the range of parts, and it is targeted that by 2021, the industry's local content development plan will have included; Air cleaner filter, Harness, Seat, Chain Case, Battery, Rear Fender, Front Fender, and Tubes/Tyres.

Global Original Equipment Manufacturers (OEMs) are increasingly moving away from component manufacturing and focusing more on their own brand, marketing and distribution channels. This gives opportunities to the OEMs to build capacity locally for component manufacturing.
Given the right incentives and stable predictable auto policy environment, Kenya can position itself as a hub for auto parts manufacturing .This sector has the capacity to employ a lot more people, create further spin-offs, and spur the growth of iron and steel industry. Furthermore, investments through joint ventures and regional supply chains can be established making Kenya a major regional and continental player in auto parts manufacturing.

Table 7: List of local motor vehicle component manufacturers

Part manufacturers	*Capacity Utilization*
1. Pipe Manufacturers Ltd	23%
2. Megh Cushion Industries Ltd	40%
3. Mutsimoto Motor co Ltd	40%
4. Auto Springs EA PLC	35%
5. Associated battery manufacturers Ltd	60%
6. Highway UpholsteryCar Cushion	30%
7. Sai Raj Ltd	45%
8. Numerical Machine Complex	20%
9. Pinnacle systems Ltd	40%
10. Digital Bass auto	30%
11. Chui Springs	30%
12. Impala glass	30%
13. SKL springs Ltd	30%
14. Auto axillaries Ltd	30%
15. Metal Equipment Ltd	30%
16. Unifilters Ltd	30%
17. Rubber products Ltd	30%
18. Specialised fiber glass	30%
19. Robs Magic	30%
20. Pantech Ltd	30%
21. Sagoo Holdings Ltd	30%
22. Kenrub Ltd	30%
23. Patmose	30%
24. Turnometal	30%
25. Mann Manufacturers	30%
National Average	**36%**

3 CHALLENGES AND CONSTRAINTS

Based on the historical background and the situation analysis presented here before, the Policy aims at addressing the challenges facing the automotive sector, that include:-

1. Lack of an institutional, legal and regulatory framework for the Automotive industry;
2. Lack of review of Legal Notice 363 and 489of 1993 under the then Customs and Excise Act (replaced by the East Africa Customs Management Act) thus inhibiting local component manufacturing and local content development;
3. The importation of parts by Franchise holders as opposed to procuring from local parts manufacturers denies the later opportunities for growth and enhancement of local content;
4. There is a mismatch on the training and industry skills requirements, given that the curriculum is not in-tandem with the technology. This creates a skills gap that requires manufacturers and entrepreneurs to undertake on the job training thus increasing their cost of production;
5. Influx of imported used FBUs, parts and components, affect the market volumes resulting in installed capacity under-utilization in addition to environmental degradation from emissions;
6. Poor enforcement and lack of clarity of the provision in the Public Procurement and Asset Disposal Act, 2015on preferences and reservations for local goods;
7. Absence of CKD regulations to support local Motorcycle assembly;
8. The8-year age limit for second hand vehicles applied across the board does not provide adequate incentive for local assembly;
9. Presence of imported products in the domestic market, some of which are of low quality or counterfeit.

4 RATIONALE AND CONTEXT

4.1 National Policy Context

The overall objective of the National Automotive Policy is to provide the domestic industry with opportunities to achieve competitiveness in local manufacturing and sale of automotive products. The policy prescribes clear measures to promote utilization of locally manufactured products; local content; sub-contracting; innovation, research and development; capacity and skills development and training; and technology transfer. These measures will enhance local value addition and contribute towards raising the manufacturing sector share to Gross Domestic Product (GDP).

The National Automotive Policy is anchored on Kenya Vision 2030 which aims to transform the country into a rapidly industrializing middle-income nation by 2030. The Vision seeks to make Kenya a globally competitive and prosperous country with a high quality of life. The foundations of the vision are macroeconomic stability; governance reforms; infrastructure development; science, technology and innovation; wealth creation; human resource development; enhanced equity; security; and public sector reforms. It is envisaged that with improvement of physical infrastructure and removal of regulatory impediments by deepening economic and governance reforms, production costs will also fall as domestic supplier networks evolve. This will translate to competitiveness of the automotive sector.

Under the Kenya National Industrialization Policy Framework, 2012, Automotive assembly and the production of basic components are considered medium-technology industries. The industrialization policy framework (Sessional Paper No.9 of 2012) aims to transform Kenya into a globally competitive regional industrial hub". It is linked to Kenya Vision 2030 and focuses on improving the manufacturing sector's productivity and value addition; and enhancing

linkages with other sectors to facilitate industrialization. Its areas of intervention include creating enabling Business Environment; high value addition; human resource skills development; attracting Foreign Direct Investment; enhancing Market Access; promoting innovation, Industrial Research and Development and supporting SMEs Growth and Graduation for Industrial Expansion. The National Automotive Policy encompasses measures that aim at addressing the challenges hampering the industry potential and addresses the entire value chain and inter-linkages with interrelated sectors of the economy which have a high multiplier effect for economic growth and development as envisaged in the National Industrialization Policy.

4.2 Global Benchmarks

There are many examples of successful automotive industries, which started when countries were at a lower level of industrial development as Kenya currently is. Furthermore, there are very few examples of automotive industries in developing or developed countries which did not get off the ground with some forms of Government policy support. Such targeted policy support includes local content requirements which in the process also enables development of domestic capabilities.

The automotive policy targets to gradually and systematically reduce and eliminate the imports of used vehicles and used parts share in the domestic market by promoting assembly and production of automotive products locally. The rising demand for imported used vehicles in Kenya has a major impact on the country's trade balance. Furthermore, the huge range of used cars imported also make it difficult for the local parts industry to develop and attain economies of scale because of the wide range of parts required. Imports of used cars from rich country markets is, in part, a function of stringent environmental measures imposed in exporting countries to boost their domestic new car sales and encourage emission-efficient vehicles. The result is that these

older vehicles have little value inside these countries and are exported at low cost. Kenya is a signatory to various agreements, protocols and conventions aimed at preserving the environment. The Policy promotes production of environmentally friendly vehicles and products, and ensures adherence to internationally set standards of emission.

4.3 Regional Market Access

The market for vehicles in Kenya, East African Region and Sub-Saharan Africa is growing very rapidly. This growing demand is for the most part being met by imports, especially of used vehicles. Furthermore, with per capita incomes rising in Kenya, across the East African and entire African region, vehicle ownership is likely to continue to rise rapidly. The improving road infrastructure across the region and deepening regional integration will further support vehicle use. Kenya must lead in capitalizing on this phenomenon.

5 GUIDING PRINCIPLES

The guiding principles espoused in this policy encompasses measures that aim at addressing the key challenges and industry potential and opportunities to achieve the objectives of the Policy.

i. **Equity**

The Policy is grounded in the mission to promote Kenya as an automotive manufacturing hub for East Africa and the continent at large. Interventions, incentives and investment support are geared toward creating enabling environment for sector players, to operate competitively within the quality, cost and delivery constraints.

ii. **Product Safety and Standards Conformity**

The policy encourages innovation and research and development of products designs that ensures product safety conformance and safety for users and non-users, and reduce cost of infrastructural maintenance. Further the policy supports design and improvement of safe infrastructure.

iii. **Environmental Sustainability**

The Policy promotes production of environmentally friendly vehicles and products, and ensures adherence to internationally set standards of emission. Local production / assembly targets to gradually and systematically reduce and eliminate the imports of used vehicle and used parts share of the market. In addition the policy recognizes and promotes the circular economy concept where value is created by recovery, re-use, recycling and remanufacturing.

iv. **Creativity and Innovation**

The Policy supports intentional innovations, R&D and collaborative efforts among academia, industry, and government, to develop products that suit specific local conditions, and solutions that propel other sectors of the economy.

v. **Local Empowerment**

This Policy recognizes and compliments existing policies and strategies on local content and local product utilization. The Policy provide opportunities for rewarding incremental uptake, collaboration and utilization of locally manufactured products that meet the standards and specifications of OEMs. In addition, it encourages dynamic and continuous skills development and improvement to meet the changing needs of the industry.

vi. **Sustainable Development**

The Policy recognises and encourages automotive manufacturing that responsibly stewards the environment, encourages efficient resource utilization and enables the nation to achieve the objectives of Kenya Vision 2030, United Nations Agenda 2030 (Sustainable Development Goals), and Africa Agenda 2063.

6 POLICY STATEMENT

The National Automotive Policy is a holistic framework that covers the comprehensive revitalization and development of the automotive industry in Kenya. It recognizes Kenya's obligation to develop the sector in an environment-friendly ecosystem.

The Policy addresses the entire value chain and inter-linkages with interrelated sectors of the economy which have a high multiplier effect for economic growth and development, such as iron and steel, transport, leather, plastics and rubber, foam, fuel/gas, glass, electronics and software, among others. Due the emerging disruptive technologies, the policy also projects futuristic development trends.

6.1 Vision

"To be a competitive automotive manufacturing hub of choice."

6.2 Mission

To develop national capacities for competitive automotive products manufacturing, anchored on training, innovation, research and development and; to create a Kenyan brand.

6.3 Objectives

The overall objective of this policy is to provide the domestic industry with opportunities to achieve competitiveness in manufacturing and engineering of automotive products.

The specific objectives of the National Automotive Policy are to:-

i. **Enhance value addition**

   The policy promotes local manufacture of automotive products that meet the standards and specifications of Original Equipment Manufacturers

(OEMs). This will provide opportunities for Joint ventures with global value chain players to produce affordable brands and models in Kenya.

ii. **Increase contribution to GDP**

To support the growth of the automotive industry in Kenya for both domestic and export consumption, thereby becoming a significant contributor of the manufacturing sector GDP by 2030, with an initial impact realized by 2023.

iii. **Enhanced market access**

To scale-up local production for import substitution and increase exports of automotive products to EAC region from current about 5% to 15% by 2022, and to take advantage of the Africa Continental Free Trade Area (AfCFTA) by 2030.

iv. **Skills development and job creation**

To create a dynamic skill development eco-system and establish Kenya as a manufacturing skills centre of excellence. This focuses on quantitative and qualitative improvements in skills to ensure competitiveness and build a solid foundation for direct and indirect job creation in the automotive sector, over the next decade.

v. **Enhance innovation, Research and Development**

To give a supportive environment for innovation, R&D in the automotive sector for local design and engineering; including developing and acquisition of disruptive technologies. This will also promote clean, safe, efficient and comfortable mobility products in the country and within the region, with a focus on environmental protection and affordability.

7 POLICY MEASURES

The following policy measures will be undertaken to address the challenges facing the sector, and to develop the automotive industry in Kenya.

1) Institutional, legal and regulatory framework

The Government will create an institutional, legal and regulatory framework for the implementation of the National Automotive Policy.

2) Support to Motor Vehicle and motorcycle Assembly

The Government will prioritize the production of commercial vehicles (buses, trucks and minibuses). Measures will also be put in place to promote production of passenger vehicles (saloons, station wagons, Sports Utility Vehicles (SUVs)), and motorcycles through:-

a) Providing incentives on different levels of vehicle breakdown (Knockdown). The level of incentivization will depend on local value-added; degree of technology transfer; improvement in level of expertise; level of foreign exchange earnings; strengthening of manufacturing value chain; developing linkages within the industry; and investment in R&D);
b) Promotion of a phased incubation approach to grow and graduate the local entrepreneurs in motor vehicle component manufacturing in Kenya;
c) Encouraging and facilitating sub-contracting amongst established assemblers and the local SMEs;
d) Hastening progression and phased advancement from SKD to CKD.

3) Harmonization of standards

For harmonization of motor vehicle, UN agreements adopted in 1958, 1997and 1998 provide a legal and regulatory framework and provision related to performance oriented test requirements and procedures for contracting parties.

Kenya will domesticate global regulations and standards by:-

a) Harmonizing all regulations and Standards affecting the motor vehicle industry so as to support the policy and hence the development of the Industry. This will be achieved through:
   i. Identifying the missing gaps in standards and regulations for the industry and developing such standards and regulations to fill the gaps;
   ii. Identifying inadequacy in capacity to implement the existing regulations and establishing mechanisms to develop such capacity;
   iii. Development of standards within the EAC region including definitions of SKD/CKD. This will assist in rationalization of models in the region to lower the cost of maintenance. It will also enhance road safety through periodic testing and certification based on harmonized regional standards. And further promote EAC Industrialization in line with the EAC Industrialization policy.

b) Fully adopting and implementing the approved Kenyan Design Safety Standards KS2725.

4) Collaboration Mechanisms in the Industry

The Government will facilitate development of the automotive industry through structured collaborations as follows:-

a. Intra government collaboration

For successful implementation of this Policy and the full support of the manufacturing sector, all government entities that interface with the industry (Ministries, Counties, Departments and Agencies) will continuously consult on implementation and review of this Policy.

b. Industry and academia collaboration

The government proposes to establish the National Automotive Council (NAC) as the institutional framework to support the implementation of the policy. NAC in collaboration with stakeholders in the sector including research institutions, universities and other learning institutions in the following areas:

i. Research, Design, Development and testing**:**

To ensure safety, product efficiency and environmental sustainability automotive industry, programs will be put in place promote research, design, and development for locally produced automotive products.

ii. Capacity Building:

In order to address the mismatch in the training and industry skills requirements, given that the curriculum is not in-tandem with the technology, skills development and training eco-systems will be improved to provide industry demand-driven training. Industry will collaborate with relevant technical institutions in the development of relevant curriculum. In Government in collaboration with the industry players will facilitate the establishment of automotive training institute for demand driven training. In addition, capacity building will be enhanced through apprenticeship and attachments of learners to the established assemblers and manufacturers.

c. Assemblers Collaboration:

The Government will undertake periodic facility inspections to verify and accredit CKD assemblers that meet the full requirements of CKD assembly in terms of facilities, parts assembled, CKD kits, testing facilities, local content procured and other applicable parameters. This will be necessary for monitoring CKD progression, moving up the value chain towards full local manufacturing.

d. *Vehicle Assemblers and Component Manufacturers Collaboration:*

To enhance uptake of local components, the Government will facilitate constant and structured collaboration between vehicle assemblers and component/parts manufacturers to progressively grow the local content to achieve a target of 40% by 2030, in line with the international best practice. In addition, the Government will promote the development of SMEs through subcontracting and partnership exchange between SMEs and the big assemblers.

5) Market Access for sector products and services

In order for the industry to achieve critical volume levels for both domestic and external markets, and enjoy economies of scale, the Government will:-

a) Give priority to local manufactures/assemblers in public procurement of automotive products and accessories;

b) Support mechanisms for distinguishing between locally assembled and fully built imported units through adoption of technologies for proof-marking, coding, including microdot technologies;

c) Enhance negotiation towards harmonization of rules of origin and elimination of Non-tariff barriers within the region trading blocs, as well as bilateral and multi-lateral trade agreements to facilitate growth and development of the automotive industry;

d) Implement a total ban on importation of used fully built units of commercial vehicles, and a phased out plan on importation of used FBU passenger vehicles. This will reduce the importation of used vehicles in the Kenyan market while facilitating the local manufacturers to assemble, and manufacture affordable vehicles for diverse domestic market segments. Towards this, the age limit of imported passenger vehicles will be progressively raised, to expand the market for locally assembled vehicles, and importation of newer FBUs, for vehicles with engine capacity exceeding 1500cc. This will be implemented from 8 year to 5 years in 2019; from 5 years to 3 years in 2021 and; from 3 years to zero in 2023. This will be reviewed from time to time.

e) Promote model rationalization geared towards having an entry model (1) for the local market based on acceptability and affordability and (2) for export market where the participating OEMs already have a market for the particular model. This strategy will trigger sufficient volumes and therefore application of economies of scale. This will be done through a consultative and open process to develop a criteria to determine the models of motor vehicles to be used in the country. Additional tax will be charged on any models outside the rationalized list.

f) Improve accessibility to new and safe motor vehicles through the following measures:

i. The government will support and work with the relevant stakeholders to develop vehicle purchase schemes to enable individuals and companies to purchase new locally assembled vehicles;

ii. The Government will support a progressive leasing policy for the public sector to expand access to new vehicles made in Kenya;

iii. Development of a vehicle scrapping policy that will among others, grant scrapping rebates to individuals and companies to replace aged vehicles, particularly PSVs with locally assembled new vehicles. In addition, it will establish mechanisms for collection of end of life vehicles to facilitate recycling, reuse and remanufacturing;

iv. Encourage development of standards for after sales service for training in after sales service, maintenance and repair, including accreditation and licensing of garages and service providers. This will enhance professionalism, safety and compliance to emission standards and reduction in the costs of operations.

6) Road and Other Industry Support Infrastructure

To increase the competitiveness of the domestic automotive industry, the Government will expedite the development of critical infrastructure to facilitate accessibility and mobility to all areas including those with poor connectivity. This will reduce delays, costs and inefficiencies faced in domestic and export trade. This, in addition to other economic activities, will stimulate the demand for automotive products and services. Further to this, the Government will review infrastructure designs, with a view to developing safe infrastructure.

7) Passenger Transportation Framework

The Government, in consultation with the assemblers and other stakeholders, will develop a public transportation strategy to meet both the needs of the Nation and benefit the local assemblers. Some of the initiatives that are currently under consideration, include, the mass rapid transit project, development of Bus Rapid Transport (BRT), light rail, phasing out of 14 seater public transport vehicles "*matatus.*"Taxi-hailing rides and Two/three/four (Quadbike) wheelers passenger automobiles

8) Innovation, research and development and Technology

The government will encourage uptake of frontier technologies in manufacturing which includes cyber, big data, artificial intelligence, 3-D printing, Nano technology, drones, physical systems, internet of things, cloud computing, robotics and cognitive computing. In addition, the government will promote investments in research and development of commercially viable technologies such as electric powered cars including the batteries and charging stations. This will be done through:-

a) Setting up a 'Technology Acquisition Fund' to acquire technologies.
b) Offering incentives to motivate innovation, R&D and technology acquisition.

9) Promotion of local Component/ Parts Manufacturing

Government, assemblers and OEMs will promote growth of local component industry through:-

a) Working with the local components manufacturers to generate a list of products which can be manufactured locally for use in vehicle assembly and after sales. Towards this end, the Legal Notice 363 of 1993, 489 of 1994 will be reviewed to align with the east African Customs Management Act.

In addition the Kenya motorcycle regulation will be developed and implemented;

b) Supporting capacity building of component manufacturers to produce local content that meet the quality standards of the OEMs. This will include developing mechanisms which will facilitate the component manufacturers to acquire the requisite technologies, designs and testing facilities;

c) Facilitating OEMs to invest in or establish their plants in Kenya.

10) Preferences and reservation in Public sector procurements

The Government will undertake preferential purchase of locally assembled motor vehicles by Ministries, Counties, Departments and Agencies (MCDAs) under the Buy Kenya Build Kenya strategy and the Public Procurement and Asset Disposal Act 2015. In addition, the government will develop a Local Content policy to further enhance the growth of the local automotive industry.

11) Incentive schemes for Investments and reinvestments

The government in collaboration with automotive industry players will put in place an incentive scheme to attract new investments and reinvestments in motor vehicle assembly and manufacturing of parts. The incentives shall include:-

a) Fiscal incentive on local content to enable investors to utilize more local content in their assembly lines thus growing the local content component in their manufactures. In so doing the capacity for component manufacturing will be enhanced;

b) Production incentives to encourage local value addition, local content development and promotion of SMEs.

8 POLICY PRIORITY ACTIONS

Table 8: Implementation Matrix Timelines

Policy measures	Implementation time lines		
	Immediate (2018/19)	**Short term (2020-2023)**	**Long term (2024-2030)**
Institutional, legal and regulatory framework	• Develop regulations to implement the policy • Presidential decree to establish the NAC		
Support to Motor Vehicle and motorcycle Assembly	• Providing incentives on different levels of vehicle breakdown (Knockdown). • Promotion of a phased incubation. • Encouraging and facilitating sub-contracting. • Hastening progression and phased advancement from SKD to CKD.	Promotion of a phased incubation	Promotion of a phased incubation
Harmonization of standards	• Identifying the missing gaps in standards and regulations. • Identifying inadequacy in capacity to implement the existing regulations. • Development of standards within the EAC. • Adopt and implement the approved Kenyan Design Safety Standards KS2725.		
Collaboration Mechanisms in the Industry	• Intra government collaboration and • Consultation on the implementation and review of the Policy. • Promote research, design, and development for locally produced automotive products. • Establish automotive training institute for demand driven	• Intra government collaboration and Consultation on the implementation and review of the Policy. • Accredit and undertake periodic CKD assembly facility	• Intra government collaboration and • Consultation on the implementation and review of the Policy. • Accredit and undertake periodic CKD assembly facility

Policy measures	Implementation time lines		
	Immediate (2018/19)	**Short term (2020-2023)**	**Long term (2024-2030)**
	training. • Enhance apprenticeship and attachments of learners to the existing assemblers and manufacturers. • Accredit and undertake periodic CKD assembly facility inspections to ensure compliance. • Facilitate constant and structured collaboration between assemblers and parts manufacturers to grow the local content. • Promote development of SMEs through subcontracting and partnership exchange.	inspections to ensure compliance.	inspections to ensure compliance.
Market Access for sector products and services	• Adopt of technologies for distinguishing between locally assembled and fully built imported units • Enhance negotiation on rules of origin and elimination of Non-tariff barriers. • Implement restrictions on importation of used fully built units of commercial vehicles • Implement a phased out plan on importation of used FBU passenger vehicles with engine capacity exceeding 1500cc. • Promote model rationalization and additional taxation measures on models outside the rationalized list. • Develop vehicle	• Develop vehicle scrapping policy and establish mechanisms for management of end of life vehicles. • Develop standards for training in after sales service, maintenance and repair. • Accredit and license garages and service providers.	

Policy measures	Implementation time lines		
	Immediate (2018/19)	**Short term (2020-2023)**	**Long term (2024-2030)**
	purchase schemes to enable the purchase of new locally assembled vehicles. • Support a progressive leasing policy for the public sector to expand access to new vehicles made in Kenya.		
Road and Other Industry Support Infrastructure	• Develop critical infrastructure to facilitate accessibility and mobility to all areas across the country. • Review infrastructure designs, with a view to developing safe infrastructure.	• Develop critical infrastructure to facilitate accessibility and mobility to all areas across the country. • Review infrastructure designs, with a view to developing safe infrastructure.	• Develop critical infrastructure to facilitate accessibility and mobility to all areas across the country. • Review infrastructure designs, with a view to developing safe infrastructure.
Passenger Transportation Framework	Implement public transportation strategies.		
Innovation, research and development and Technology	Offer additional incentives to motivate innovation, R&D and technology acquisition.	Set up 'Technology Acquisition Fund'.	
Promotion of local Component/ Parts Manufacturing	• Review the Legal Notices 363 of 1993, 489 of 1994 to align with the east African Customs Management Act. • Generate a list of products to be manufactured locally for use in vehicle assembly and after sales. • Develop and		

Policy measures	Implementation time lines		
	Immediate (2018/19)	**Short term (2020-2023)**	**Long term (2024-2030)**
	Implement motorcycle assembly regulations. • Support capacity building of component manufacturers to enhance local content. • Facilitating OEMs to invest in or establish their plants in Kenya.		
Preferences and reservation in Public sector procurement	• Develop a Local Content policy to further enhance the growth of the local automotive industry. • Implement public procurement and Asset Disposal Act provisions on preferential market access for locally manufactured products.		
Incentive schemes for Investments and reinvestments	• Provide fiscal incentive on local content to enable more utilization of local content in the assembly lines. • Provide incentives to encourage local value addition, local content development and promotion of SMEs.		

9 The National Automotive Sector 12 Year Roadmap (2018 -2030)

Assembly Level	**Passenger car** VW Polo, Toyota Corolla, Renault Duster, and Ford **Vehicle** All trucks, single & double cab pickups, and all	Degree of Breakdown	Current Sector Players	Viable Level Change Quantities	Progression	Government Incentives	National Automotive Council Roles
DKD	Not Permissible	Not permissible	Disassembled fully built unit - Bumpers, engine / gearbox and rear axle adrift	VW Polo and Peugeot saloon	N/A	N/A	<u>None:</u> *(No technology transfer; No employment creation; No revenue gain; No economic value add)*	To be discontinued and moved to SKD.
Knock Down Level 1 (SKD)	Permissible	Not permissible	Body separate from driveline etc. Paint and trimming allowed. Other components in condition available from OEM & part suppliers. Monocoque (mono-construction) body/chassis allowed for	None	3 years	Change to level 3	10% Import duty and 10% excise duty for 3 years of 1000 units whichever comes first This should only be allowed if all consumable parts are procured for after sales which are	Audit progress; assess plant preparedness for full CKD assembly

			Passenger vehicle (SUV, Station Wagon & Saloon). Subject to OEM engagement for the development of KD Regulations.				developed and manufactured locally. Where this is no procurement of locally developed or manufactured parts, the import duty should be 25%.	
Knock Down Level 2	Permissible	Permissible	Painted welded cab, rear body and chassis devoid of trim, electrical and mechanical attachment. Side members supplied loose for riveted or bolted truck or bus chassis frame. As for Pick-ups (S&D) and SUV - the	All current and new local assembly requiring international quality certification from OEMs for full export compliance. EG: Daimler, Hino, Scania & Tata Local models get quality certification	To be determined by the National Automotive Council in consultation with OEMs.	Rationalization by model type	Prohibitive CBU import tariffs for homologated models assembled locally Zero rate primary and intermediate band inputs for local parts manufacturing Where there is no local content development or absorption by the	Periodic inspection for adherence to CKD assembly rules Ensuring Local Content Absorption Coordinate & support model rationalization & homologation

			Chassis to come welded and painted. Other components in condition available from OEM & part suppliers. Including monocoque mono-construction chassis/bodies for mini-buses.	from KEBS & NTSA			assembler / franchise holder there should be prohibitive import tariffs. Where these is local content absorption the duty should be 0%	
Knock Down Level 3	Permissible	Permissible	Cab, rear body and chassis supplied in sub-assemblies for welding and painting; Untrimmed.	Isuzu	To be determined by the National Automotive Council in consultation with OEMs.	To guarantee major investment at this level there is a requirement for increase in unit volumes to justify investments. Therefore, ban of second-hand vehicles should be considered, together with	0% import duty and 0% excise duty. Including 50% discount on corporate tax for 10 years. Introduce local content absorption benefit of tax reduction of equal percentage on local parts consumed. Where	Periodic inspection for adherence to CKD assembly rules Ensuring acceptable Local Content Absorption

						model Rationalization.	there is no local content development or absorption by the assembler / franchise holder there should be prohibitive import tariffs.	
			Side-members supplied loose for riveted or bolted truck or bus chassis frame. Pick-ups (S&D) and SUV the Chassis to come welded and painted.	EG: FH215, Isuzu,	For new body and paint shops			
			Other components in condition available from OEM					
Full Manufa	Full manufa	Full Compo	Pressed panels,	None	300,000 plus +	Long term	0% import duty and	Organizing part

cture	cture	nents manufacture	forged components etc. in Country		300M USD (for pressing, forging and casting Industry)	objective	0% excise duty. Including 100% discount on income tax for 10 years.	producers into reliable regional / global supply chains

10 GLOSSARY OF TERMS

Assembly Plant - An assembly plant is a factory where several diverse size items that make vehicles/motorcycles are put together, usually using parts which have been made in other factories.

Automotive Aftermarket - The automotive aftermarket is the secondary market of the automotive industry, concerned with the manufacturing, remanufacturing, distribution, retailing, and installation of all vehicle/motorcycle parts, chemicals, equipment, and accessories, after the sale of the automobile by the original equipment manufacturer (OEM) to the consumer

Automotive Industry - production relating to vehicles and motorcycles or the business of making, selling, or repairing cars.

CBU – Completely Built Unit. Imported fully assembled.

CKD - Fully disassembled automobile that is required to be assembled by the end user or the reseller.

Commercial vehicle - is any type of motor vehicle used for transporting goods or paying passengers.

Component- Uniquely identifiable input, part, piece, assembly or subassembly, system or subsystem, that (1) is required to complete or finish an activity, item, or job, (2) performs a distinctive and necessary function in the operation of a system, or (3) is intended to be included as a part of a finished, packaged, and labeled item.

Disruptive Technology - A disruptive technology is one that displaces an established technology and shakes up the industry or a ground-breaking product that creates a completely new industry.

DKD- Direct Knocked Down vehicle. Imported whole with minimal components (wheels and accessories) fitted locally.

Light Commercial Vehicle - a commercial carrier vehicle with a gross vehicle weight of no more than 3.5 metric tons (tonnes).

Passenger Car - is a road motor vehicle, other than a motor cycle, intended for the carriage of passengers and designed to seat no more than nine persons (including the driver).

Motorcycle – a vehicle with two wheels, three wheels and four wheels that is powered by a motor greater than 50cc or greater than 500W and less than 4KW electric motor with a maximum weight of 450Kg.

Quadbike – a four-wheeled motorcycle powered by a motor.

Quadri-cycle – a four-wheeled microcar defined by limitations in terms of maximum weight of 450Kg, speed of 70Km/hr and maximum power of 15 Kw for an electric motor.

R&D - Research and development (R&D), refers to innovative activities undertaken by corporations or governments in developing new services or products, or improving existing services or products.

SKD (Semi Knocked Down) "Working" finished vehicles subsequently knocked down into a very limited number of parts.

Sub-assembly - a unit assembled separately but designed to be incorporated with other units into a larger manufactured product.

Wananchi - (in East Africa) the ordinary people; the public.

11 ANNEX 1: LIST OF MOTOR VEHICLE PARTS

List of motor vehicle parts currently manufactured in Kenya, and aligned to Schedule 3 and 4 of the Customs and Excise (Unassembled Motor Vehicle) Regulations, 1993

1. Oils
2. Greases
3. Fuels
4. Hydraulic fluid
5. Sealers
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. Radio and cassette players
14. Hydraulic jacks
15. Scissor jacks
16. Tool kits
17. Batteries
18. Tyres
19. Tubes
20. Radiators
21. Exhaust pipe and silencers
22. Leaf Springs
23. Spare wheel carriers
24. Seat frames
25. Wiring harness
26. Brake linings
27. U bolt nuts and U bolts
28. Disc brake pads
29. Hydraulic dampers / shock absorbers
30. Windscreen, side and rear glass
31. Spark plugs
32. Disc pads backing plates
33. Battery cables
34. Shackle pins for leaf springs
35. Speedometer cables
36. Engine air filters
37. Safety belts