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REPORT ON

MOTOR VEHICLE INDUSTRY  
IN KENYA

PREPARED FOR

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

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KAKA ENGINEERING SERVICES

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## INTRODUCTION

The motor vehicle industry in Kenya has achieved significant growth during the last two and a half decades emerging from total dependence on imported vehicles to local assembly and manufacture of some of the vehicle components. This has resulted in the establishment of three assembly plants and over 65 auto ancillary units supplying both the original equipment and replacement markets. This growth has been achieved through private sector initiative combined with policy support from the Government. The promotion of the motor vehicle industry by the Government has mainly been motivated by its potential for job creation especially through the emergence of various auto ancillary industries, its role in the transfer of technology and linkages to other manufacturing industries.

Government's role in the development of the sector has been through provision of finance for investment (directly or through its parastatal finance institutions), allocation of foreign exchange, protection through tariffs and in case of some locally manufactured items, a total ban on their importation. The protection of the industry initially led to comparatively high prices of locally assembled vehicles which became increasingly out of reach for the ordinary Kenyan.

Recent liberalisation of the economy has had a major impact on the industry. Whereas previously importation of fully built vehicles was difficult and restricted through application of high taxes and cumbersome importation procedures, it is now easy for individuals, vehicle dealers and even franchise holders to import fully built vehicles of their choice. Tariff protection has been reduced and in general while unassembled vehicles intended for local assembly attract 15% import duty, duty on fully built vehicles ranges from 30 - 45%. Vehicle components not manufactured locally attract 30% duty as compared to 20% for components available from local industries.

As a result of these recent developments local assembly of passenger cars has declined while importation of cheap second hand cars has taken over the bulk of the market. The situation as regards commercial vehicles has however not been adversely affected to the same extent. Franchise holders still find it more attractive to assemble buses, minibuses and trucks locally than import them fully built and the assembly plants are therefore concentrating on this line of business. Furthermore with the development of a common market for the PTA region (COMESA) and increasing possibility of closer co-operation within the three East

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African countries, export potential for locally assembled commercial vehicles exists and is yet to be exploited. As regards the manufacture of motor vehicle components, the liberalization has led to very low capacity utilisation especially for those auto ancillary industries that had relied heavily on the original equipment market such as soft trim and upholstery.

Thus the present motor industry in Kenya may be described as one heavily dependent on imports especially for passenger cars and simple assembly with some local content for the commercial vehicles. It has also the potential to export (commercial vehicles) to neighbouring countries especially those within the PTA region. The facilities for local assembly and component manufacture have already been established and have been able to produce vehicles of acceptable standards. Furthermore for a country with an acute unemployment the support of the industry would be in the national interest.

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#### I. CURRENT STRUCTURE OF AUTOMOTIVE INDUSTRY

Over the years the automotive industry in Kenya has been moulded by the prevailing economic factors. Prior to the economic liberalisation effected in May 1994, the industry was firmly controlled by the Government through legislation and selective allocation of foreign exchange. To date, these barriers have been removed, except for selective application of tariffs and taxation.

The current motor industry in Kenya can be structured into sectors of manufacturing and sales, service sector, simple assembling sector and conventional component marketing sector. The marketing and sales sector is dominated by various franchise holders with adequate support from banks and stabilised by numerous insurance companies. The service sector largely kept up-to-date by franchise holders and dominated by informal sector operators, is the life line of the industry. The simple assembling sector is supported by completely Knocked Down Kit (CKD) sourced overseas by franchise holders. Conventional component manufacturing, largely under overseas franchise, is supported by simple assembly plant's and replacement market.

Recently and as a result of economic liberalisation coupled with the inflationary erosion of purchasing power of most Kenyans the demand for imported second cars has grown tremendously. The emergence and enlargement of the second hand car market in Kenya to 20% market share within a period of 1 1/2 years has increased the car product mix and brought in problems of sourcing spare parts and servicing technical know-how.

The diagrammatic relationship among the main players in the industry is as shown in Figure A.

This structural relationship is central on the franchise holders, completely controlling the life line of the contract assemblers. Direct importers source spare parts, mainly from far east and either distribute them directly to the replacement market or through the formal and informal dealers. The second hand cars are sourced from Japan and Dubai by numerous second hand car dealers and sold directly to the customers.

According to one franchise holder, M/s D.T. Dobie, there are 41 vehicle makes and over 3000 models imported from Japan, France, Sweden, Germany, UK, Italy, South Africa, South Korea and India, with Japanese vehicles accounting for 60% of the market share followed by French, Korean and Indian vehicles respectively.

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Vehicle population in Kenya is controlled by registration and subsequent annual renewal of licences. The total registration of vehicles for one year gives the approximate number of new vehicles brought into the country while the number of vehicles holding current licences gives a fair estimation of total number of vehicles on the Kenyan roads. Table 1 and Table 1b shows the distribution of vehicles holding current licences for the period 1981 - 1989 giving the market share of each type of vehicles. The figures for motor cars include passenger cars, motor cycles and tractors. In order to visualise the vehicle distribution easily, and for the sake of analysis, the two tables 1 have been represented graphically in Figure 1 and Figure 1b:

Similarly Table 2 and Table 2b shows the yearly vehicles registration for the same period and the same data has been transformed into graphs in Figure 2 and Figure 2b to produce similar graphs. More detailed registration data for the period 1990-1994 is shown in Table 2c.

The data in Table 3 gives the vehicles sales by the main franchise holder for the period from 1990 to 1995 (estimated) and the corresponding market share by type. These figures do not include motor cycles and tractors while the breakdown of vehicles sold in 1993, 1994 and 1995 were not readily available.

#### Findings

- . The observation from Figure 1 is that the Kenya motor industry has had gradual and smooth growth (average 5% per annum). All types of vehicles had a uniform proportional growth.
- . As a result of the above observation, the market share for each type of vehicles has been almost constant as shown in Figure 1b.
- . The automotive industry in Kenya is very sensitive to changes in economic performance, especially the generation and availability of foreign exchange as shown in Figures 2 and Figure 3. The decline of the motor industry from 1990 to 1993 was due to collapse of donor funding to Kenya. The decline in vehicles sales in 1982-1983 was due to civil strife in country while the decline 1984-1985 was due to famine.
- . From the past growth rates the vehicles population in Kenya can be estimated to 350,000 vehicles with market share distribution as per Figure 1b.
- . The market for new vehicles is fairly shared among the main franchise holders.

During the last two years D.T. Dobie (Mercedes, Nissans etc), Marshalls (Peugeot) have had the highest sales as indicated below:

FRANCHISE HOLDER	UNITS SOLD		
	1993	1994	1995
D. T. Dobie	817	1185	1362
Toyota	746	945	1188
Marshalls	744	1325	1396
Simba Colt Motors	338	504	568
Hyundai Motors	-	579	465
General Motors	880	875	1269
Cooper Motors Co.	719	997	1175

## II. VEHICLE ASSEMBLY PLANTS

Assembly Plants were set up in 1974 with the investment capital sourced from the Government and various franchise holders such as D.T. Dobie, Marshalls, Cooper Motor Corporation and Motor Mart. The objective of setting up the plants was to create employment, increase Value Added and Saving on freight charges on importation of Fully Built Unit (FBU) and generate linkages to the manufacturing industries. The set-up plants were simple, highly labour intensive, and utilising Completely Knocked Down Units (CKD) sourced and supplied by franchise holders from overseas manufacturers. Simple assembling started in 1977, initially targeting commercial vehicles and later included passenger cars. The assembly plants were protected by legislation prohibiting importation of fully built units.

After the economic liberalisation of 1994, the importation barriers were removed and replaced by market forces of price differentials and quality. The vehicles with low volume sales and complex shapes become uncompetitive to assemble locally and are now imported fully built. To date there are three assembly plants, namely General Motors (K) Ltd in Nairobi, Associated Vehicle Assemblers in Mombasa, and Kenya Vehicle Manufacturers located in Thika.

### A. Kenya Vehicles Manufacturers Ltd (KVM)

The shareholders are the Kenya Government with 35% and two franchise holders, M/s D.T. Dobie & Co. (K) Ltd and M/s Cooper Motor Corporation Holding Ltd with 32 1/2% each. Currently the government has plans to sell shares to the private sector but firm decision has not been reached because the other two share holders have pre-emptive rights on the government shares.

The assembly process is labour intensive, assisted by numerous jigs and fixtures for each model. Wheeled trolleys on rails are the main handling equipment



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on all the lines. The manufacturing Jigs were developed by KVM and financed by the franchise holders.

Kenya Vehicle Manufacturers Limited has no assembling franchise and relies on negotiated assembling contracts from Cooper Motor Corporations, E.T. Dobie & Co. Ltd and Simba Colt Motors. They are basically contract assemblers kept in business by continued flow of CKDs from these franchise holders.

Like the other contract assemblers KVM was badly hit by the near collapse of the motor industry in 1992 and 1993 when the donors suspended aid support to Kenya Government. Although the plant has an installed capacity of 6,600 units annual production went down to 1500 in 1993 as compared to 2015 units in 1984 and 3990 units in 1978. The onset of economic liberalisation in 1993 did not help either, although current production has increased to 2,500 units per annum. Fast changing car models, rigid production methods, high investment in jigs and fixtures, have the overall effect of increasing the cost of locally assembled car, far beyond the landed cost of fully built units.

The Land Rover rehabilitation project funded by donors through Kenya Government has been stopped because of lack of donor support. The management of KVM believe that their problems and that of the motor industry are rooted in the erosion of the purchasing power of most kenyans. With this in mind, they have been researching on the development of the three-wheeled low cost vehicle in collaboration with a South African manufacturer. The expected sales volume will be 50,000 units per annum to be sold locally and in the Preferential Trade Area (PTA) market.

### B. Associated Vehicle Assemblers (AVA)

Like KVM, Associated Vehicle Assemblers is a contract assembler incorporated in 1974 with a government shareholding of 51% and two other franchise holders m/s Marshalls and Motor Mart holding the rest of the shares. Currently, plans are underway for the government to sell her shares to private investors.

AVA has five assembly lines which are designed for simple assembly, are highly labour intensive, and confronted by the same problems of inflexibility, and investment in development of Jigs and fixtures as KVM. In 1978 AVA assembled 3330 vehicles increasing to 8765 units in 1987 and thereafter declining gradually to 3078 units in 1992. According to AVA management the plant controls about 62% of all the vehicles assembled in the country.

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### C. General Motors (K) Ltd (GM)

General Motors (K) limited is a simple motor vehicle assembler as well as a franchise holder. Unlike the other two assemblers General Motors (K) Ltd has the independence to decide and choose specific models for local assembly, and more importantly, has the capacity to suit the assembling conditions.

The company was set up in 1975 with government holding 51% of the shares and General Motors Corporation holding the other 49% of the shares. Plans for the government to sell shares are underway but not finalised.

The assembly lines are simple, labour intensive, and designed for commercial vehicles, troopers and saloon cars. Since formation the company has concentrated on the assembly of commercial vehicles and ventured into saloon cars because there were importation barriers. The onset of liberalisation has changed the situation and the sales volume for cars can no longer justify local assembling and hence cars and troopers are now imported fully built. On the other hand, the assembling of commercial vehicles is profitable and competitive and is now the main line of business in addition to distribution of parts and components to its network of dealers. The number of vehicles assembled by GM has generally gone down from 2,847 in 1978 to 2,339 units in 1989 and 1,750 units in 1992 which generally reflects the trend with all the assembly plants.

### D. Findings

Contract assemblers have problems in coping with high product mix brought about by the liberalisation of the motor industry. This is complicated by low model volumes, and at the same time the requirement for high investments in assembling jigs and fixtures. On the other hand assembling specialisation on specific models looks unlikely because the contract assemblers have no independence in model choice.

## III. CAR COMPONENT MANUFACTURE

Over the years manufacturing of car components in Kenya has been motivated by the desire to satisfy the demand in replacement market. Manufacture of such items such as batteries, tyres, leaf springs, radiators, exhaust systems, windscreens, and rubber bushes have attained competitive standards to survive the current economic liberalisation with minimal government protection. On the other hand, the manufacturing of high performance car parts such as engines,

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engine parts, transmission parts, steering systems, and braking system are non-existence. The establishment of simple assembly plants was intended to stimulate the manufacturing of these high performance parts but the standards set by the franchise holders are beyond the capacities of local technologies. In short, the car component manufacturing in kenya has the following characteristics;

- . the kenyan manufacturing industries employ conventional methods and hence, only parts insensitive to changing vehicle models have been developed. These include batteries, radiators, tyres, body building, etc;
- . investments in modern flexible manufacturing techniques to match overseas efficiencies for fast changing car models, have been lacking. The replacement market has become basically import oriented;
- . recent liberalisation of the economy has already put extra pressure on the already poor manufacturing industry by bringing in new competitors from Korea, South Africa, and Taiwan, who have virtually taken over the whole replacement market ;
- . the current structure of the motor industry where the franchise holder is the main player has transformed the whole kenya motor sector into a big commercial enterprise geared towards importation and lacking adequate incentives for local manufacturing

#### IV. GOVERNMENT POLICY

Although the development of the motor vehicle and auto ancillary industry has continuously been emphasised in the past Five Year Development Plans, this emphasis has not always been translated into concrete policies and strategy for the promotion of the sector. Even during the era of government interventionist approach there lacked concrete plans on progressive manufacture of vehicle components or the development of key industrial facilities which could act as a catalyst for the sectors development such as metallurgical industries, forge plants, press shops, precision casting plants, research facilities etc.

##### A. Rationalisation of the Motor Industry

In the late 1970s and early 1980s there was a move to rationalise the motor vehicle industry by restricting the number of vehicle models that could be allowed for both importation and local assembly. The intention was to create reasonable volumes of selected vehicle models and thereby encourage local assembly and component manufacture. A subsidiary concern was the high influx of big engine vehicles leading to high fuel consumption thereby putting pressure on the foreign exchange reserves. In a situation where freedom of choice by individual consumer is ranked high and importation of vehicles sometimes closely linked to external aid and bi-lateral relationships, model selection process was blurred and the efforts to rationalise the industry aborted.

##### B. Local Content

The need to enhance the local content of locally assembled vehicles has always been of concern to the government. At the time of setting up the assembly plants there was an inclusion in the investment agreements of some gradual increase in the local content of the locally assembled vehicles. However the means to enforce and monitor its implementation were always weak or lacking. The enactment of governments' Legal Notice No. 22 of 1980, Legal Notice No. 121 of 1986 and Legal Notice No 245 of 1991 was intended to enforce the use of locally made components in both the original and replacement markets and in a way reflected government's frustration with the low pace at which the local content was growing. The notices effectively banned importation by assemblers and parts dealers of selected vehicle components whose local manufacturing was considered satisfactory and adequate. To oversee the implementation of the legal notices an 'Auto Liaison Committee' was put in place comprising of representatives from the

government, assemblers, franchise holders, component manufacturers and trade associations. With the advent of liberalisation these legal notices though not yet formally revoked, are now irrelevant. However sourcing of local parts by assemblers continue but for reasons of price, transport expenses etc.

### C. Tariff Protection

Tariffs have been widely used by the government to protect the motor industry in the past. Tariffs have at times been made so high as to make imported vehicles more expensive than the locally assembled vehicles. Furthermore in the late 1980s and early 1990s the procedures and requirements imposed by government (special clearance, evidence on source of funds, restrictions on ownership transfer upon registration etc), made importation of vehicles a nightmare. This created a boom for the local assemblers, led to artificially high vehicle prices and sometimes complacency in after-sales services provision.

### D. Liberalisation

During the last few years the government has been liberalising the economy as part of the Structural Adjustment Programme. The motor industry has been heavily affected by this process. Levels of government protection have come down and individuals/agencies are now free to import vehicles or components of their choice without hindrance. The market has as a result been flooded with cheap second hand cars while local assembly now concentrates on the assembly of commercial vehicles. The spare parts market has similarly been flooded with genuine and non-genuine parts which has also lowered prices.

### E. Privatisation

Government's disinvestiture programme is now underway. This will affect those local assembly plants where the government has been having shares. It also means that it will no longer be possible for the government to influence the policies and direction of these companies from within.

### F. Development of a Local Car

In the early 1990s there have been some efforts to develop a local car- so called 'Nyayo' car. The local university and the most modern local engineering workshop i.e Railway workshop have been at the fore front of this effort using the Presidents' Research Fund to undertake the necessary research and development. Although these activities are performed in an air of confidentiality experts in the industry are sceptical and do not see the 'car' being commercialised  
i n t h e n e a r f u t u r e .

G. Informal Sector Support

Due to increasing levels of unemployment, the Government has directed considerable attention to the informal sector since mid 1980s. Policies and programmes have been put in place in support of the sector both by creating a suitable policy environment and providing the basic requirements of finance, training etc that the sector requires. To the extent that most of vehicle maintenance is undertaken by the informal sector, these policies can only improve the provision of such services to the industry.

## VI. INSTITUTIONAL INFRASTRUCTURE

The institutional infrastructure is well coordinated by the franchise holders in the areas of training, consumer credit and finance, and establishment of functional associations. However, the whole institutional infrastructure is trade based catering for the interests of the franchise holders and external manufacturers of automotive parts. The infrastructure for research and development of local manufacturing is lacking. The government once established the consultancy with the University of Nairobi for the development of a Kenyan car. In the end two prototype cars were developed and manufacturing machinery purchased but it appears the final coordination, and sourcing of investment capital never materialised.

Training in the motor vehicle servicing is vital to the franchise holders as well as to the external vehicle manufacturers, first as a source of income for the vast network of service workshops established by the dealers and secondly as the backbone of after sales service. Accordingly, some franchise holders such as D.T. Dobie have set up training colleges, and where necessary, sponsor their employees to train overseas with the automobile manufacturers.

In Kenya there are two motor vehicle associations, namely Kenya Motor Industry Association (KMI), and Automobile Association of Kenya (AA). The Automobile Association covers motoring, drawing its members from motorists, who need driving lessons and insurance covers. The Kenya Motor Industry Association on the other hand draws its membership from contract assemblers, franchise holders, vehicle dealers, spare parts dealers, component manufacturers etc. The Kenya Motor Industry Association has the role of developing a data bank on the industry for its members, provision of consultancy services to members on request, lobbying for maintenance of quality service to customers by members and acting as the spokesman for members in formulation of policies that affect the industry in consultation with the government.

Last but not least, consumer credit and finance is vital for survival and growth of the motor industry. Consumer credit is adequately provided in form of hire purchase loans by the Non-bank financial institutions which are currently 43 in all. The H.P. loans provided by these institutions are normally for short period and repayable within a maximum of 24 months. Processing of such loans is normally fast and subject to the buyer contributing on average 40% of the vehicle cost. In

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recent months the Central Bank has encouraged these Non-bank finance institutions to convert into full commercial banks and this trend is likely to remove their current specialisation in H.P. loans and could pose problems in the financing for purchase of vehicles in future. The insurance companies also play a vital role in stabilising the motor industry through the provision of insurance cover which is compulsory for all vehicles.

### VII. TRANSFER OF TECHNOLOGY

The institutional infrastructure has contributed significantly to the transfer of technology in the motor vehicle service industry and in the field of information technology. The large automotive informal sector, and most of the formal sector draw servicing expertise from workshops run by franchise holders and dealers. Similarly training in the information technology has contributed positively to the transfer of technology in inventory keeping and computer utilisation.

In the manufacturing industry the transfer of technology has not been very effective except in the areas of franchise controlled manufacturing. In a few cases the assembly plants have taken interest in the operations of the component manufacturers and have provided guidance and supervision to ensure that the products are manufactured to the required standards. The development of a kenya car was seen as an avenue for transferring technology but as has been indicated the development has been slow and all together not properly co-ordinated.

### VIII. PHYSICAL INFRASTRUCTURE AND NETWORK

Franchise holders and dealers have sales and service centres in most urban centres, providing both in-house service and field back-up service, especially the agricultural sector. The bulk of the vehicles are maintained by the mechanic operating in the informal sector. These are normally mechanics who will have worked previously in larger motor vehicle garages or with franchise holders and have over time mastered the common vehicle repairs and maintainance procedures. They are cheaper and often provide a faster service with an innovative approach to handling of vehicle problems including minor adaptations to the local conditions. The road network is adequate, although there may be cases of poor maintenance.



## IX. TECHNOLOGY IMPLICATIONS

As earlier stated the transfer of technology has taken place in the service industry, information technology and in some limited areas of manufacturing under franchise conditions of external manufacturers. Technological implications are as follows:-

- . investments in manufacturing car components have been static and even declined in favour of investments in marketing, sales infrastructure and servicing industry.
- . joint ventures to accelerate the pace of transfer of technology has been discouraged by the small market size and high product mix.
- . value added in local assembling has remained static through government protection and is on the decline after the liberalisation of the economy. The structure of the whole motor industry, as it is centred on the franchise holders, who are basically traders (not a manufacturer or assembler) does not offer incentives for research and external collaboration.
- . Kenya Motor Industry Association proposes that the strategy to maximise value added is by creating adequate barriers to the importation of fully built vehicles through increased tariffs and at the same time give generous incentives to the locally assembled vehicles. The optimum tariff differential will in the long run encourage the franchise holders to concentrate on local assembling thereby modernising the assembly plants. The high production cost with the associated heavy investment in assembling tooling (which has been a negative factor to the performance of assembling plants and franchise holders) will disappear as only few viable models will be assembled. Similarly the local content will increase through franchise controlled manufacturing or Joint Ventures as the motor industry becomes more stabilised.
- . The long term strategy for harmonising the fast changing car models with adequate value added is by investing in flexible manufacturing processes. Initial priority must be given to training in computer aided design, operations of CNC machines and computer information technology. Pilot manufacturing plants may be set up, primarily for training operators, but a more feasible approach would be through joint ventures, targeting the replacement market and regional export market. In the long run, the joint

ventures will act as catalyst for investments from local industrialists.

## X. FINANCE

Kenya has a relatively well developed financial sector comprised of 36 commercial banks (foreign and local), 43 nonbank financial institutions, 7 development finance institutions, insurance companies, a stock exchange with 54 listed companies, 20 stockbrokers, and a Central Bank. In recent years the Central Bank has come under scrutiny following collapse of some financial institutions and inadequate control of the money market. The developing of secondary financial market is basically the responsibility of Capital Market Authority (CMA) established in 1990. The CMA has created greater confidence in the security of investments and has regulated new lending procedures and instruments. It has also developed a primary market in private securities and has increased dealings at the Nairobi Stock Exchange (NSE) which to some extent indicates increasing willingness to commit resources in investments. In 1994 for example a total of 43 million shares worth Kshs 3076 million were traded in the NSE as compared to 27 million shares worth Kshs 890 million traded in 1993. Deposit mobilisation is dominated by the four main banks - Kenya Commercial Bank, Barclays Bank of Kenya, Standard Chartered Bank and National Bank of Kenya - which also control lending activities.

The Development Banks have for a long time been the main source of funds for project financing. These include the Industrial Development Bank (IDB), the Industrial & Commercial Development Corporation (ICDC) both being wholly owned Government Parastatals, and the Development Finance Company of Kenya (DFCK) a private company. These banks have participated in the financing of both the assembly parts and the various component manufacturers in the country through provision of both equity capital and loans. For the smaller projects including some of the component manufacturers, motor vehicle repair garages, informal sector operators etc financing has been provided by the Kenya Industrial Estates (wholly Government owned) and the Small Enterprises Finance Company (SEFCO), a private company, amongst others.

Commercial banks in Kenya have generally been a source of working capital finance and other short term loan requirements. The four main banks are all quoted in the Nairobi Stock Exchange including the Kenya Commercial Bank and

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National Bank of Kenya both of which are Government owned banks. For the purchase of vehicles, the main source of finance has been the Non-Bank Financial Institutions such as National Industrial Credit (NIC), Kenya Finance Corporation etc.

Most of the international agencies, (World Bank, IFC, USAID etc) have offices in Nairobi but are not involved in direct funding of these projects. In the past however some of the Development Banks have obtained loans and lines of credit from these agencies and have used such funds for on-lending.

Kenya has traditionally been able to attract foreign investment especially from U.S.A., U.K and other European Union countries in view of its relative political and economic stability. However this situation has changed over the last decade due to tense and unpredictable political climate, tribal clashes etc. With the advent of multi-party politics and embracing of full liberalisation of the economy the future is bright for investment.

## XI. THE MARKET

The tables discussed earlier show that the automobile market in Kenya is elastic and responsive to:-

- . **economic performance:** The suspension of donor aid and famine of 1992 and 1991 led to the scarcity of foreign exchange, seriously depressing the import trade. Manufacturing capacities declined as materials became too expensive or ran out of stock. The demand for transport declined and few vehicles were purchased. The growth of Gross Domestic Product was negative in 1991/92, and only grew by 0.2 per cent in 1993, increasing by 3% in 1994 after the donor funding was restored. The registration of new vehicles followed the same pattern.
- . **Increase/Decrease in real incomes of the people and consumer credit:** Real incomes of the people of Kenya have been declining due to relatively high inflation rates. The ability to purchase new vehicles has been eroded and has only been restored by provision of consumer credit by employers at subsidised interest rates.
- **Vehicle sourcing and price differentials:** The declining real income of most Kenyans has called for sourcing of cheap, less sophisticated car models from India and South Korea. Sourcing of second hand cars from Dubai and Japan

has growth tremendously to take 20% of the market share.

In future, it is expected that the current liberalisation policies will continue influencing the sourcing of motor vehicles from suppliers with prices affordable by Kenyans. Sourcing of commercial vehicles from India and Korea will increase tremendously and similarly for second-hand cars from Japan and Dubai.

#### A. Market Size and Future Trends

Table 1 and fig. 1 show that vehicle population in Kenya had a smooth growth from 200,000 units in 1981 to 277,000 units in 1989, posting an average growth of 5% per annum. In fig 1b the share of market by type was stable at:

Motor cars	-	56%
Pick-ups	-	30%
Lorries/truck	-	13%
Buses/minibuses	-	11%

It is expected that the average growth of 5% per annum has been maintained for the period 1990-94 and by calculation the current vehicle population is about 400,000 units. It is also interesting to note that commercial vehicles (pick-ups, lorries, buses etc) take 50% of the market share and as noted earlier, this is the area with the highest potential for local assembling, first, because the product mix and model change is not so high as for saloon cars especially the Indian source, and secondly, because the saving on freight charges is a big incentive to franchise holders.

The market scene has become very competitive with Western Europe commercial vehicles and Japanese ones competing in terms of quality and price and Indian vehicles, with inferior quality, but offering very attractive prices. Since the manufacturing and commercial activities are controlled by the Asian community it is expected that the Indian source will establish a firm base in Kenyan automotive industry. It is also expected that locally assembled commercial vehicles will be much cheaper and will compete effectively in the regional markets within the PTA countries especially Uganda, Tanzania and Rwanda.

Sourcing of spare parts is highly responsive to price as real incomes for most Kenyans decline. In Kenya there are two types of spare parts namely genuine and non-genuine. Genuine spare parts are imported from manufacturers certified by the vehicle manufacturer while non-genuine spare parts are copied by companies in Korea, Taiwan etc and usually have low price and low performance. The war between genuine spare parts and non-genuine spare parts has been going

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on for a long time and it seems the non-genuine spare parts are winning as the economic conditions become harder for most Kenyans. Furthermore with liberalisation of the economy many more spare parts importers have entered the market and are offering stiff competition to old established importers and lowering the price in the process. Sourcing of these parts is expected to shift to Korea, Taiwan, China and South Africa.

## XII. ENVIROMENTAL CONSIDERATIONS

The Contract Assemblers utilise Completely Knocked Down Kits with no waste generation except in painting shops where small quantities of paints waste is carefully drained as per regulations of the local authority.

The used oil from servicing workshops is carefully collected and sold as industrial oil (after blending) to numerous casting shops in the country.

Currently there are no specific recycling industries for scrapped vehicle bodies. However, there are numerous casting shops which purchase the scrapped engine parts, transmission parts etc and melt them and cast various items for the manufacturing sector. There are also numerous second-hand spare parts dealers who disassemble the old vehicle and sell the parts. All these activities help to decrease the volume of unserviceable vehicles in towns and cities.

The road transport policy especially on invasion of gases is lacking.

## FINDINGS & RECOMMENDATIONS

The recommendations on the development of automotive industry are derived from the following findings:-

- . The Kenya automotive market is relatively small, about 20,000 units per year, but shared by about 10 franchise holders, numerous dealers, and many second-hand car dealers. This market is characterised by high product mix, about 41 makes and over 3000 models.
- . The assembly plants employ labour intensive technology and are unable to cope effectively with the high product mix and fast changing models. Their status as contract assemblers denies them the independence of model choice, on which to build specialisation and cost rationalisation.
- . Local manufacturing industries use conventional methods and lack flexibility to cope with the fast changing models and to compete effectively with manufacturing efficiencies of the far east. Franchise controlled

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manufacturing has covered parts insensitive to car model changes.

The franchise holders who are basically not manufacturers hold the decision on the models to be assembled by the contract assemblers. Since they are motivated by immediate profit, their choices do not take into account the role of specialisation and cost rationalisation by the contract assembler. In the end the fully built units become more profitable than locally assembled vehicles.

Declining real incomes for majority of Kenyans, and current economic liberalisation, has brought increased sourcing of second-hand cars from Dubai and Japan, bringing in all types of models irrespective of whether the service back-up is available or not. Although tariff barriers exist, the importers take advantage of loop holes in the legislation and eventually avoid the barriers. Corruption among the custom officers makes it worse. These second-hand cars are already destabilising the already unstable contract assemblers.

Government policies support contract assemblers by charging lower import duty (15%) for Completely Knocked Down Kits than for fully built units(45%). However the tariff barrier is not enforced and some importers bring in new vehicles and declare them as second-hand vehicles.

### Recommendations

After discussion with Kenya Motor Industry Association (KMI) one way of improving local assembling is to dislodge the role of the franchise holder as the decision maker and substitute with the assembler. This is however, not possible because of the current ownership of the assembly plants. The other option, which looks more feasible, is by increased assembling, through installation of enforceable tariff barriers to all fully built vehicles including the second-hand cars. Current tariff barriers have many loopholes such as cheating on age of car (on which duty payable is based) and evasion of duty payment through corruption.

The barriers on importation of fully built vehicles will shift the emphasis to local assembling by the franchise holders. Their immediate problem will be the high product mix, assembling tools and price. The obvious solution will be to limit the number of models, concentrating only on models with high volume sales. This will lead to model specialisation and cost rationalisation. Local manufacturing will become a reality as model variation becomes minimised.

The management of import barriers and incentives given to local assembling

is crucial to the success of this proposal. The tariff system shown in Appendix 1 should be revised increasing duty for fully built units from 45% to 50% or more and an extra flat rate levy on all imported second-hand cars. On the other hand the import duty on locally assembled vehicles should be lowered to 10% or less. In order to avoid cheating and corruption the enforcement of these policies should involve all interested parties. The assemblers and franchise holders should be involved in the clearing of the vehicles at the ports of entry.

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- (i) Report on Automotive Parts and Components Manufacturing in Kenya (April 1993) - W. K. Kiiru & D. W. Ngii.
- (ii) Economic Survey 1995 - Republic of Kenya.
- (iii) Kenya Gazette Supplement, The Finance Bill, 1994.

## XXI

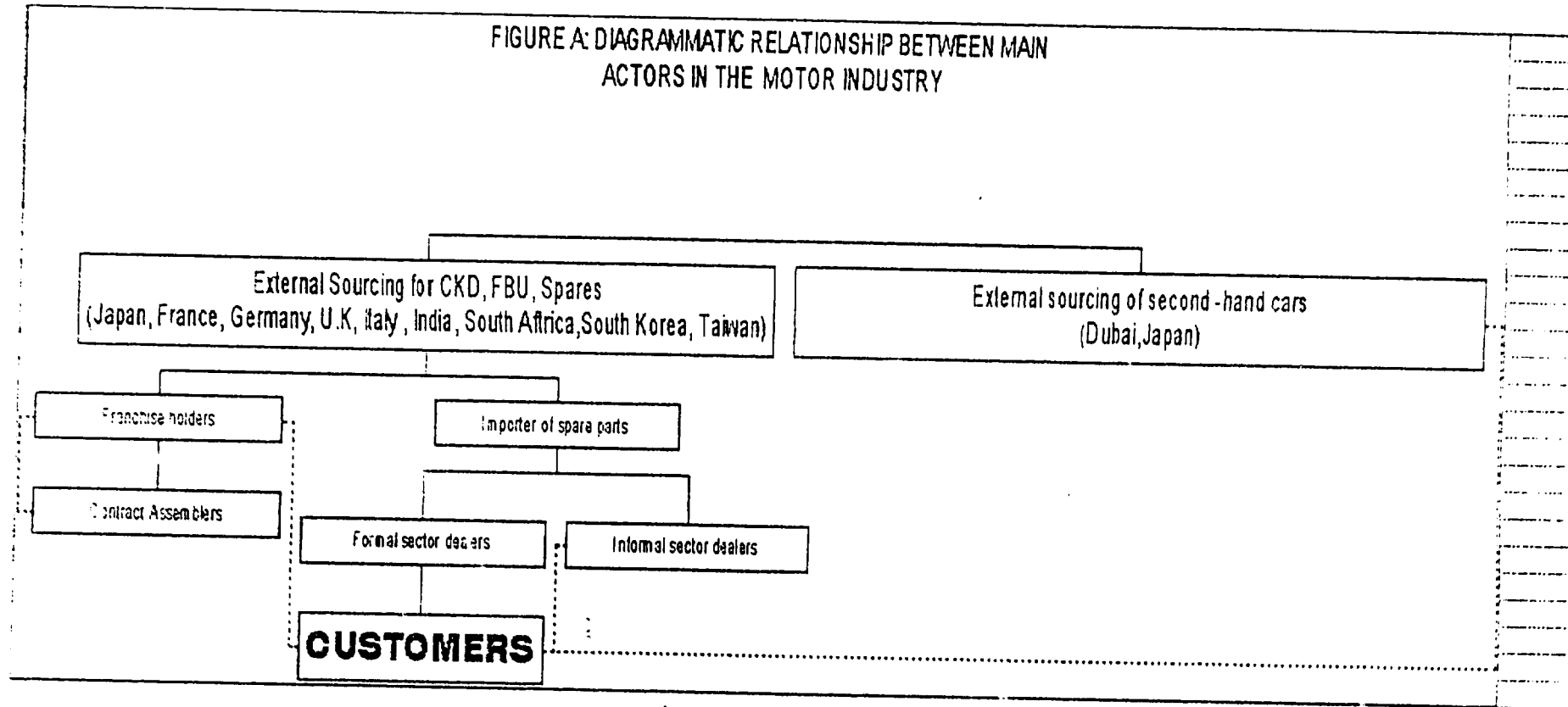
## APPENDIX 1

## IMPORT DUTY FOR VEHICLES AND SELECTED COMPONENTS

<u>Description</u>	<u>Rate of Duty</u>	
	<u>Un Assembled for local Assembly</u>	<u>Assembled</u>
(i) Vehicles (i.e buses) with seating capacity of upto 25 passengers	15%	45%
(ii) Vehicles (i.e buses) with seating capacity exceeding 25 passenger	15%	30%
(iii) Passenger cars	15%	45%
(iv) Vehicles for transport of goods upto 5 tonnes gross vehicle weight	15%	45%
(v) Vehicles for transport of goods of 5 to 20 tonnes gross vehicle weight	15%	30%
(vi) Vehicle for transport of goods over 20 tonnes gross vehicle weight	15%	20%
(vii) Bumpers & parts thereof	-	20%
(viii) Safety seat belts	-	30%
(ix) Brake lining	-	20%
(x) Suspension shock absorbers	-	30%
(xi) Radiators	-	30%
(xii) Silencers and exhaust pipes	-	30%
(xiii) Clutches and parts thereof	-	20%
(xiv) Steering wheels column and boxes	-	20%
(xv) Other vehicles parts and accessories	-	20%



FIGURE A: DIAGRAMMATIC RELATIONSHIP BETWEEN MAIN ACTORS IN THE MOTOR INDUSTRY



AUTO 1

TABLE 1: VEHICLES WITH CURRENT LICENSES BY TYPE

TYPE	1981	1982	1983	1984	1985	1986	1987	1988	1989
Motor cars	114197	115316	116852	122390	128188	127351	133335	141741	150631
Pick-ups & vans	57969	59358	59818	64805	69441	69457	73718	79591	83348
Trucks & lorries	23956	23634	23335	24769	26186	25190	27916	29795	31528
Buses & minibuses	5432	5724	5959	7001	8217	8218	9172	10756	12340
Total	201,554	204,032	205,764	218,875	230,032	230,215	244,141	260,754	277,897

TABLE 1b : MARKET SHARE FOR VEHICLES WITH CURRENT LICENSES

TYPE	1981	1982	1983	1984	1985	1986	1987	1988	1989
Motor cars	56.6	56.5	56.8	55.9	54.9	55.3	54.6	54.4	54.2
Pick-ups & vans	28.8	29.1	29.0	29.6	30.2	30.2	30.2	30.1	30.0
Trucks & lorries	11.9	11.6	11.3	11.3	11.4	10.9	11.4	11.4	11.5
Buses & minibuses	2.7	2.8	2.9	3.2	3.5	3.6	3.8	4.1	4.5
Total	100	100	100	100	100	100	100	100	100

FIGURE 1: VEHICLES WITH CURRENT LICENCES

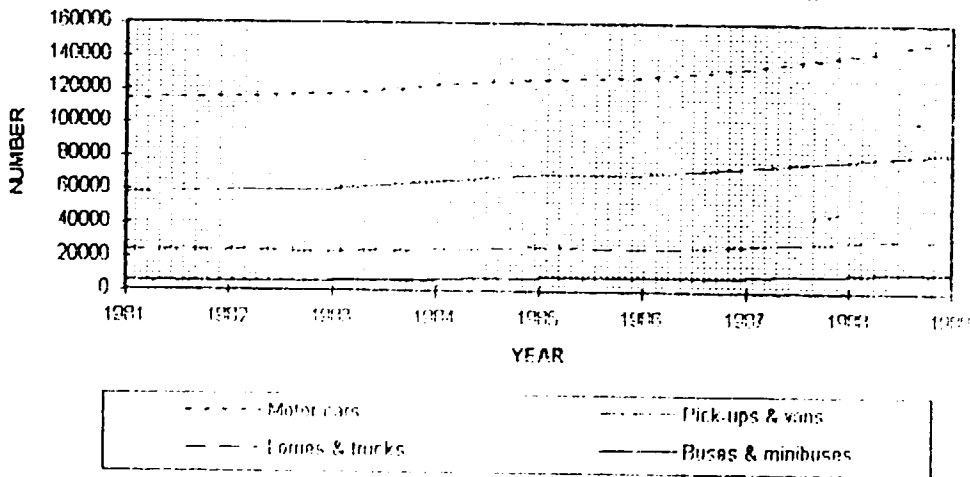


FIGURE 1b : MARKET SHARE OF LICENSED VEHICLES

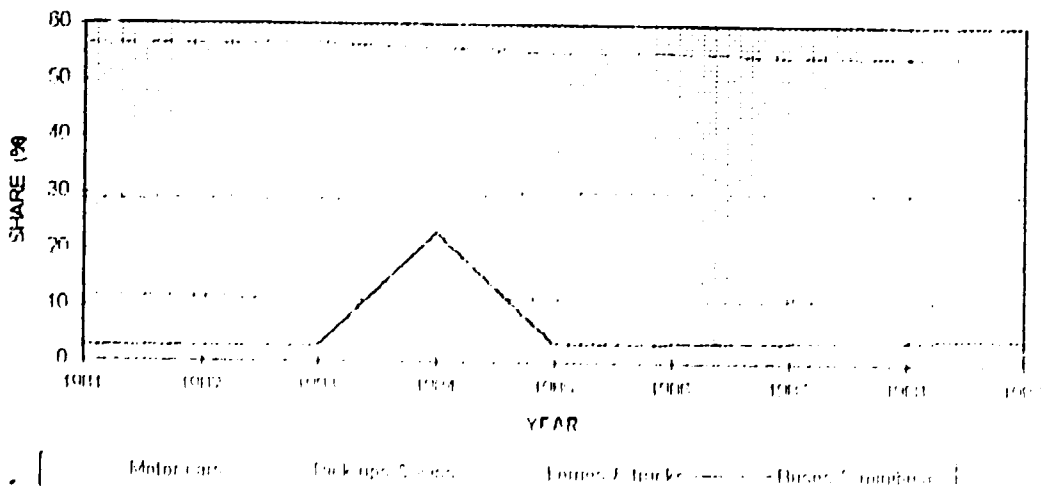


TABLE 2: NEW VEHICLE REGISTRATIONS BY TYPE

TYPE	1981	1982	1983	1984	1985	1986	1987	1988	1989
Motor cars	4513	4545	4995	5448	3917	6321	7922	8450	8899
Pick-ups & vans	6808	5447	4415	5187	4652	4751	4720	4783	4847
Lorries & trucks	711	625	584	1042	1217	1049	1330	1584	1584
Buses & minibuses	2165	1355	1355	1434	1421	1906	1759	1790	1822
Total	14,187	11,972	11,349	13,111	11,207	14,026	15,731	16,613	17143

TABLE 2b : MARKET SHARE OF NEW VEHICLE REGISTRATIONS

TYPE	1981	1982	1983	1984	1985	1986	1987	1988	1989
Motor cars	31.8	38	44	41.6	34.9	45.1	50.4	50.9	51.9
Pick-ups & vans	48	45.5	38.9	39.5	41.5	33.9	30	28.8	28.3
Lorries & trucks	5	5.2	5.2	8	10.9	7.4	8.4	9.5	9.2
Buses & minibuses	15.2	11.3	11.9	10.9	12.7	13.6	11.2	10.8	10.6
Total	100	100	100	100	100	100	100	100	100

FIGURE 2: NEW VEHICLE REGISTRATIONS

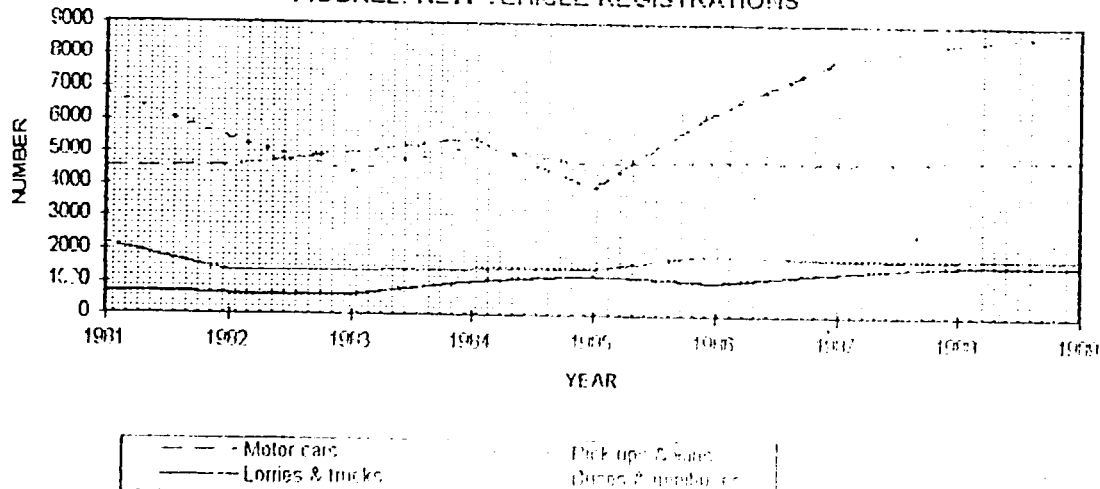


FIGURE 2b: MARKET SHARE OF NEW REGISTRATIONS

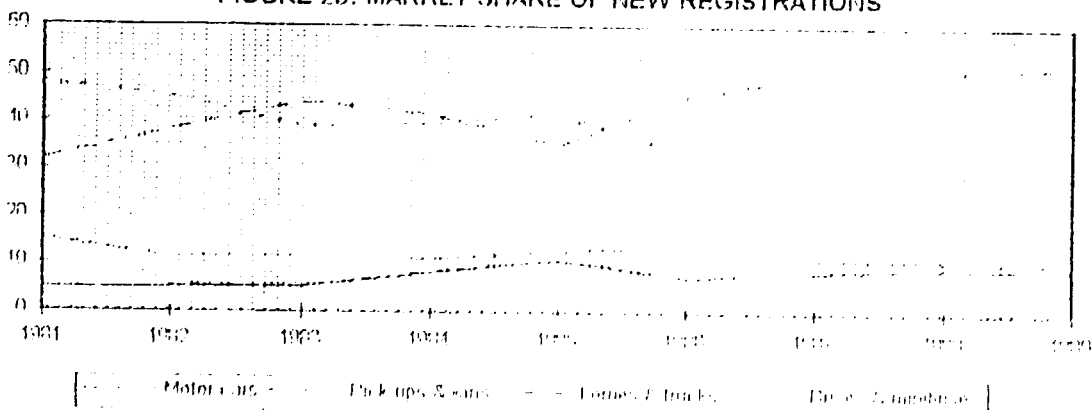


TABLE 3: LOCAL VEHICLE SALES BY MAIN FRANCHISE HOLDERS

TYPE	1990	1991	1992	1993	1994	1995
Passenger cars	5083	3658	3441	n.a	n.a	n.a
Pick-ups	4586	2945	2328	n.a	n.a	n.a
Lorries & trucks	2547	1924	1521	n.a	n.a	n.a
Buses & minibuses	1366	936	1035	n.a	n.a	n.a
Total	13582	9463	8365	4584	6950	8622

TABLE 3b: MARKET SHARE OF VEHICLE SALES BY FRANCHISE HOLDERS

TYPE	1990	1991	1992
Passenger cars	37	39	45
Pick-ups	34	31	28
Lorries & trucks	18	20	18
Buses & minibuses	10	10	13
Total	100	100	100

FIGURE 3: SALES BY FRANCHISE HOLDERS

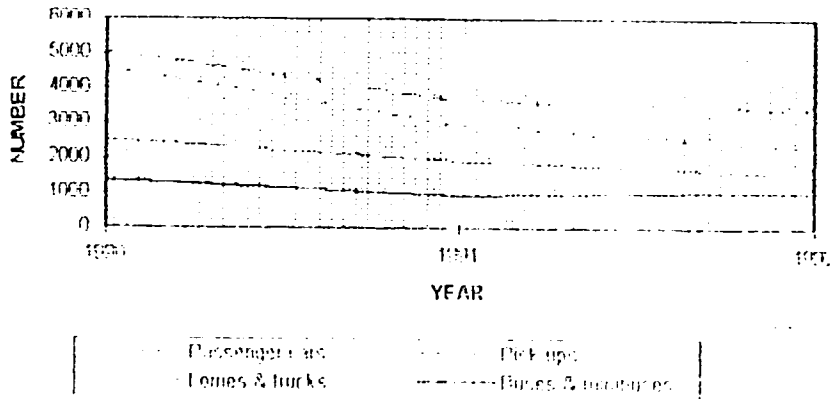


FIGURE 3(b): FRANCHISE SHARE OF SALES (%)

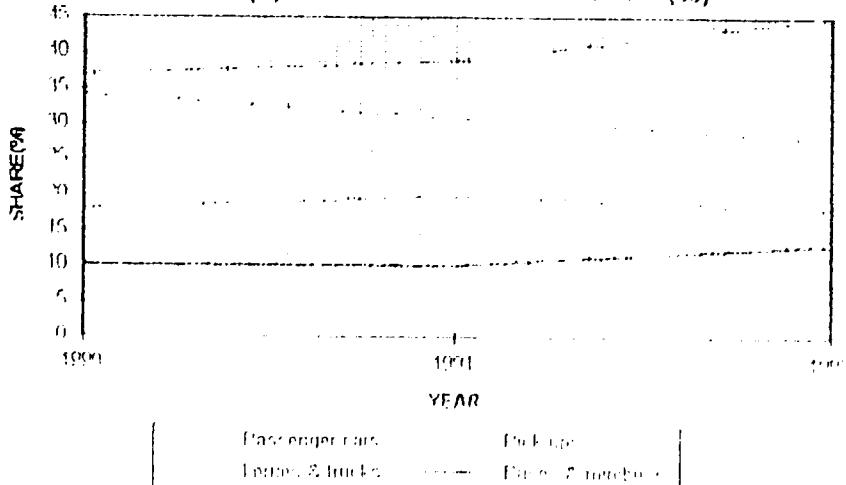


TABLE 2C: NEW REGISTRATION OF ROAD VEHICLES, 1990-1994

TYPE	1990	1991	1992	1993	1994
Saloon Cars	4703	4124	4247	4542	6309
Station Wagons	2452	2558	2081	1828	2428
Panel Vans, Pick-ups, etc.	4998	3943	3728	2510	2840
Lorries/Trucks	1611	1272	1105	750	1091
Buses & coaches	914	762	719	519	319
Minibuses	525	394	447	295	347
Special Purpose Vehicles	35	39	37	20	14
Trailers	419	423	299	291	439
Rollers, Graders, Cranes	42	49	68	55	39
Wheeled Tractors	1127	700	687	474	430
Crawler Tractors	10	6	1	2	3
Motor & Autocycles	1183	1246	1364	1133	1348
Three Wheelers	1	0	2	1	1
All Vehicles	18023	15518	14734	12420	15813