Report on the Automotive Industry Policy of Kenya

October 5, 2018
GRIPS Development Forum

<Mission period> August 20-23, 2018 (4 working days)
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Background and summary

The Kenya mission was organized as part of our policy work in Ethiopia. The GRIPS Development Forum (GDF) and JICA regularly conduct industrial policy dialogue in Ethiopia where Japanese FDI attraction is one of the key objectives. We support the type of Japanese FDI which pursues business interests as well as generates benefits to the host country in terms of technology and skills transfer and the improvement of institutions and policies. FDI attraction in Ethiopia has been promoted by the Ethiopian government as well as MOFA, METI, the Japanese Embassy, JETRO and JICA on the Japanese side, and the UNIDO.

However, mechanical-type manufacturing (including the automotive sector) poses many complex policy issues such as upstream and downstream linkage, proper design of incentives for various processes, reduction of used and parallel equipment import, safety standards, environment protection and traffic control. For such subsectors, it is essential that Japanese FDI thoroughly understand the intention and policies of the host government and, in turn, the Ethiopian government fully grasp the difficulties faced and requests made by interested Japanese firms. A venue for mutual discussion should be created in addition to standard investment seminars and visits. Ethiopia is attractive to investors for its potentially large domestic demand, proactive industrial policy and low wages, but its poor investment climate (which includes the shortage of foreign exchange) and the low quality and productivity of industrial human resource pose major problems for Japanese FDI. A serious discussion between Ethiopia and interested Japanese firms on concrete issues will surely contribute to the removal of these problems as well as the policy learning of the Ethiopian government.

GDF is assisting the Ethiopian metal and engineering sector through the Metal Industries Development Institute (MIDI). One of the cooperation components, in light of the above aim, is to promote in-depth dialogue between Japanese automotive and construction equipment makers and the Ethiopian authorities. During the last several months, GDF has interviewed Japanese firms in this subsector which already export Complete Built Units (CBUs) to Ethiopia, and their Ethiopian local partners, in Tokyo and Addis Ababa, to understand their interests and difficulties toward local assembly. Results have been reported to the Ethiopian government (a letter to PM Abiy; a memo to the Chief of Staff at PM Office, the Minister of Industry, the State Minister of Industry in charge of the metal and engineering sector, MIDI and PSRC).

Through this preparatory work, it has become clear that most Japanese automotive and construction equipment makers have compared Kenya and Ethiopia, then chosen the former to locally assemble vehicles. Their reasons for preferring Kenya have also been studied. To further deepen this research, we organized a trip to Kenya to examine more closely the automotive market and policy of Kenya, as well as the situation and problems faced by Japanese firms in Kenya and their local supplier firms.

The major findings are as follows. First, Kenya has a relatively solid industrial base due to its long history of industrialization and business activities of overseas Indians. Second, the Kenyan automotive strategy is drafted with a strong private initiative. Third, the incentive system for attracting vehicle assembly is mostly reasonable (though problems remain) in comparison with Ethiopia. Fourth, local supporting (component) industries are emerging, though not yet great in number. Fifth, duty-free export to EAC's member countries is beginning via the customs union agreement (however, the market size of neighboring countries is not very big). Sixth, Kenya faces no foreign exchange problem. Ethiopia may look to the Kenyan automotive policy with its strengths and weaknesses as one interesting model, or a benchmark, to improve its own policy with selectivity and necessary adjustments.

We have also noticed several interesting differences about Kenya's industrial support strategy in comparison with Ethiopia's. For guiding kaizen, the Ethiopian Kaizen Institute (EKI) is far more advanced than Kenya's National Productivity and Competitiveness Center (NPCC) in terms of staffing, organization and top political commitment. However, Kenya has a broader policy menu of human resource and organization enhancement. The activities of the Kenya Institute of Business Training (KIBT), supported by JICA, cover productivity and quality, management and marketing, and finance. This can be a model when Ethiopia conducts handholding assistance to SMEs. In addition, the Kenya Industrial Research and Development Institute (KIRDI), with a long history of technical support services, assists SMEs just like Japan's Kosetsushi. KIRDI does not visit target companies, but offers such services as production equipment rental and technical support for product development, testing and certification and consultation. Toyota Kenya Academy (TKA) is a technical training center for Toyota-related staff and car dealers but it also offers courses to street mechanics and other citizens as part of its CSR activities. This is an interesting case where Japanese knowledge is transferred to the local community through a private initiative.

1. The automotive market and tax structure

The following information was collected from the Ministry of Industrialization[1], Toyota Kenya, JETRO, JICA and others.

In the past, Kenya's automotive and its component industries had reached a certain development stage. But it subsequently experienced a serious decline due to the liberalization policy introduced by international organizations in the early 1990s. Permission of import of CBUs led to a huge inflow of used cars which weakened or even destroyed local automotive and parts industries.

The vehicle sales volume in more recent years are as follows.

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[1] The ministry's official name, after the recent restructuring, is the Ministry of Trade, Industry and Cooperative, but many people continue to call it the Ministry of Industrialization. We also use this name in this report.

	Total	Of which		
		Used cars	New passenger cars	New commercial vehicles
2014	84,335	67,059	8,187	9,109
2015	96,996	77,473	8,540	10,983
2016	70,965	57,130	6,340	7,495
2017	84,788	73,921	5,400	5,467

The sales peaked in 2015 but became stagnant thereafter. This was partly due to the political uncertainty caused by the 2017 presidential election and partly due to the lowering of commercial bank lending interest rate ceiling from 17% to 14% in February 2017 and the credit crunch it caused (banks no longer lend to vehicle buyers). Used car sales are recovering from 2017 but sales of new vehicles remain weak. In 2017, the share of used cars in total sales was 87% while the sale of new passenger cars and new commercial vehicles was 6% each. Among new sales, Japanese makers dominate in both passenger cars and commercial vehicles, with Isuzu (34%), Toyota (20%), Hino (3%) as major players.

For reference, the total vehicle sales in Ethiopia in 2016 was 28,020 used vehicles (of which Toyota occupied 76%) and 7,500 new vehicles (of which Toyota occupied 68%; but MOENCO sales was 22% only). Toyota is more dominant in Ethiopia. Comparing the two countries, Kenya has larger total sales as well as greater penetration of used cars.

The automotive tax structure in Kenya is relatively simple and basically does not differentiate passenger cars and commercial vehicles. CBUs are levied with an import duty of 25% and an excise tax of 20%. Meanwhile, Complete Knock Down (CKD) units are exempted from both import duty or excise tax, which means the tax difference between CBU and CKD is 50% (taxes are multiplicable so CBU price rises to 1.25×1.20=1.50 while CKD is 1.00). There are additional charges such as VAT (16%), import declaration fee (2%), railway development levy (1.5%) and MSS Trade levy ($1.75/ton/20 feet). These are common to all imports and do not affect the price difference between CBU and CKD. However, there are specific treatments for special vehicles and designated components of CKD[2]. For details, please see the appendix.

In July 2018, an instruction was suddenly issued to raise the excise tax of passenger cars with relatively large engine capacity, leading to the grievances of automotive businesses. Specifically, passenger cars (gasoline) of 3000cc or above, and passenger cars (diesel) of 2500cc or above, now face an excise tax of 30% instead of 20%.

The tax and customs procedure in Kenya is not cumbersome or complex, and all officers basically say the same things. This situation is quite different from Ethiopia.

Kenya belongs to the East African Community (EAC) and it is the most industrialized nation among its members. Under its customs union arrangement, if intra-regional tariffs are removed, vehicles assembled in Kenya can be exported to other member countries duty-free. This policy is legally already in effect, but there are reports that this has not been enforced on the ground level. But it is reported more recently that commercial vehicles assembled in Kenya began to

[2] Among passenger car CBUs, ambulances are exempt from import duty. Among commercial vehicle CBUs, agricultural vehicles are exempt from import duty. Among passenger car CKDs, positive import duties are levied on designated 17 components. For motorcycles, CBUs face an import duty of 25% and an excise tax of 10,000 KSh per unit, while CKDs face an import duty of 10% and no excise tax. CBU and CKD are the only official distinction in Kenya (there is no definition for SKD). Pickup trucks with single cabin are treated as commercial vehicles while those with double cabin are treated as passenger cars.

cross EAC borders with no tariffs charged.

The Common External Tariff (CET) of EAC is supposed to stipulate the same tariffs on imports from countries outside EAC. There is common benchmarks, but the reality is that each EAC member country imposes different import duties to imports originating in non-member countries. EAC is also discussing the possibility of unified vehicle age restriction on used car imports. Kenya is proposing to reduce the maximum vehicle age for used car imports from 8 to 5 years, and hoping to reduce it further to 3 years in the future. But some observers predict difficulty in early agreement due to different interests of member states, resistance from used car dealers and the problem related to vehicle inspection cycles on the exporting side.

Regarding motorcycles, the new vehicle sales is about 200,000 units and increasing. There are few used motorcycles in the market. Motorcycles with large engine displacement, made by Chinese and Indian producers, are popular. Among Japanese firms, Honda started local assembly of 110cc and 125cc models with the production size of 15,000-20,000 units per year and the market share of nearly 10%. Yamaha also assembles 110cc class vehicles but its share still remains small, about 1%. Kenyan motorcycles are mostly used as motorcycle taxis, especially in rural areas.

2. The Ministry of Industrialization

We have received the following information from Mr. Wabwile Simiyu (Assistant Director of Industries) of the Ministry of Industrialization.

Up to present, Kenya's automotive policies have been fragmented. We are about to complete the first integrated automotive policy. We will have final meetings with the stakeholders, seek cabinet approval, then publish it in the gazette. This will be a cabinet decision rather than a law. We hope it will be ready by October 2018. This policy has been formulated from the views of the stakeholders. More specifically, KAM produced the zero draft which was examined and revised by the Ministry of Industrialization and the Treasury, to balance policy concerns and manufacturers' interests. Measures for passenger cars, commercial vehicles and motorcycles are integrated in this policy. Therefore, stakeholders in all these subsectors were gathered in one place to hear their opinions. KAM is the main lobbying body but we also discuss with KenInvest as well as individual firms. Automotive brands in Kenya include Isuzu, MAN, Volvo, Tata, and Chinese makers. As for passenger cars, VW and Peugeot are engaged in assembly but Toyota is not[3].

Information on automotive import duty structure can be downloaded from the Treasury's document, "Budget Policy Statement Kenya 2018." We also sometimes negotiate with individual firms for special agreements but such information is not included in the policy document or gazettes.

The main aim of the automotive policy is to reduce CBU and increase CKD[4]. For this

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[3] Plants that do physical assembly works in Kenya are Isuzu, KVM and AVA. Toyota assembles one of its vehicles at AVA, but the Kenyan authority does not recognize Toyota as an "assembler." In 2017 there was a press report that AVA was to assemble Peugeot vehicles, but this did not actually take place. There is information that KVM is assembling a small number of Peugeot at present.

[4] CBU means import of finished vehicles. As for CKD, Kenya seems to use this term with an added meaning that it is a local assembly activity which uses domestically produced components designated by the official list. This should actually be called a localization policy. At present, 17 items are designated as domestically available and therefore mandatory components. If an assembler chooses to import them, there will be positive import duties levied on these components. The government is considering expanding this list in light of

purpose, there is a tax difference of 50% (import duty and excise combined) between CBU and CKD. In addition, we are considering to reduce the corporate income tax from 25% to 15% for firms that achieve high local contents. Our main interest is commercial vehicles. Moreover, there is a negotiation going on at EAC to shorten the age limit for used car import from 8 to 5 years. As for motorcycles, Honda is leading the effort to increase local contents from the current six to 30 components. Other motorcycle producers, including Chinese and Indian, must follow. Localization of automotive components is more difficult. In the past, there were Kenyan suppliers producing parts for Isuzu, but they disappeared after the imposition of structural adjustment and liberalization in the 1990s. We are trying to revive them but it is difficult.

Industrial human resource is critical for increasing local contents. TVET institutions and universities offer training but there is a gap between their programs and industrial needs. We are telling these institutions to work closely with industry. Problems exist in instructors, equipment and curriculums. The Ministry of Labor has the National Industry Training Agency (NITA) which operates in five regions. NITA imposes levy on firms which can be withdrawn if the firm trains its workers. This is a policy for all sectors and not specific to the automotive sector.

3. KAM

We met Mr. Jackson Wambua and Mr. Simon Githuku of the Kenya Association of Manufacturers (KAM). Mr. Jackson is a researcher in charge of drafting *Manufacturing Priority Agenda*, an annual report of KAM containing manufacturing industry analysis and policy requests.

KAM is an industrial lobbying body consisting of 1,124 member firms. It is divided into 12 manufacturing sectors and 2 service sectors, and a responsible officer is attached to each of them. The automotive sector is further divided into 4 subsectors (components, body, assembly and motorcycles) and boasts a total of over 100 member firms. Exporters, importers and vehicle dealers and sellers are not included. KAM publishes *Manufacturing Priority Agenda* every year. The latest edition presents five pillars, 32 agendas and 92 actions. These are proposals of cross-sectional actions except automotive-related actions (drafted by Mr. Jackson) which are sector-specific action proposals.

The automotive sector in Kenya is still an infant industry. The component industry is particularly weak. Meanwhile, body makers are many and increasing. Assemblers are Isuzu, AVA (which manufactures trucks and buses) and KVM (which manufactures for VW)[5]。Toyota does not assemble yet[6]. There are about 50 automotive component suppliers among KAM members.

Our policy lobbying this year focuses on two issues. First, Kenya does not yet have a National Automotive Council unlike Morocco. Organizations are scattered and there is no unified system or documents. We propose to create a hub organization in the latest *Agenda*. Second, it is important to reduce the number of vehicle types. By having fewer chassises and

development of the Kenyan automotive industry and its component suppliers.

[5] Isuzu plant is in Nairobi, Associated Vehicle Assemblers (AVA) is located in Mombasa and Kenya Vehicle Manufacturers (KVM) is based in Thika.

[6] See footnote 3. Toyota commissions assembly work to AVA. The public and private sector of Kenya recognize AVA as assembler, not Toyota. KAM's policy document to the government in 2018 also includes the request for Toyota to start CKD assembly.

models, suppliers can concentrate on a limited number of components. The component list for CKD in 1993 is too narrow and must be expanded [this is a list of domestically available components and assemblers must pay additional import duties if they choose to import them]. Isuzu is assisting local suppliers as a private firm. However, there is no government policy for component supplier enhancement yet.

There are two lobbying channels for KAM. For issues related to taxes, import duties and privileges, lobbying is conducted in the process of Budget Process hearing organized by the Treasury. For issues unrelated to money, KAM works with the Ministry of Industrialization and other relevant ministries. KAM's counterpart at the Ministry of Industrialization is Mr. Mahinda (Director, State Department of Industrialization & Acting CEO of SEZ Authority). At any rate, it is praiseworthy that private industrial associations led by KAM work closely with relevant ministries and directorates of the government, and participate very actively in the Budget Process and the drafting of a new automotive policy. This reveals the long history and depth of activity of Kenyan private firms. Ethiopia can learn much from such policy-oriented public-private partnership.

The process of the first lobbying channel mentioned above (with the Treasury) proceeds as follows. KAM collects tax-related issues and requests from member firms (starting in November each year), which KAM summarizes for each sector. Any conflict of interests among member firms is adjusted and resolved within KAM at this point. If there is any policy issues specific to any sector, a Note is compiled. Among 14 sectors, some do not present such requests and issues. The KAM's integrated document of policy requests, over 100 pages, is submitted to the Trade and Tax Committee of the government (February). Thereafter, KAM is called to the Budget Process hearing where it spends more than one day to discuss with the government (end April). KAM is the leading stakeholder in this policy process.

The requests by KAM are included in the Budget although there may be some modifications by the government (end June). The parliament approves the budget around September. KAM is sometimes called to the parliament for further explanation. Manufacturing is one of the Big Four Agenda (universal healthcare, manufacturing, affordable housing, food security) of President Uhuru Kenyatta. But if the government faces a budget crisis, not all requests of ours are approved.

We define CKD as vehicles without tires and SKD as vehicles with tires [we are puzzled by this definition]. For motorcycles, there is no definition of SKD or CKD. For this subsector, the target is to increase the number of component suppliers from six to 30.

Four months ago, Kenya submitted a proposal to EAC to reduce the age limit of used car imports from 8 to 5 years. But Tanzania and Uganda may object. Previous presidents of these nations and our country had personal rapport, but it is lost now. Nevertheless, we hope this proposal is approved within 2019.

4. Toyota Kenya and Toyota Kenya Academy

The government suddenly declared August 21 as a national holiday. Despite this, Mr. Yasuhito Naka (Sales & Marketing Executive Coordinator, Toyota Kenya) and Mr. Hiroyuki Ishikawa (Technical Advisor, Toyota Tsusho East Africa) kindly received us on that day at Toyota Kenya, Toyota Kenya Academy and related facilities (bonded warehouse, used car sales, parts center and Hino truck center).

The former entity of Toyota Kenya (TKEN) was founded in 1962, and TKEN was established in 1999. It now has 527 staff and deals in Toyota, Yamaha and Hino products. In the nice and spacious showroom, we were introduced to Toyota's main models in Kenya, including:

Land Cruiser 200 VX (made in Japan)
Land Cruiser Prado (New Prado 2019, made in Japan)
Land Cruiser 79 Double Cabin Pick-up (boxy style, made in Japan)
Land Cruiser 79 Single Cabin Pick-up (assembled at AVA, body made for safari use)
3 types of Hilux (2WD or 4WD, single or double cabin)
Hilux (made in South Africa, bodywork by Sai Raj)
Fortuner (using the same platform as Hilux)
Rav4 (made in China, Japan or Canada)
Rush (made by Daihatsu Indonesia)
Hiace (made in Japan, with floor and seats mounted by MCI)
Corolla (made in South Africa)

The main customers of Toyota are government (including military and police) and projects. Toyota locally assembled Corolla until 1997, Hilux until 2005 and Hiace until 2006 through production contract with AVA, a company now under Simba which has relationship with the Mitsubishi Group. Land Cruiser 79 has been locally assembled continuously at AVA for 41 years from 1977 to present.

We also visited Yamaha Motorcycle Plant adjacent to Toyota Showroom. Mr. Naka was the key person for establishing this plant. There were many boxes of CBU, CKD (especially compact packaging, 100% imported components) and SKD (semi-assembled) motorcycles. The production line has the capacity of eight processes, 16 workers in two shifts and 100 units per day. At present, production is less than 10 units due to small demand. Yamaha Crux 110cc is assembled here, with all other models imported as CBU. Chinese motorcycles carry similar prices but have more power, up to about 170cc, which make them more popular with motorbike taxis. Yamaha Riding Academy offers training for safety riding.

In 2017, Toyota new car sales were 2,097 vehicles of which 1,485 were commercial vehicles and 612 were passenger cars. Toyotsu Auto Mart Kenya, a related entity established in 2010, sells used cars of Toyota and other brands with a turnover of 941 vehicles in 2017. The Kenyan vehicle market is dominated by used car sales (80-90%), where Vitz, Corolla, Rav4 and Harrier are among most popular. Vehicles in good condition with the age of 6 to 7 are imported cheaply from Japan, and some importers even practice illegal under-invoicing. It is tough to sell new cars when used cars are so popular.

Toyota Kenya Academy (TKA) is a technical training center established in 2014. A new 3-story building with an open top terrace looks down on other Toyota-related facilities nearby. It trains staff and dealers of Toyota, Yamaha and Hino not only in Kenya but in neighboring countries. The current number of instructors is seven, and Mr. David M. Kibera (Toyota Kenya Technical Training Manager) received us. Mr. David started as an intern at Toyota Kenya, studied at a college and now is one of the top instructors in the East African region.

Training courses are in three types. First, TKA provides technical training for Toyota-related staff, dealers and certified service centers in Kenya, as well as Toyota-related organizations in East Africa and English-speaking Sub Saharan Africa. Second, it also offers maintenance and repair training for street and informal mechanics in Kenya at reduced cost as a CSR activity in the framework of Toyota Kenya Foundation (twice a year, open competition basis). Third, there are open courses for general public in agro machinery, forklift, motor grader, small cranes, soft skills and entrepreneurship.

Among these, the first courses (called “Team 21”) are further divided into parts, body, foreman and service front office, each for one-week duration. Internal training for Toyota staff and dealers in Kenya is provided free of charge, and training for Toyota-related staff in other countries is charged with fees. Dispatching organizations must announce for whom and when training needs to be conducted six months in advance. TKA opened in 2012 with 43 courses with 493 trainees in that year, which grew to 164 courses with 1,818 trainees in 2017. The second courses select outside mechanics and teaches six modules (each for one week) over six months with a capacity of 30 trainees per year, for which thousands apply. The third courses are short-term training where JICA senior volunteers in agro and construction machines assisted its establishment. The premise has technical workshops, Kaizen Dojo where customer relations for service and parts are learned through roll play, a number of classrooms, and relaxing spaces such as a tea room, balcony and top terrace.

Toyota Tsusho East Africa, located in Kenya, also covers fertilizer and logistics as well as other miscellaneous businesses which CFAO, a company which Toyota Tsusho acquired recently, conducts in different parts of Africa.

Among Japanese firms, Isuzu (trucks) and Honda (motorcycles) also engage in vehicle assembly in Kenya but the mission were not able to visit them this time.

5. Local component suppliers

In comparison with other African countries, Kenya’s manufacturing base is relatively well developed. This may be due to the long history of contact with Indians, the absence of regimes which suppressed or annihilated manufacturing, and/or relative diligence of Kenyan labor. Driving from the airport to the center of Nairobi, one can see a large number of plants and commercial estates on both sides of the main road. As mentioned many times earlier, Kenyan industrial establishments were decimated by economic liberalization imposed by international organizations in the early 1990s, in which automotive assembly and component industries were no exception. The present may be part of a long recovery and rebuilding period. The mission visited two local supporting industry (component) firms which had business relations with Japanese firms and received JICA support. Both of them were overseas Indian firms.

<Megh Cushion Industries (MCI)>

MCI was founded in 1976, originally a furniture producer, and started vehicle interior production for GM and Isuzu in 1979. Nissan, Toyota and VW were later added as its customers. It is a third-generation Indian firm. Mr. Pavit S. Kenth (Technical Director), first explained to us that the revision of localization policy in 1994 caused a large inflow of used and completed vehicles and destroyed domestic production[7]. There were more than 30 component firms in the past which are now reduced to about 20, with MCI also forced to scale down. This firm produces vehicle seats and related components to the tune of 20,000 trim kits per year, and we toured its production facilities.

[7] Mr. Pavit kindly provided the mission with Legal Note 363 and Legal Note 489 (Schedule 4) which are directly relevant to this policy change.

In 2013, Honda started motorcycle assembly in the adjacent factory, and MCI became one of its suppliers providing processed sheet metal and pipe components for Honda. This permitted MCI operation to grow dramatically because Honda produces roughly 20,000 units per year and the same number of components need to be supplied. Specifically, Honda offered technical support to MCI from 2013 to 2016, sending four engineers to conduct the initial assessment analyzing the quality, cost and processes of parts supply, material certification, welding, powder coating, etc. MCI is rebuilding its plant to a 4-story, 4,000m^2 space with an introduction of new technology and equipment.

Mr. Pavit is also involved in industrial strategy formulation and has strong interest in the automotive and motorcycle policies deliberated by the Ministry of Industrialization and KAM. In his opinion, Kenya needs proper incentives for parts suppliers. Even though automotive policy is driven by the private sector, it is mainly large assemblers and not local component suppliers that have voice. He was also keenly interested in our research on automotive and supporting industry policies in Southeast Asia. He did not know anything about the policies of Thailand, Indonesia or Vietnam. Information from vehicle manufacturing countries in Asia may offer a useful benchmark for Kenya's automotive industry.

<Kenya Coach Industries (KCI)>

KCI is another third-generation Indian firm which does CKD for Isuzu. It buys engines, chassises, tires and operation decks and mounts bodies on them. It has 300 staffs, mainly engineers and technicians. In 1990, the father of Mr. Narain Singh Sokhiit (current Managing Director) started bus bodywork as one (the latest comer) of the eight Suzuki dealers. With a large bus order from Uganda, the company started to expand. The Kenyan bus market then was dominated by British Leland Bus, but the father visited individual customers to appeal to the superior power, economy and maintenance of Isuzu buses. The sales volume, which was zero in the first year, grew to 50-60 units (30 million KSh) by 1994 and currently to 600 units (3 billion KSh). KCI is the largest Isuzu dealer in Kenya, and holds finished product inventory for quick response to customer demand unlike other dealers.

The gravest problem today is a decline of bus sales due to the government policy that lowered the bank lending rate ceiling. This causes commercial banks to refrain from making loans, and bus buyers are left with no money. The government even instructs schools not to borrow money, which completely kills the school bus market. The rumor that this interest rate ceiling may be lifted in this autumn makes banks even more reluctant to lend now. At present KCI's business is concentrated on trucks with few bus orders. Mr. Sokhi also notes that private sector proposals are transmitted to the government through KAM and other organizations, but he feels the opinions of supporting industry firms like KCI are not heard seriously.

KCI built a new main complex of 2ha, integrating hitherto scattered facilities. We toured the entire new complex consisting of a large showroom with high ceiling, fingerprint authentication offices, body workshop, service center, parking area and party space. All were impressive. KCI's bold investment approach is quite different from a typical Japanese firm which starts with minimum investment and expands step-by-step as business volume increases.

6. Enterprise support services

The mission also visited three of Kenya's state-run SME support organizations, KIBT, NPCC and KIRDI, located close to one another, as well as KenInvest, an investment promotion agency. Their services are for all sectors and not automotive only, but information about their operations is useful in creating effective handholding support in Ethiopia.

If we compare KIBT, NPCC and KIRDI with Ethiopian organizations, we notice the following differences. For implementing kaizen, the Ethiopia Kaizen Institute (EKI), with strong mandate from top leaders, excels any other institute in Africa in terms of budget, staffing, organizational structure and dissemination activities[8]. EKI teaches kaizen extensively to not only factories but also public sector organizations and service sectors, and leads city-wide kaizen and national kaizen movement. However, EKI guides only kaizen. By contrast, KIBT with JICA support provides a more comprehensive enterprise support including management, marketing and corporate finance as well as kaizen and 5S. This can be a model of handholding in Ethiopia[9]. Separately, KIRDI is a technical support institution with broad sector coverage, combining the functions of Ethiopia's LIDI, TIDI and so on. Unlike Ethiopian counterparts, KIRDI does not visit individual companies regularly for monitoring or updating information. On the other hand, KIRDI has many facilities for product development, testing, certification and production which are very actively used by local SMEs. The three institutes and KenInvest are explained below.

<Kenya Institute of Business Training (KIBT)>

KIBT is a training agency under the Ministry of Industrialization. The Nairobi headquarters has 12 staff and field offices have additional nine staff. It was established in 1965 and underwent several name changes and changes in the supervising ministry (originally under the Labor Ministry), and became KIBT in 1980. The mission met Ms. Catherine W. Waweru (Acting Director) and several Master Trainers. For a long time, KIBT has taught short courses on management, accounting, marketing and the like to SMEs and micro establishments, with a typical course lasting three days and charging 500KSh. In addition to these courses, it received JICA cooperation on Human Resource Development for Industrial Development from August 2015 which started a new program targeting small and medium firms. Under the guidance of a Japan Productivity Center team, it provides business training, consultation services and capacity building by visiting companies visits. The program also aims to strengthen KIBT's cooperation with other enterprise supporting organizations.

Specifically, JICA's project offers three pillars consisting of (i) productivity and quality management, (ii) financial management, and (iii) marketing and sales, with each eligible firm receiving support for one year (Ethiopian kaizen includes (i) but not (ii) or (iii)). In reality, depending on each firm's preference, only two of the three pillars may be provided. Firms are coached in the Japanese way, by first consulting the firm for agreeing on the theme and schedule, then weekly homework is given for checking progress. The initial project period of three years was extended by an additional year (until September 2019). So far 18 firms have been improved with JICA budget and 2 firms have been improved with KIBT budget. At present only firms in the Nairobi area are assisted, but firms located in other counties must also be

[8] EKI was established under MOI in November 2011 with 11 staff, and has grown to over 100 staff members. It has five directorates covering manufacturing, regional support, public sector and SOEs, research and certification, and service sectors. In the government restructuring of October 2015, EKI was moved to the Ministry of Public Service and Human Resource Development.

[9] In Ethiopia, the bilateral Industrial Policy Dialogue team plans to introduce handholding support (comprehensive and customized support to selected few firms) in collaboration with JICA Kaizen Phase 3 and JICA's new project on Business Development Service.

targeted. For training of trainers, 18 Master Trainers who go to companies with JICA experts and absorb guidance knowledge have been certified, of which nine are KIBT staff and the rest are from other state organizations[10]. There are a few headquarter staff and field staff who have not received training from JICA experts, but they will in time become certified trainers through the teaching of current Master Trainers. KIBT may be able to guide firms even without JICA support, but problems remain with the quality of trainers and the budget. The funding will be expanded by diversifying sources from state to ministries, other institutions and consultation fees paid by benefiting companies.

<National Productivity and Competitiveness Center (NPCC)>

We met Mr. Solomon Kuloba, Mr. Nelson Gaitho and Mr. Samuel Mulei at NPCC, two of whom have received training by the KIBT-JICA project mentioned above. NPCC is a productivity agency under the Ministry of Labor. It rents space within the KIRDI complex. The Center has an old origin and went through restructuring in 2002, 2007 and 2015. The number of experts has increased from 5 to 30. However, some are without experience in *gemba* (production sites), and some move to other offices after receiving JICA training, which is a problem. JICA's Productivity Improvement Project supported NPCC from March 2012 to February 2014, teaching company consultation and service, and fostering productivity dissemination leaders. This project is over, but NPCC still receives cooperation from METI/JPC in the framework of Pan African Productivity Association (PAPA)[11]. Some experts retire at age 60, and vacancies are filled by recruiting new university graduates, who need to be trained. Activities of NPCC include awareness (public relations), external seminars and research. According to NPCC survey, only 1% of population recognize the importance of productivity. This ratio must be raised to 60% by 2030.

Last year, NPCC's Productivity Improvement Program (PIP) for manufacturing actually improved nine firms against the target of 12. It wants to target 20 firms this year. Cooperation with government Ministries, Departments and Agencies (MDAs) is also beginning with pilot programs at the Ministries of Labor, Planning and Agriculture. NPCC first obtains agreement from the top and concludes an MOU, then goes to directorates and sections for training and kaizen implementation. Following the Japanese method, 5S is introduced at one or two places at first, checking the progress every two weeks and later every months, for a total of six months.

In cooperation with the Ministry of Education, NPCC also plans to teach public servants above Director level at the Kenya School of Government (equivalent to Ethiopia's Civil Service University). Currently, a new law governing the Productivity Council and productivity policy is under deliberation in the parliament. NPCC hopes it will pass within this year. This law will grant a status of Department to NPCC with greater autonomy[12].

<Kenya Industrial Research and Development Institute (KIRDI)>

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[10] Apart from KIBT, staffs at NPCC and the Chamber of Commerce were also trained by JICA experts. KIBT has 12 staff at headquarters and nine experts in seven countries. It expects all of its staff to become Master Trainers through the one-year extension of the JICA project.

[11] METI/JPC cooperation is from April 2018 to March 2019. Previously, JPC also supported the organization and human resource of NPCC from 2006 to 2011 in the framework of a METI-commissioned project.

[12] Increased autonomy of NPCC would allow commercial fee-based company consultation, which would strengthen its financial base.

We met Mr. David K. R. Tuigong (CEO), Mr. Nicodemus Mutinda (Deputy Director Corporate Services) and Mr. Calvin Onyango (Research Scientist). KIRDI is a technical support center established in 1914 during the British colonial rule. It was formerly called Commonwealth Scientific Industrial Research (CSIR) and similar centers existed in Ghana, South Africa, Tanzania, India, Canada and Australia. After independence, the Institute served Kenya and neighboring countries. From 1979, it was renamed KIRDI, serving only Kenya. It now has a total of about 100 staff at the headquarter complex, another office in Nairobi and one other office in Kisumu. Additionally, it has many satellite offices across Kenya.

Supported sectors include food processing, leather, textile (cotton), energy (including bio fuels), chemicals (soap, shampoo, cosmetics) and environment (energy saving and clean manufacturing). KIRDI also has sections that do equipment maintenance and research. It covers natural material-based products rather than automotive, machinery or electronics. Nevertheless, its functions are similar to what Kosetsushi does in Japan. KIRDI has laboratories and various equipment, which offer testing, training, product development and production services to SMEs for a fee (subsidized, with greater discounts for SMEs). Service provision starts only when an SME visits KIRDI. There is often a queue for facility use so time allocation among firms becomes necessary.

KIRDI targets to support 500 firms per year. The normal support procedure begins with one-week training, which screens potential firms, followed by product development of three months to one year duration, then actual production by renting KIRDI facilities (called Common Manufacturing). KIRDI officials do not visit firms or monitor the results after the facility use is over. The funding comes from government budget as well as bidding for domestic and international competitive projects[13]. When KIRDI implements donor-funded projects, staff salary is paid by KIRDI while equipment and travel cost are covered by donors. Japan's ABE Initiative supported seven staff to study in Japan during the last five years.

The mission toured about the half of the facilities in six buildings in the KIRDI headquarters. We inspected the development of banana powder, organic ketchup, spices and peanut butter as well as testing and certification of honey brought in by producers as 100% pure honey. Bio gas quality check for commercialization possibility was also being conducted. Besides these, KIRDI also does the Subcontracting Program, which strengthens the capacity of local enterprises to be linked with domestic or foreign buyers. This includes, for example, supporting farmers who process mango pulp for Del Monte's mango juice, and an SME producing an arc welding equipment by the order of a buyer.

<Kenya Investment Authority (KenInvest)>

KenInvest, established as an investment promotion center in 1983, was upgraded by law to the present status. Similar agencies in Ireland, Egypt and Portugal were benchmarked for its creation. The current staff is 65 against the budget allocation of 90 staff. It consists of four directorates: Promotion, Facilitation, Aftercare and Research/policy. Promotion engages in investment attraction activities in accordance with the government's policy (Big Four). Facilitation provides one-stop service for investors in registration, licensing, permissions, etc. Aftercare monitors new and/or important projects every six months and solves problems if any

[13] Mr. Onyango, who walked us through the labos and production facilities of KIRDI, has received funding by winning an European project which was jointly bid with a German researcher. He studied in Germany and has connections there. In addition, Canadian IDRC, AusAID and EU are KIRDI's major project funders.

(later, monitoring every year or when requested). Research/policy conducts various studies on markets, sectors and policies. KenInvest cooperates with relevant ministries and KAM as needed. Negotiations with member countries at EAC/CET are a big challenge for Kenya because there are always some countries that disagree.

Investors do not have to come to KenInvest if they choose to do necessary procedures by themselves. For this reason, KenInvest does not have comprehensive information about investors in Kenya. We asked for recent data on FDI inflow, but that information was available only from the National Bureau of Statistics.

KenInvest follows best investment promotion practices in the world. Ms. Sheila Nyamweya, whom we met, was responsible for Aftercare support of medical service investments. She was highly intelligent[14]. She was interested in official matching services between FDI and domestic firms in Southeast Asia (especially Thailand), so we sent her related documents later.

END

[14] The lady at the Japan Desk who was supposed to meet us was suddenly unavailable, so Ms. Sheila answered our questions. Her explanation was very informative. We got the impression that KenInvest was flexible, customer-oriented and highly capable.

Appendix 1. Vehicle Tax Structure in Kenya

	Description	Customs duty	Excise tax	VAT	Sur tax
1	Passenger car CBU	25% (i)	20%	16%	--
2	Passenger car CKD	0% (ii)	0%	16%	--
3	Commercial vehicle CBU	25% (iii)	20%	16%	--
4	Commercial vehicle CKD	0%	0%	16%	--
5	Motorcycle CBU	25%	Ksh10,000 /unit	16%	--
6	Motorcycle CKD	10%	0%	16%	--

Notes: (i) 0% for ambulance; (ii) positive rates apply for designated 17 part items; (iii) 0% for agricultural use vehicles.

- In addition to above, there are import declaration fee (2%), railway development levy (1.5%) and MSS Trade levy ($1.75/ton/20 feet). Automotive firms say these are manageable and not too cumbersome.
- From July 2018, the excise tax on passenger car (gasoline) of 3000cc or greater and passenger car (diesel) of 2500cc and greater has been raised from 20% to 30%.
- Pickup trucks (single cabin) are classified as commercial vehicles and pickup trucks (double cabin) are classified as passenger cars.

East African Community (EAC) Tariff Regulations
- Intra-regional tariffs for CKD vehicles should be 0% but was not implemented on the ground; there is a report that this has begun to be implemented recently.
- For Common External Tariffs (CET), there are benchmarks but each member country actually levies different rates.
- EAC common vehicle age restriction is under discussion. Kenya proposes the maximum permissible vehicle age for used car import to be reduced from 8 to 5 years; but member countries may object.

Sources: Multiple industrial sources in Kenya, August 2018.

Appendix 2. Vehicle Tax Structure in Ethiopia

	Description	Customs duty	Excise tax	VAT	Sur tax
1	Cylinder capacity 1000-1300cc	35%	30%	15%	10%
2	Cylinder capacity 1301-1800cc	35%	60%	15%	10%
3	Cylinder capacity 1801-3000cc	35%	100%	15%	10%
4	Cylinder capacity exceeding 3000cc	35%	100%	15%	10%
5	C- cabin and single cab – carrying capacity not exceeding 1500 kg	35%	0	15%	0
6	Public transport- seating capacity less than to 15 passengers	35%	0	15%	0
7	Public transport- seating capacity greater than or equal 15 passengers	10%	0	15%	0
8	Truck	10%	0	15%	0
9	SKD	5%	Similar to 1 up to 8 depending on cylinder and seat capacity		
10	Duty Free vehicles	Free of tax			

- Ethiopia is a country with high tax rate.
- On high end vehicles like Land Cruiser VX, the tax when summed up reaches 256% of CIF value of the vehicle, and on small passenger vehicles it reaches 132% of the CIF value.
- For used cars, the tax rates are the same as the above table depending on their cylinder capacity. But a maximum of 30% depreciation (10% for every year since manufacture) is deducted from the CIF price to calculate to the duty paying value.

Local Assembly Tax advantage and local value added (LVA) rule
- The government rule is that SKD benefits 30% import tax reduction provided that LVA is 30% or above.
- There is no clear official rule concerning LVA calculation. It is unclear whether LVA is calculated on CIF basis or ex-assembly factory basis. Furthermore, the rule does not mention what constitutes locally manufactured components or parts.
- The regulation is under review to make it more attractive to investors of the automotive sector.

Source: multiple industrial sources in Ethiopia, August 2018

Mission Schedule

(August 2018)

August 19 (Sun)	Arrive in Nairobi from Ethiopia
August 20 (Mon)	Safety briefing at JICA Kenya Office
	Mr. Wabwile Simiyu, Assistant Director of Industries, Ministry of Industrialization
	Mr. Atsuhiro Naoe, JETRO Executive Director, and others
	Ms. Catherine Waweru, Acting Director, and Master Trainers, Kenya Institute of Business Training (KIBT)
	Mr. Jackson Wambua and Mr. Simon Githuku, Kenya Association of Manufacturers (KAM)
	Dinner with Ms. Keiko Sano, JICA Kenya Chief Representative, and JICA Senior Representatives
August 21 (Tue)	Visit Toyota Kenya to meet Mr. Yasuhito Naka, Toyota Kenya, and Mr. Hiroyuki Ishikawa, Toyota Tsusho East Africa
	Visit Toyota Kenya Academy escorted by Mr. David Kibera
	Tour Toyota-related facilities
August 22 (Wed)	Ms. Sheila Myamweya, Aftercare, KenInvest
	Mr. Pavit Kenth, Technical Director, Megh Cushion Industries (MCI)
	Mr. Narain Singh Sokhi, Managing Director, Kenya Coach Industries (KCI)
August 23 (Thu)	Mr. Solomon Kuloba, Senior Assistant Director, and other experts, National Productivity and Competitiveness Center
	Mr. David Tuigong, CEO, Mr. Calvin Oyango, Research Scientist, and others, Kenya Industrial Research and Development Institute (KIRDI)
	Leave Nairobi for Japan (I. Ohno and A. Nagashima) and Ethiopia (K. Ohno)