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1.1 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 constitution further prescribes the principle of consultation as the basis for decision making.

The Vision 2030 framework also provides guidance for the policy development as it 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, Kenya Industrial Transformation Programme framework and the ‘Big 4’ development strategy have also created national conversations that have informed the development of the National Automotive Policy.

Kenya’s international obligations with respect to bilateral, regional and multilateral partners have also been contextualized in the development of this National Automotive Policy.

1.2 The Historical Trend: From 1960s

Globally, the automotive industry has been a pillar of industrialization of many economies and a key driver of macroeconomic growth and technological advancement. 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 and several other emerging economies.

In Kenya, the automotive industry has a potential to significantly contribute to the manufacturing sector, and the government targets to increase its share to the GDP from the current 9.2% to 15% by 2022 as part of the big Four Agenda. This will also be instrumental in achieving Vision 2030, of creating ‘a globally competitive and prosperous country with a high quality of life’. This vision also aims to transform Kenya into “a newly-industrializing, middle income country providing a high quality of life to all its citizens in a clean and secure environment”. Schematic diagram 1 and graph 1 showing automotive development timelines and volumes assembled in Kenya respectively are as indicated below:-
The future of automotive industry was thrown out of balance in the 1990s as the liberalization era ushered in cheap used car imports. 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 timeline above and the production trends in graph 1 and 2 below show some significant volume problems especially after the year 1996.
Given the trends above, it is important to note that Kenya imports a very large variety of second hand brands comprising over 85% of imported Fully Built Units (FBUs). In addition to used vehicles being costly to maintain, used vehicles also constitute a major drain of foreign exchange resources to an average of 60.05 billion KES per year between 2012 and 2017 as indicated in table1 below.
Table 1: Revenue Lost to Imported FBUs (KShs Billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Import Value – Unassembled</th>
<th>Total Import Value – FBUs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>10.7</td>
<td>62.5</td>
</tr>
<tr>
<td>2016</td>
<td>14.3</td>
<td>57.7</td>
</tr>
<tr>
<td>2015</td>
<td>18.9</td>
<td>75.5</td>
</tr>
<tr>
<td>2014</td>
<td>18.4</td>
<td>68.2</td>
</tr>
<tr>
<td>2013</td>
<td>12.3</td>
<td>52.7</td>
</tr>
<tr>
<td>2012</td>
<td>10.5</td>
<td>43.3</td>
</tr>
<tr>
<td>Totals</td>
<td>85.2</td>
<td>360.3</td>
</tr>
</tbody>
</table>

Source: KRA Data 2018

2.0 The situational Analysis and Performance

Market volume is a precondition for successful growth of the automotive industry including parts manufacturing. Other factors important for these include: GDP per capita, infrastructure development, consumer behavior, local firm capabilities etc. The numbers of vehicles imported in respective years; for which used vehicles comprise on average 80% are shown. This data clearly shows that the country imports sufficient volumes to sustain a viable motor industry in Kenya even without considering exports. Tables 2 and 3 below give summaries of import volumes and new vehicle sale in Kenya:

Table 2: Vehicle Import Volumes in Kenya

<table>
<thead>
<tr>
<th>Year</th>
<th>Total FBUs Imported</th>
<th>Value in KES</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>63,759</td>
<td>43,735,108,433</td>
</tr>
<tr>
<td>2013</td>
<td>81,089</td>
<td>52,721,912,458</td>
</tr>
<tr>
<td>2014</td>
<td>89,703</td>
<td>68,253,096,445</td>
</tr>
<tr>
<td>2015</td>
<td>94,368</td>
<td>75,574,652,834</td>
</tr>
<tr>
<td>2016</td>
<td>75,198</td>
<td>57,509,517,554</td>
</tr>
<tr>
<td>2017</td>
<td>86,626</td>
<td>62,509,431,788</td>
</tr>
</tbody>
</table>

Source: KRA Records 2018
Table 3: New Vehicle Sales – Kenya

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Locally Assembled</td>
<td>8,087</td>
<td>9,295</td>
<td>6,163</td>
<td>4,607</td>
</tr>
<tr>
<td>FBU Imported</td>
<td>9,199</td>
<td>10,228</td>
<td>7,371</td>
<td>6,115</td>
</tr>
<tr>
<td>Sub Total</td>
<td>17,286</td>
<td>19,523</td>
<td>13,534</td>
<td>10,722</td>
</tr>
<tr>
<td>EAC Exports</td>
<td>320</td>
<td>442</td>
<td>334</td>
<td>322</td>
</tr>
<tr>
<td>Total</td>
<td>17,606</td>
<td>19,965</td>
<td>13,868</td>
<td>11,044</td>
</tr>
</tbody>
</table>

Source: Kenya Motor Industry Association (KMIA)

Under the right policy and investment conditions; full capacity single shift production of 34,000 units (which would create over 150,000 jobs) can only replace 38% of total imported FBUs using 2017 figures. This means that with full protection, the industry can run on 3 shifts and have over 80% of the new vehicles assembled consumed within Kenyan market alone. The potential is immense.

2.1.1 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. A brief synopsis is indicated in the tables 4, 5 and 6 below.

Table 4: Current capacity utilization, 2017

<table>
<thead>
<tr>
<th>Current Capacity Utilization (Total production)</th>
<th>Installed Capacity</th>
<th>34,000 on single shift (can do up to 3 shifts)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Capacity</td>
<td>16%</td>
<td>5490 Units</td>
</tr>
<tr>
<td>Turnover Annually</td>
<td>KES. 60B</td>
<td></td>
</tr>
<tr>
<td>Value of Imported Raw Materials</td>
<td>70%</td>
<td>KES. 31.5B</td>
</tr>
<tr>
<td>Value of locally produced local content</td>
<td>30%</td>
<td>KES. 13.5B</td>
</tr>
<tr>
<td>Market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Locally Consumed</td>
<td>94%</td>
<td>5180 Units</td>
</tr>
<tr>
<td>Exported</td>
<td>6%</td>
<td>310 Units</td>
</tr>
<tr>
<td>Employment at this stage</td>
<td>No. of Direct Jobs</td>
<td>3,000 People</td>
</tr>
<tr>
<td>--------------------------</td>
<td>-------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Total Revenue to Government; Income Tax, Customs Duty, Excise, VAT PAYE, - Domestic Market</td>
<td>KES 8B</td>
<td></td>
</tr>
</tbody>
</table>

Source: KAM & KRA Records, 2018

Table 5: Revenues, Local Content Utilization and Exports
Commercial Vehicles Segment

<table>
<thead>
<tr>
<th>Current Capacity Utilization (Commercial Vehicles - Total production)</th>
<th>Operating Capacity</th>
<th>1-3 Years (%)</th>
<th>3-5 Years (%)</th>
<th>5-7 Years (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover Annually</td>
<td>16%</td>
<td>50%</td>
<td>70%</td>
<td>100%</td>
</tr>
<tr>
<td>Value of Imported Raw Materials</td>
<td>70%</td>
<td>70 %</td>
<td>65%</td>
<td>60%</td>
</tr>
<tr>
<td>Value of local content</td>
<td>30%</td>
<td>30%</td>
<td>35%</td>
<td>40%</td>
</tr>
<tr>
<td>Market</td>
<td>94%</td>
<td>90%</td>
<td>80%</td>
<td>70%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Value of Imported Raw Materials</th>
<th>42B</th>
<th>131.2B</th>
<th>170,625,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of local content</td>
<td>18B</td>
<td>65.6</td>
<td>91.8</td>
</tr>
<tr>
<td>Locally Consumed</td>
<td>5,114</td>
<td>15,300</td>
<td>19,040</td>
</tr>
<tr>
<td>Exported</td>
<td>326</td>
<td>1,700</td>
<td>4,760</td>
</tr>
</tbody>
</table>

Source: KAM & KRA Records, 2018
<table>
<thead>
<tr>
<th>Total Revenue to Government: Income Tax, Customs Duty, Excise, VAT PAYE,</th>
<th>From Domestic Market</th>
<th>16%</th>
<th>8,000,000,000</th>
<th>50%</th>
<th>70%</th>
<th>100%</th>
<th>25,000,000,000</th>
<th>35,000,000,000</th>
<th>50,000,000,000</th>
</tr>
</thead>
</table>

Table 6: Passenger Segment Projections

(Assumed total passenger car assembly full capacity for AVA & KVM in addition to other form of assembly is 9,000)

<table>
<thead>
<tr>
<th>Current Capacity Utilization (Total Production)</th>
<th>Current Capacity Levels</th>
<th>Operating Capacity</th>
<th>1-3 Years (%)</th>
<th>5-7 Years (%)</th>
<th>1-3 Years (unit)</th>
<th>3-5 Years (unit)</th>
<th>5-7 Years (unit)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>11%</td>
<td>1,000</td>
<td>50</td>
<td>70</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>11%</td>
<td>5.5B</td>
<td>50</td>
<td>70</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Value of Imported Raw Materials</td>
<td>99%</td>
<td>5.4B</td>
<td>99%</td>
<td>99%</td>
<td>99%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1%</td>
<td>55M</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Value of Locally Produced Raw Materials</td>
<td>94%</td>
<td>940</td>
<td>90%</td>
<td>80%</td>
<td>70%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Locally Consumed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

9 | Page
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.

The total installed capacity for assembly of motor vehicles in Kenya is 34,000 units per year on single shift alone and over 100,000 on three (3) shifts. Table 7 below highlights capacity utilization for motor vehicle assembly.

**Table 7: Motor Assembly plants capacity utilization**

<table>
<thead>
<tr>
<th>Assembly Plant</th>
<th>Brands &amp; Franchise Holder</th>
<th>Capacity Utilization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Isuzu East Africa Limited Nairobi</td>
<td>ISUZU EA - Isuzu</td>
<td>23%</td>
</tr>
</tbody>
</table>
| 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 | 2% |
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

National Average for Motor Vehicle 30%

2.1.2 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 *(boda bodas)*, 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.

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. This is compounded by the absence of a clear automotive policy framework.

At present, there are several players 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. Whereas the motorcycle assembly industry is dominated about two players as indicated in Table 8 below, there are also several informal/make-shift Motorcycle assemblers.

Table 8: List of motorcycle assembler and respective market share

<table>
<thead>
<tr>
<th>No.</th>
<th>Company</th>
<th>Brands or Franchise holder</th>
<th>% Mkt Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Auto industries ltd</td>
<td>Bajaj</td>
<td>39.04</td>
</tr>
<tr>
<td>2</td>
<td>Car &amp; general</td>
<td>Tvs</td>
<td>21.29</td>
</tr>
<tr>
<td>3</td>
<td>Honda</td>
<td>Honda</td>
<td>7.64</td>
</tr>
<tr>
<td>4</td>
<td>Ryce E.A.</td>
<td>Hero</td>
<td>0.99</td>
</tr>
<tr>
<td>5</td>
<td>Abson motors</td>
<td>Haojin</td>
<td>4.75</td>
</tr>
<tr>
<td>6</td>
<td>Makindu motors</td>
<td>Skygo</td>
<td>7.03</td>
</tr>
<tr>
<td>7</td>
<td>Captain motorcycles</td>
<td>Captain, tiger, dayun</td>
<td>13.39</td>
</tr>
</tbody>
</table>
2.2 Local Automotive Component Manufacturing sector

Component manufacturing in Kenya currently targets the after sales market more than assembly. This is more of a volume business and competitiveness against competing foreign brands that come into the country cheaply from Europe and Asia. The completion is also against used spare parts from Japan and Asia; and others extracted locally from vehicles determined to be no longer road-worthy.

Nonetheless, auto component manufacturers have survived in the market as way back as the 1970s; although not all have been lucky to survive that long. Each components sector player currently is estimated to employ on average 256 people and contributes over KES 40 million annually in tax revenues to government.

Global Original Equipment Manufacturers (OEMs) are increasingly moving away from component manufacturing and focusing more on their own brand, marketing and distribution channels. In turn, leading component manufacturers must operate at scale and develop regional hubs to be close to their end markets – Kenya can position itself as one such hub. Given the right incentives and stable predictable auto policy environment, auto parts have the capacity to employ a lot more people, create further spin-offs, and spur the growth of iron and steel industry due to the high consumption of steel. Regional supply chains can be built, joint ventures can be attracted and Kenya can become a regional and continental hub of auto parts supplying both assembly and after sales markets in EAC and Africa at large.

2.2.1 Local Motor Vehicle Components manufacturers

There are about 25 local motor vehicle component manufacturers with a combined average capacity utilization of 36%as listed in table 9 below. List of parts manufactured locally is also given below.
<table>
<thead>
<tr>
<th>Part manufacturers</th>
<th>Capacity Utilization</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Pipe Manufacturers Ltd</td>
<td>23%</td>
</tr>
<tr>
<td>2. Megh Cushion Industries Ltd</td>
<td>40%</td>
</tr>
<tr>
<td>3. Mutsimoto Motor co Ltd</td>
<td>40%</td>
</tr>
<tr>
<td>4. Auto Springs EA PLC</td>
<td>35%</td>
</tr>
<tr>
<td>5. Associated battery manufacturers Ltd</td>
<td>60%</td>
</tr>
<tr>
<td>6. Highway Upholstery Car Cushion</td>
<td>30%</td>
</tr>
<tr>
<td>7. Sai Raj Ltd</td>
<td>45%</td>
</tr>
<tr>
<td>8. Numerical Machine Complex</td>
<td>20%</td>
</tr>
<tr>
<td>9. Pinnacle systems Ltd</td>
<td>40%</td>
</tr>
<tr>
<td>10. Digital Bass auto</td>
<td>30%</td>
</tr>
<tr>
<td>11. Chui Springs</td>
<td>30%</td>
</tr>
<tr>
<td>12. Impala glass</td>
<td>30%</td>
</tr>
<tr>
<td>13. SKL springs Ltd</td>
<td>30%</td>
</tr>
<tr>
<td>14. Auto axillaries Ltd</td>
<td>30%</td>
</tr>
<tr>
<td>15. Metal Equipment Ltd</td>
<td>30%</td>
</tr>
<tr>
<td>16. Unifilters Ltd</td>
<td>30%</td>
</tr>
<tr>
<td>17. Rubber products Ltd</td>
<td>30%</td>
</tr>
<tr>
<td>18. Specialised fiber glass</td>
<td>30%</td>
</tr>
<tr>
<td>19. Robs Magic</td>
<td>30%</td>
</tr>
<tr>
<td>20. Pantech Ltd</td>
<td>30%</td>
</tr>
<tr>
<td>21. Sagoo Holdings Ltd</td>
<td>30%</td>
</tr>
<tr>
<td>22. Kenrub Ltd</td>
<td>30%</td>
</tr>
<tr>
<td>23. Patmose</td>
<td>30%</td>
</tr>
<tr>
<td>24. Turnometal</td>
<td>30%</td>
</tr>
<tr>
<td>25. Mann Manufacturers</td>
<td>30%</td>
</tr>
<tr>
<td><strong>National Average</strong></td>
<td><strong>36%</strong></td>
</tr>
</tbody>
</table>

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

i. Oils
   ii. Greases
   iii. Fuels
   iv. Hydraulic fluid
   v. Sealers
   vi. Adhesives
Paint
Toughened flat glass
Canvas hoods, covers and screens
Soft trim upholstery
Sound deadening material
Pre mixed metal pre treatment chemicals
Radio and cassette players
Hydraulic jacks
Scissor jacks
Tool kits
Batteries
Tyres
Tubes
Radiators
Exhaust pipe and silencers
Leaf Springs
Spare wheel carriers
Seat frames
Wiring harness
Brake linings
U bolt nuts and U bolts
Disc brake pads
Hydraulic dampers / shock absorbers
Windscreen, side and rear glass
Spark plugs
Disc pads backing plates
Battery cables
Shackle pins for leaf springs
Speedometer cables
Engine air filters
Safety belts

2.2.2 Local Motorcycle component Manufacturers

Motorcycle component production is relatively a new phenomenon in Kenya. There are a number of Motorcycle component manufacturers as well as direct importers of Motorcycle Completely Built Units (CBUs).

Motorcycle parts manufacturers are currently in a position to produce the following components, which should be excluded from the EAC duty remission scheme:
i. Side stand  
ii. Crash guard  
iii. Pillion handle bar  
iv. Right Third rider foot rest  
v. Left third rider foot rest  
vi. Center stand

However, in the next two years (2021), the industry’s local content development plan will be as indicated:-

i. Air cleaner filter  
ii. Harness  
iii. Seat  
iv. Chain Case  
v. Battery  
vi. Rear Fender  
vii. Front Fender  
viii. Tube/Tyre
3.0 Vision, Mission and Objectives of the National Automotive Policy

Given the background and situational analysis of the automotive sector in Kenya, there is potential for growth in the automotive industry under the right policy environment. The development of the policy vision and mission has been informed by sectoral discussions and views of key informants from industry wide consultation as opposed to participatory stakeholder workshops.

This policy strikes a balance amongst sector stakeholders namely: the Consumers; the Assemblers; the Auto Component Manufacturers; Government; Auto Dealers; Global Players; training, research and development.

3.1 Vision

“To be a world class competitive automotive products manufacturing hub”

3.2 Mission

To promote competitive automotive products manufacturing anchored on training research and development

3.3 Objectives

The objectives of the National Automotive Policy are to:-

i. Increase contribution to GDP

To support the growth of the automotive industry in Kenya and become one of the major contributors of a considerable proportion of the manufacturing sector GDP by 2023.

ii. Increase exports

To scale-up exports of automotive products to EAC region from current about 5% to 15% by 2022.

iii. Drive employment generation and skill development

To create a solid foundation for job creation in the automotive sector, both direct and indirect, over the next decade and become a major driver of the manufacturing skills Centre of excellence.

iv. Increase local R&D investments

To give a supportive environment for R&D efforts in the automotive sector for indigenous research, design and engineering in both automotive vehicles and components; including adaption of disruptive technologies.
v. **Promote affordable, safe and eco-friendly reliable mobility**

To promote clean, safe, efficient and comfortable mobility products in the country and region, with a focus on environmental protection and affordability.

### 4.0 Guiding Principles

#### 4.1 Domestic & Export Oriented Automotive Sector

The National Automotive 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 must be geared toward enabling sector players to sell and export competitively within the quality, cost and delivery constraints.

#### 4.2 Road Safety

Increase safety for mobility product users, and reduce cost of infrastructural maintenance. The target is to gradually but systematically reduce and replace the over 80% used vehicle and used parts share of the market with new products manufactured and or built in Kenya.

#### 4.3 Environmental Protection

To ensure adherence to internationally set standards of emission.

#### 4.4 Technology Transfer, Research and Development

Intentional R&D collaborative support will be given to all sector players willing to undertake full research and development in Kenya for the benefit of Kenya automotive skills knowledge accumulation; and the development of mobility solutions that propel other sector of the economy.

#### 4.5 Value addition through local Component Manufacturing

The policy will provide room for incentive regimes aimed at rewarding incremental uptake, collaboration and utilization of locally manufactured products that meet the standards and specifications of OEMs. The National Automotive Council will facilitate the acquisition of component specifications to facilitate investment readiness and production of given components locally. Joint ventures with global value chain players to produce locally in Kenya will be explored at appropriate times. Similarly, standards bodies and agencies will position themselves to certify the products to the full requirements of OEMs.
5.0 Challenges/constraints inhibiting growth and development of the automotive sector in Kenya

Some of the challenges facing the automotive sector include:-

1. Lack of an institutional, legal and regulatory framework for the Automotive industry
2. Poor enforcement of Legal Notice 363 and 489 of 1993 under the Customs and Excise Act for preferential treatment of listed part for local production. Currently imported CKDs include the listed parts
3. The practice by Franchise holders to import parts instead of procuring from the local parts manufacturers is not supportive of local content development and procurement (Motor vehicle, Motorcycle, Trailer, Bus and Body building).
4. There is a mismatch on the training and industry skills requirements thereby creating a gap
5. Poor enforcement of the provision in the Public Procurement and Asset Disposal Act, 2015 on preferences and reservations for local goods
6. Lack of institutional framework to champion the interest of the automotive sector
7. Absence of CKD regulations to support local Motorcycle assembly
8. The 8-year age limit for second hand vehicles applied across the board does not provide adequate incentive for local assembly
9. Automotive parts market is dominated by imported second-hand some of which are of questionable quality or counterfeit parts

6.0 National Automotive Policy Measures

The following policy measures will be taken to develop the automotive sector in Kenya in the immediate, medium and long-term:-

6.1 Institutional, legal and regulatory framework

Create an institutional, legal and regulatory framework for the implementation of the National Automotive Policy
6.2 Support to Motor Vehicle Assembly
The will prioritize the production of buses, trucks, and minibuses. Measures will also be put in place for promotion of saloons, station wagons, and Sports Utility Vehicles (SUVs) including:

i. Providing incentives on different levels of vehicle breakdown (Knockdown)

ii. Government will promote an incubator (phase incubation) approach to grow and graduate the development of motor vehicle assembly in Kenya

iii. Adopting microdot technology to proof-mark all vehicles assembled in Kenya so as to facilitate revenue authorities to clearly separate them from direct FBU and SKD imports that may easily be categorized as CKD assembled in Kenya.

6.3 Harmonization of Regulations and Standards
For harmonization of motor vehicle, the World Forum of Vehicle Regulations under the UN economic commission for Europe was formed with the aim of harmonizing motor vehicle regulations worldwide. UN agreements adopted in 1958, 1997, and 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) Harmonize 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 adopt and implement the approved Design Safety Standards KS2725:
c) Elimination of Non-tariff barriers within EAC to adhere to the EAC Rules of Origin so as to ensure goods manufactured in Kenya and destined for the export markets face no undue hindrances in accessing these markets.

6.3 Creation of a Collaboration Mechanism in the Industry

The Government will facilitate development of the industry through structured collaboration as follows:

a) Between industry and academia:
National Automotive Council (NAC), research institutions, universities and other learning institutions engaged in research and training for industry will collaborate with industry players in the following areas:

i. Research, Design and Development:
   Research, Design, Development and Testing in automotive industry are crucial in assuring safe, less polluting and more efficient vehicles. The Government will put in place programs that will promote Research, Design, and Development of Prototypes for motor vehicles. Such programs will provide a mechanism for deliberating on challenges within the industry which can be resolved through research solutions and thus providing demand (industry) - driven research.

ii. Capacity Building:
   This will address the mismatch between training and industry skills requirement. This is to curtail loss of time and other resources expended by industry players to re-skill/ upgrade the skills of the employees they hire. In order to develop the industry, the government will improve the skills development and training eco-system to be able to provide demand (industry) - driven training. Industry will collaborate with relevant technical institutions in the development of relevant curriculum. The Government in collaboration with the industry players will facilitate the establishment of automotive training institute for demand driven training.

b) Between Assemblers:
The Government through NAC shall 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 is very important to iron
out black market SKD and DKD assemblers that enjoy the same protection and tariff benefits as CKDs yet the level of investment and costs of production vary significantly.

The Government through NAC will work with industry players to agree on a conclusive production road map with accruing benefits for targets realized. This production road map and related incentives that fall within the broader framework proposals that will get the approval of Ministry of Industry, KRA and Sector players.

c) Between Vehicle Assemblers and Component Manufacturers:
The Government through NAC shall facilitate constant and structured collaboration between vehicle assemblers and component/parts manufacturers to progressively discuss growth of the local content. The Government will continuously undertake periodic reviews of the local component manufacturing capacities to guide decisions touching on CKD licensing, public procurement preferences and reservations, incentivization of the sector, amongst other measures.

The policy is meant to incorporate a local content development plan commencing with 10% up to the time of achieving the targeted 40% by 2030, in line with the international best practice. This is for the purpose of enhancing market access especially to the regional export market in addition to creating local employment opportunities.

The Government will promote the development of SMEs through subcontracting and partnership exchange between SMEs and the big assemblers for the purpose of development of local content.

6.4 Development of a Market for automotive sector products and services
The Government will:-

a) Give priority to local manufactures/assemblers in public procurement of automotive products and accessories
b) Ensure that negotiated bilateral/regional/multilateral trade agreements facilitate growth and development of the automotive industry
c) Phase-out plan
Implement a phased out plan to reduce the importation of used vehicles in the Kenyan market while facilitating the local manufacturers to bring to the market
affordable vehicles for diverse domestic market segments that can replace the shortfall emanating from the reduction in used vehicle importation. The age limit on imported passenger cars to move from current 8 years to 5 years by 2019, for vehicle engine capacity of 1600cc and above then to 3 years by 2021. This will help in expanding the market for locally assembled vehicles.

d) Model Rationalization and Homologation:
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 an open process to determine the types of Motor Vehicles to be manufactured locally to promote economies of scale and guarantee volumes for assemblers, local component manufacturers and after market operations. In addition, a punitive tax will be charged to any models outside those supported for promotion through local production.

e) Improve Accessibility to New and Safe Motor Vehicles:
i. Develop a Suitable Vehicle Purchase Scheme:
The Government will work with the relevant stakeholders to develop a concessionary financing scheme to enable individuals and companies to purchase new locally assembled vehicles. The Government will draft for consideration a progressive leasing policy to expand access to new vehicles made in Kenya.

ii. Develop a Vehicle Scrapping Policy:
Grant scrapping rebates to individuals and companies to replace aged vehicles, particularly PSVs with locally assembled new vehicles. Establish mechanisms for collection of used motor vehicles not in use for recycling including imported used parts.

iii. Incorporate a plan on after sales services in the formal and informal sectors including support to training institutions to provide skilled manpower for servicing and repairs. Professional service will enhance safety, compliance to emission standards and reduction in the costs of operations.

6.5 Development of Road and Other Industry Support Infrastructure:
a) The governments will fast track its infrastructure development program as a prerequisite for the growth of the local motor vehicle industry. This will facilitate
accessibility to where road network is poor especially the rural areas where a majority of Kenyans live.

b) The government will also fast-track upgrading of other infrastructural facilities including port and rail to facilitate efficient logistical movement of raw materials to manufacturers and finished products to both local and international markets.

### 6.6 Development of Passenger Transportation Framework (Mobility solutions)

The Government will in consultation with the assemblers and other stakeholders, develop a proper public transportation strategy that will meet both the needs of the Nation and benefit the local assemblers. The Government has established a mass rapid transit project “NAIROBI METROPOLITAN AREA TRANSPORT” (NAMATA).

The Government will work with the industry to get local solutions for NAMATA mass rapid transit project. Local assemblers will work with NAMATA to find an appropriate transportation system e.g. trunk and feeder system including both high capacity and other lower capacity to fully address the city’s transport needs.

The mobility solutions will include facilitation and promotion of the following:-

1. Bus Rapid Transit (BRT)
2. Hail driving
3. Two/three/four (Quadbike) wheeler passenger automobiles

### 6.7 Facilitation of Research and Development and Technology Acquisition

The current trend in automation and data exchange in manufacturing technologies which includes cyber, physical systems, internet of things, cloud computing and cognitive computing should be embraced by the automotive sector.

The government will promote Public Private Partnership (PPP) based industry investments in research and development of commercially viable technologies by:

a) Setting up a ‘Technology Acquisition Fund’ to acquire technologies through licensing agreements, joint ventures or acquisitions.

b) Offering tax exemption on different levels of R&D expenditure through a defined criterion to qualify for exemption.

c) Using ‘Technology acquisition fund’ for providing import duty exemption on auto component prototypes and develop a mechanism to pre-declare such
prototypes to be established. Similarly, a list of target technologies with corresponding components and equipment that will be eligible for import duty exemption shall be provided to NAC for approval.

6.8 Facilitation and 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 agree on a list of products which can be manufactured for use as local content in the locally assembled vehicles. Towards this, the list of locally produced components to be utilized as part of the CKD under the exclusion list under Legal Notice 363 of 1993 and 489 of 1994, will be continuously reviewed and enforced.

b) Building capacity of component manufacturers to produce local content that meet the quality standards and price competitiveness of the OEMs. This will include developing mechanisms which will facilitate the component manufacturers to acquire the requisite designs and testing facilities of the chosen components.

c) Facilitate OEMs to invest in or establish their plants in Kenya

6.9 Provision of preferences and reservation in Public sector procurements:-

a) The Government will undertake preferential purchase of locally assembled motor vehicles by Ministries, Departments and Agencies (MDAs) in the spirit of Buy Kenya Build Kenya strategy through enforcement of the Public Procurement and Asset Disposal Act 2015. This will ensure Government’s effort to give preference to local automotive sector under the Public Procurement and Asset Disposal Act is realized. MDAs remain and will still remain the largest market and consumer of brand new automotive products, and therefore must be purposively targeted by the policy in order to create a relatively ample market for automotive products assembled and or manufactured in Kenya.

b) The government will enact a Local Content Act to further enhance the growth of the local industry. In addition, a list of locally assembled motor vehicles and vehicle parts/components manufactured locally or which meet the local content requirement shall be prepared for use by the procurement entities.

6.10 Develop a Specific Investment Scheme to Promote New Investments and Upgrades in The Industry.
This is an investment promotion incentive scheme to be developed in consultation with the industry in order to attract new investments in motor vehicle assembly and manufacturing of parts. The incentives shall include:

a) Fiscal incentive on local content:
Investors will get a tax incentive based on percentage of local content. The scheme shall set targets which, when achieved, will enable assemblers enjoy the incentive and the same to be reviewed annually.

b) Production incentive:
This is an incentive to encourage local value addition, local content development and promotion of SMEs. Towards this a scheme will put in place to promote local assembly and parts manufacturing that will also include the EAC-CET rules of origin that require manufacturing from complete knock down as basis to confer origin.

c) Export Scheme:
The Government will promote motor vehicle assembly under the SEZ schemes implemented on conceptual basis than the actual physical location for manufacture of vehicles for export.
7.0 POLICY PRIORITY ACTIONS

7.1 Immediate Policy Actions

Create an institutional, legal and regulatory framework for the implementation of the National Automotive Policy

7.2 Short-term to Medium-term Policy Actions

i. Adopting microdot technology to proof-mark all vehicles assembled in Kenya so as to facilitate revenue authorities to clearly separate them from direct FBU and SKD imports that may easily be categorized as CKD assembled in Kenya.

ii. All trucks to be assembled and treated as commercial vehicles including Pick-Up Trucks

iii. Setting up a ‘Technology Acquisition Fund’ to acquire technologies through licensing agreements, joint ventures or acquisitions.

iv. Fully adopt and implement the approved Design Safety Standards KS2725:

v. The Government will fully implement the Buy Kenya Build Kenya strategy and enforce the requirement of the Public Procurement and Asset Disposal Act.

7.3 Long-term Policy Actions

i. Local assemblers will work with NAMATA to find an appropriate transportation system e.g. trunk and feeder system including both high capacity and other lower capacity to fully address the city’s transport needs.

ii. The government will enact a Local Content Act to further enhance the growth of the local industry.

iii. Separate and related incentives shall be established for parts manufacturers to bolster local content growth in terms of Quality, Cost and Delivery (QCD). This will follow deliberation with government and assemblers in respect to the list of items to qualify for this.

iv. The Government will include the motor vehicle assembly as one of the priority industries to be developed under the proposed SEZ schemes.
especially for manufacture of vehicles for export; but rather implemented on conceptual basis than physicality.

v. Develop a Vehicle Scrapping Policy: Grant scrapping rebates to individuals and companies to replace aged vehicles, particularly PSVs with locally assembled new vehicles.

vi. Develop a Suitable Vehicle Purchase Scheme: The Government will work with the relevant stakeholders to develop a concessionary financing scheme to enable individuals and companies to purchase new locally assembled vehicles.

vii. Research, Design and Development: The Government will put in place programs that will promote Research, Design, and Development of Prototypes for motor vehicles. Such programs will provide a mechanism for deliberating challenges within the industry which can be resolved through research solutions and thus providing demand (industry) - driven research.
### The National Automotive Sector: A 12YearRoadmap (2018 -2030)

<table>
<thead>
<tr>
<th>Assembly Level</th>
<th>Passenger car (VW Polo, Toyota)</th>
<th>Commercial Vehicle (All trucks, etc.)</th>
<th>Degree of Breakdown</th>
<th>Current Sector Players</th>
<th>Viable Level Change Quantities</th>
<th>Progression</th>
<th>Government Incentives</th>
<th>National Automotive Council Roles</th>
</tr>
</thead>
<tbody>
<tr>
<td>DKD</td>
<td>Not permissible</td>
<td>Not permissible</td>
<td>Disassembled fully built unit - Bumpers, engine / gear box and rear axle adrift</td>
<td>VW Polo and Peugeot saloon</td>
<td>N/A</td>
<td>N/A</td>
<td>None: (No technology transfer; No employment creation; No revenue gain; No economic value add)</td>
<td>To be discontinued and moved to SKD.</td>
</tr>
<tr>
<td>Knock Down Level 1 (SKD)</td>
<td>Permissible</td>
<td>Not permissible</td>
<td>Body separate from driveline etc. Paint and trimming allowed. Other components in</td>
<td>None</td>
<td>3 years</td>
<td>Change to level 3</td>
<td>10% Import duty and 10% excise duty for 3 years of 1000 units whichever comes first</td>
<td>Audit progress: assess plant preparedness for full CKD assembly</td>
</tr>
</tbody>
</table>
Condition available from OEM & part suppliers. Monocoque (mono-construction) body/chassis allowed for Passenger vehicle (SUV, Station Wagon & Saloon).

Subject to OEM engagement for the development of KD Regulations.

This should only be allowed if all consumable parts are procured for after sales which are developed and manufactured locally.

Where this is no procurement of locally developed or manufactured parts, the import duty should be 25%.
<p>| 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&amp;D) and SUV - the Chassis to come welded and | All current and new local assembly requiring international quality certification from OEMs for full export compliance. EG: Daimler, Hino, Scania &amp; Tata Local model s get quality certification from KEBS &amp; NTSA | 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 assembler / | Periodic inspection for adherence to CKD assembly rules | Ensuring Local Content Absorption | Coordinate &amp; support model rationalization &amp; homologation |</p>
<table>
<thead>
<tr>
<th>Knock Down Level 3</th>
<th>Permissible</th>
<th>Permissible</th>
<th>Cab, rear body and chassis supplied in sub-assemblies for welding and painting;</th>
<th>Isuzu</th>
<th>To be determined by the National Automotive Council in consultation with OEMs.</th>
<th>To guarantee major investment at this level there is a requirement for increase in unit volume</th>
<th>0% import duty and 0% excise duty. Including 50% discount on corporate tax for 10 years. Introduce local</th>
<th>Periodic inspection for adherence to CKD assembly rules</th>
<th>Ensuring acceptable Local Content</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Painted. Other components in condition available from OEM &amp; part suppliers. Including monocque monocoque construction chassis/bodies for minibuses.</td>
<td></td>
<td>Franchise holder there should be prohibitive import tariffs. Where these is local content absorption the duty should be 0%</td>
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<tr>
<td>Content Absorption</td>
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<tr>
<td>Where there is no local content development or absorption by the assembler / franchise holder there should be prohibitive import tariffs.</td>
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</tbody>
</table>

s to justify investments. Therefore, ban of second-hand vehicles should be considered, together with model Rationalization.

There is no local parts consumed.
<table>
<thead>
<tr>
<th>Full Manufacture</th>
<th>Full manufacture</th>
<th>Full Components manufacture</th>
<th>Pressed panels, forged components etc. in</th>
<th>None</th>
<th>300,000 plus + 300M USD (for pressi</th>
<th>Long term objective</th>
<th>0% import duty and 0% excise duty. Includin</th>
<th>Organizing part producers into reliabl</th>
</tr>
</thead>
<tbody>
<tr>
<td>Side-memb ers supplied loose for riveted or bolted truck or bus chassis frame. Pick-ups (S&amp;D) and SUV the Chassis to come welded and painted.</td>
<td>EG: FH215, Isuzu,</td>
<td>For new body and paint shops</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Other compo nents in condition available from OEM</td>
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<td></td>
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The National Automotive Council (NAC) will be established as the institutional framework for implementation of this policy. It will ensure that the automotive sector grows sustainably in the long term.

Towards this, the Ministry in charge of industrialization will establish the National Automotive Council (NAC) to address all issues relating to assembly and manufacture of motor vehicles; and the assembly and manufacture of auto parts in Kenya. The body will be formed to put into force a Public-Private partnership for sustainable development of the Kenyan automotive industry. The deliberations of the council shall translate into detailed frameworks of implementing the automotive policies and regulations and guide their future review.

The thrust of the National Automotive Policy shall be to ensure the survival, growth and development of the Kenyan Automotive industry using local human and natural resources. This is with a view of enhancing the industry’s contribution to the national economy in the areas of employment generation, technology acquisition, effective utilization of local raw materials and resources and in the transportation of people and goods.

9.1 Roles and Responsibilities of NAC

NAC will carry out the following responsibilities:
1. Address measures of facilitating investment in innovation and technology through carrying out industry-relevant Research and Development, suitable for the local market while remaining within the framework of the global trends, especially in areas of fuel efficiency and reduced emissions among others. NAC will monitor and ensure compliance of vehicles with environmental and technical safety regulations.

2. Address measures required to improve the supply chain of automotive products by upgrading the capacity of local component suppliers. NAC will review the parts list in Fourth Schedule under the Customs and Exercise (Unassembled Motor Vehicles) (Amendment) Regulations, 1994; and have a depository of part specifications that can be accessed for component development by component manufacturers at affordable pricing. NAC will regularly study and review the automotive parts and components of the automotive industry in Kenya; and evolve a local content programme specifying which parts and components and parts are to be continually substituted with local ones.

3. NAC will work with Ministry of Trade, Industry and Enterprise Development; the Kenya Investment Authority; and other related agencies to address possible partnerships/joint ventures with foreign investors as a way of upgrading the technology capability of local manufacturers both in the assembly and component manufacturing.

4. Appraise and recommend (new) models of vehicles envisaged for the Kenyan market to ensure model rationalization; and identify and classify the components and parts which can be standardized to ensure their interchangeability.

5. Address the measures required to make the industry more competitive and give the industry an export orientation. This will entail to further recommend any additional incentive measures for ensuring compliance with approved local content development programmes aimed at making locally produced parts very competitive in quality and price. The NAC should look to improve the cost quality and delivery of Parts and sub-assemblies which are currently being supplied to assemblers of Motor vehicles. Incentives should be given for support of currently sourced local content to ensure continued development of the sector.

6. Regularly evaluate the pricing structures and quality of the products of the assembly plants to ensure international competitiveness; and forecast the
demand and supply patterns for various types of automotive products produced in Kenya and the basic raw materials requirement.

7. Address means of creating a roadmap for the skills and training needed to address skills gaps in the automotive sector.

8. Address means of improving access to finance both for investing in the industry and purchase schemes for locally assembled/manufactured vehicles.

9. The NAC will be charged with undertaking periodic inspections of all assemblers of auto mobiles to verify the apparatus and adherence to both safety and assembly regulations and all KEBS applicable standards. An inspection certificate shall be issued for the period; and in the event of failure to meet acceptable industry standards, a notice shall be issued to revenue authorities for one to be deregistered as an assembler. The periodicity of inspection shall be determined by the NAC upon creation, but such periodic inspections must be undertaken at least once every calendar year. This will include setting such penalties to be imposed for non-compliance with the guidelines and programmes specified by NAC.

10. The NAC will be charged with reviewing and advising any parties upon request; for the impact of any proposed laws and or policy changes so as to give policy makers an industry fact based and informed view to ensure continuity of a stable automotive sector policy and regulatory environment.

11. In addition to the legal licenses issued by relevant authorities to importers of automotive products, the NAC will hold an online import pass certification that must be issued to the importer before the IDF is issued. This in effect is intended to foster homologation, reduce counterfeit auto products and ensure full recovery of revenues; part of which revenues will go directly to the funding NAC activities.

12. Work with law agencies and manufacturers to crack down on counterfeits as provided for in the defined roles and mission of the Kenya Industrial Property Institute.

13. Carry out inspection and other quality assurance activities in factories, ports and roads in pursuance of the functions assigned to the Council; and
14. Perform such other functions as may be assigned to it by the Cabinet Secretary from time to time.

9.2 Structure and Membership of NAC

The National Automotive Council shall have the objective and functions embodied by the National Automotive Policy and shall be a body corporate with perpetual succession and may sue and be sued in its corporate name. It is strongly recommended that the NAC should be established through an Act of Parliament. Subject to the drafting of the proposed legislation, this would ensure it attains the inherent recognition and acknowledgement not only in its functions but in order to be incorporated as part of the legislative and policy making process of Parliament.

The Council shall be composed of—

1) A Chairperson appointed by the President on recommendation of the Cabinet Secretary. The Chairperson NAC will have considerable qualification and sector experiences as will be detailed in the regulations effecting this policy. The Council will have the following members who shall be appointed by the Cabinet Secretary on the recommendation of the bodies they represent, that is:

a) a Chairperson appointed by the President with Automotive Industry experience

b) Principal Secretary for the time being responsible for matters relating to Industry;

c) Principal Secretary for the time being responsible for matters relating to finance;

d) Principal Secretary for the time being responsible for matters relating to Transport;

e) One representative from Ministry in-charge of education and training

f) Three Council Member to be nominated by;

   i. The Kenya Association of Manufacturers (assemblers).
ii. The Kenya Association of Manufacturers (parts manufactures).

iii. Numerical machining complex

g) An Executive Secretary

The members referred to in subparagraph (a) (b), (c), (d), (e), (f) (g) and (h) will assume full time commitment to the business of NAC; and will not delegate their responsibilities in matters relating to decision making for the automotive sector.

The NAC will create 3 sub-committees tasked with Skilling; Standards Inspection; and Finance. All subcommittees will have a maximum of 3 members, 2 of which must be from the NAC composition, and 1 member shall be proposed from any of the automotive sector associations. The NAC reserves the powers to assess and approve the 3rd subcommittee member proposed for inclusion. Such subcommittee members proposed from outside of the main NAC composition will not be part of NAC meeting sessions, unless called upon to present reports on the sub-committee engagements. None NAC members have no voting right even if they may participate in NAC proceedings.

1) The Skilling Committee will oversee the skilling programmes aimed at bridging the skills gaps in the industry; and see to it that right partnerships and entered into between skilling institutions and support agencies, as well as ensure and coordinate a proper industrial internship programme for the automotive sector.

2) The standards Inspection Committee will be tasked with periodic inspections and issuing compliance certificates for assemblers and component manufacturers as per the industry standards as will be guided by KEBS and other standards discussed and agreed upon by the NAC.

3) The Finance Committee will see into force the proposed government financing mechanism for NAC; especially the remittances of 2% tariff charge on ALL imported vehicles and parts to government from which funds will be raised towards funding the NAC. The proposed 2% will be broken down to 3 funding priorities namely;

   (i) 30% directly channeled to funding the day to day NAC operations;
(ii) 30% directly channeled to NAC strictly for Research and Development in Automotive Industry in Kenya; and

(iii) 40% to be the contribution of Kenya to the EAC Automotive Development Council (soon to be instituted).

Any other proposed funding mechanisms including contributions from private sector as when agreed by the parties that be; shall be effectively collected and channeled to the funding of NAC operations. The Finance Committee shall account for all funding raised in respect of NAC.

9.3 Funding the National Automotive Council

The NAC will be funded through two major channels specifically;

1) Central Government Funds: A 2% tariff charge on all imported vehicles and parts towards funding the NAC to be effected immediately upon Presidential consent to the National Automotive Policy. The proposed 2% will be broken down to 3 funding priorities namely;

   a. 30% directly channeled to funding the day to day NAC operations;

   b. 30% directly channeled to NAC strictly for Research and Development in Automotive Industry in Kenya; and

   c. 40% to be the contribution of Kenya to the EAC Automotive Development Council (soon to be instituted).

2) Contributions from Automotive Sector Players: Such annual contributions as will be determined by the NAC will in the first months of establishment fund the day to day operations of the NAC as government prepares to channel collected revenues as indicated in (1) above.

3) Donations from partner development agencies towards specific support roles to the automotive industry. Such donations and grants shall be effected in full knowledge and in coordination with NAC.

9.4 Legislation to be considered and reviewed by the Council.

In view of this, it is prudent to note some of the additional Legislation(s) that the Council may wish to review and make appropriate recommendations on, towards facilitating the vision and potential of the Kenyan Automotive Industry. Some of the relevant legislation for the Council to consider include:
i. The Motor Vehicle, Components and Accessories Act 1965 – The Council would take particular interest in this legislation not only because of the ancillary impact that motor vehicle components and accessories have on the larger Automotive industry; but also, in light of the existing and potential Component Manufacturing market that exists (As highlighted in Part 2.3 above). This legislation, though partially repealed, governs the operations and conduct of Component and Accessories Dealers. The definition of ‘dealer’ under the Act refers to a person who deals in motor vehicles and accessories, in respect to purchase or sale of the same. It should be noted that Manufacture of Components and Accessories are not captured within the definition.

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

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

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

ii. The Environmental Management and Co-ordination Act, 1999 – Earlier in this policy, the relevance of this legislation has already been explored, specifically in regards to the governance of Emissions. The Council would play a crucial role not only in aiding the enforcement of the same, but in carrying out a collaborative engagement with the National Environmental Authority to develop specific regulations in respect to the manufacturing and operation of Motor Vehicles. Such provisions of the existing Act that the Council and Authority could jointly engage would include Section 93 and 101 of the Act,
which regulate noise pollution and discharge of hazardous substances from motor vehicles.

As noted in Part 2.3.1 above, Motor Vehicles have already been identified as being large contributors to Emissions in Kenya. However, the Council in order to fulfil its objective of creating Eco-Friendly Vehicles, would need to begin engaging the authority and proposing pragmatic amendments to the legislation where applicable. This would be especially a crucial measure in ensuring new and effective measures in the Automotive Industry, such as use of electrical and hybrid vehicles, are appropriately catered for from their initial introduction to the Market.

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

   a. Exemptions from Registration under the Value Added Tax Act;
   b. Exemption from the payment of excise duties as specified in the Customs and Excise Act;
   c. Exemption from payment of Income Tax as specified under the Income Tax Act for the first Ten Years from the date of first sale;
   d. Exemption from quotas or other restrictions or prohibitions on import or export trade with the exception of trade in firearms, military equipment or other illegal goods. (Amongst other benefits).

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

iv. The Traffic Act and National Transport and Safety Authority Act, 2012

These two legislations have played an integral role in the Motor Vehicle Industry, outside the aspect of manufacturing but the operation of Motor
Vehicles. As road safety an important objective for the Council these legislations would be important to assess. The Traffic Act bears provisions as to the condition and loading of vehicles and regulations in regard to the importation and exportation of vehicles. The Council may consider offering more substantive provisions in respect to the same, especially in regard to the matter of conditions of vehicles and specifications as to the standards to be maintained. Due to the present ambiguity of the provisions it would remain at the discretion of the officers or authorities to determine the applicability of the provisions.

Similarly, the National Transport and Safety Authority Act, establishes the Authority there under and its various mandates. Key objectives of the Authority include to implement policies relating to road transport and safety, as well as manage and regulate road transport systems. In view of this, the Council ought to engage in a collaborative engagement with the Authority in order to spearhead relevant guidelines and regulations in respect to the enforcing Road Safety and ensuring that sub-standard vehicles are identified and addressed. A particular aspect to be examined in respect to the same would be the measures employed in determining a Vehicle’s ‘Roadworthiness’ and how often the same should be administered. Currently the same is provided for under the NTSA regulations.

v. Second Hand Motor Vehicle Purchase Tax Act

This legislation simply addresses the rate of tax applicable to the Purchase of Second-Hand vehicles. Given that the Council intends to make the Automotive Market more vibrant and competitive, there may be urgent need to review this Act. Although the Council would like to encourage purchase of vehicles from within the market rather than through importation, the present legislations appears to apply to all vehicles. The Council may wish to review the legislation in line with the proposed tax increments on used vehicles, and create several classes and criterions, of how taxes would be applicable and the specific rate.
# The National Automotive Policy Implementation Matrix

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<th>Plan</th>
<th>Period (Years)</th>
<th>Issues</th>
<th>Principal Actors</th>
<th>Budget (KShs)</th>
<th>Means of verification</th>
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<td>One year (2018)</td>
<td>• Finalization of NAP (Cabinet Approval)</td>
<td>SDI, KVMA, MAAK &amp; APMA</td>
<td></td>
<td>Institutional &amp; Regulatory framework</td>
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<td></td>
<td></td>
<td>• Establishment of Institutional and legal framework</td>
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<td>• Review and Enforcement of local content</td>
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<td>Medium term</td>
<td>2019-2022</td>
<td>• Establishment of Institutional and legal framework</td>
<td>SDI, KVMA, MAAK, APMA &amp; KLRC</td>
<td></td>
<td>Institutional &amp; Regulatory framework</td>
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<td></td>
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<td>SDI, KVMA,</td>
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<td></td>
<td>Review the policy to address emerging developments</td>
<td>MAAK &amp; APMA</td>
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11.0 Glossary of Terms

**Assembly Plant** - An assembly plant is a factory where several diverse size items that make cars 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 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 cars 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).

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.