DN2 Motoring

Move to shift local car assembly to faster lane excites industry

Draft National Automotive Policy represents a deliberate attempt by the government to put vehicle assemblers on the road to a bright future

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More vehicles on Kenyan roads now boast a local touch. And the number is expected to grow within the next five years once a proposed law to boost local assembly is enacted.

The government has made renewed efforts to revive the industry in line with the Big 4 Agenda. Manufacturing, under which local assembly falls, is one the four pillars expected to accelerate national development.

Of the vehicles that the country imports, a large variety comprise second hand models. They account for more than 85 percent of imported Fully Built Units (FBUs). This makes Kenya largely an importer of used vehicles.

The situation is set to change.

Early last year, the government drafted a bill meant to streamline and improve the fortunes of the motor industry. The proposed law outlines how the government plans to phase out the importation of second-hand vehicles by 2026.

The phased development of the local motor assembly industry represents an ambitious target. Only six years remain for the country to attain this goal.

The Draft National Automotive Policy crafted by the Ministry of Industrialisation represents a deliberate attempt to put the industry on the road to a bright future.

While unveiling a locally assembled Peugeot SUV at the Kenya Vehicle Manufacturers (KVM) plant in Thika last year, President Uhuru Kenyatta repeated his call to entities operating in Kenya to buy locally assembled vehicles and spare parts.

President Uhuru Kenyatta and France President Emmanuel Macron unveil a locally assembled Peugeot 3008 SUV at State House in Nairobi on March 13, 2019. PHOTO | JEFF ANGOTE

Three decades ago, Kenya hit a high of 13,000 locally assembled vehicles. But when the country opened the floodgates to used vehicle imports in the early 1990s, local assembly took a plunge.

The motor industry stakeholders have over the last decade been urging the government to encourage local assembly. The assemblers have repeatedly asked the government to fully support their industry or continue exporting jobs. They have been arguing that if the government does not adopt appropriate policies, vehicle assembly in the country will cease, leading to loss of jobs.

At one time, the Kenya Vehicle Manufacturer (KVM) management warned that unless certain measures were put in place, the country would become an importer of only fully built and more so, used vehicles.

For close to two decades, KVM was operating at 10 percent capacity and the then managing director David Percival feared that matters would worsen with the coming into force of the East African Customs Union as well as competition from Chinese vehicle exporters.

"We have been operating at 10 percent capacity since 1993 because the government gives low priority to Completely Knocked Down Kits (CKDs)," Mr Percival said a few years ago.

Better fortunes await car value chain players

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Kenya's automotive industry is among the most vibrant sectors in the economy and can do better if supported well. It is driven by different players along the value chain, offering specific products and services.

So, when automobile firms expand their local assembly capacities, they create opportunities for other players in the value chain to thrive.

Players in this industry include providers of spare parts and service to vehicle owners.

Body builders transform chasses into vehicles ready to hit the road and serve the public. They paint the vehicles according to instructions by their customers, with some players in the matatu or public service vehicle (PSV) sector going for fancy colours and images on the bodies.

Financial institutions also play a key role in the industry. The credit they provide is instrumental in helping many a Kenyan and even institutions, to own vehicles. Through asset financing, it has become increasingly easy for individuals and organisations to own brand new vehicles.

Other key players in the automotive industry are garages. Some have excelled at offering repair services.

The country is intent on enhancing the automotive industry's assembly capacity in the drive to boost manufacturing. This will help reduce imports of second-hand vehicles and create more jobs.

Kenya's automotive industry has a potential to significantly contribute to the manufacturing sector. The government targets to increase its share to the gross domestic product (GDP) from the current 9.2 percent to 15 percent by 2022 as part of the Big Four Agenda.

$600 million

The turnover of Kenya's motor vehicle assembly industry in 2017

This will also be instrumental in achieving Vision 2030, which aims to transform Kenya into "a newly-industrialising, middle income country providing a high quality of life to all its citizens in a clean and secure environment".

Kenya imports a large variety of second-hand vehicles comprising over 85 percent of imported Fully Built Units (FBUs). Should the number of locally assembled vehicles gain a bigger share of the market, the fortunes of many players in the value chain will positively change.

Available data shows that in 2017, Kenya's motor vehicle assembly industry had an annual turnover of $600 million (including regional dealerships). The industry employed more than 12,000 people. Of these, about 3,000 are directly employed in assembly plants. A further 4,000 are in downstream spin-offs, and about 5,000 in support sectors, excluding dealerships outside Kenya.

Why government must fast-track the draft automotive policy

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The benefits of industrialisation are well-known and the negatives of sustained importation of used vehicles quite clear.

A draft policy by the government to guide the motor industry notes that vehicle assembly plants in the country are operating at an average of less than 20 percent of the installed capacity of more than 30,000 vehicles in a single shift.

The National Automotive Policy therefore seeks to address the challenges affecting vehicle industry. They include the lack of dedicated legal, institutional and regulatory frameworks, importation of parts by Franchise holders instead of procuring from local parts manufacturers, and the influx of used Fully Built Units (FBUs), among others.

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

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

However, Kenya's draft automotive policy notes that there is a mismatch between training and industry skills requirements, given that the curriculum is not in tandem with modern technologies. This creates a skills gap that requires manufacturers and entrepreneurs to undertake on-the-job training, thus increasing cost of production.

To overcome such impediments to the expansion of local vehicle assembly, the country needs to start implementing the right policies. Of concern is the fact that the proposed policy is still a draft.

Time is passing and it is not clear when the draft will be approved for implementation.

President Uhuru Kenyatta has been making pronouncements regarding local assembly in view of the value he attaches to the manufacturing sector as a pillar of the Big 4 Agenda.

How soon will the country start implementing the proposed policy? Kenya is famous for crafting impressive policies and strategies which it leaves to gather dust on public office lockers. Will things be different this time?

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Isuzu drives rich legacy in local manufacturing

The vehicle assembler plans to increase its production capacity to 16,000 units per year by 2022, up from 14,000 currently

Isuzu EA has been the leading local vehicle assembler in Kenya for the last eight years, with over 95 percent of sales in the light and heavy commercial vehicles segment. In 2019, the company closed the year with a historic 44.5 percent market share of new vehicles sold in the country. This success has been driven by the outstanding support of customers and business partners who continue to demonstrate confidence in Isuzu's enduring legacy.

Isuzu has over the last two years invested nearly Ksh2 billion in capacity expansion in terms of plant assembly reorganisation and retooling for its 7th generation models, equipment, automation technology, pick-up assembly, CKD Warehousing facility, and investing in Kaizen programmes whilst also employing a number of highly skilled professionals.

The production capacity now stands at 14,000 units per year on two work shifts. This is expected to rise to 16,000 units per year by 2022 with two crews, working two shifts.

The level of skilled professionals on the vehicle assembly lines varies from technicians to engineers, ensuring there is continued improvement and adoption of new technologies.

Since being founded in 1977, ISUZU EA (formerly GMEA) has worked closely with over 30 local automotive parts manufacturers to develop and supply locally produced components for both passenger and commercial models. These include vehicle seats, harnesses, exhaust pipes, leaf springs, U-bolts, cross-members, paint, batteries and tyres, amongst others.

Isuzu East Africa fully abides by the required legislation and prides itself as the leading local vehicle assembler that ensures such localised parts continuously meet the desired international safety and quality standards.

The first quarter of 2020 started with a totally unexpected hit for humanity the world over after the Coronavirus pandemic struck China. The rapid spread of the virus across the world resulted in the now familiar lockdowns, social distancing and wearing of face masks. The devastating economic impact of Covid-19 has not been experienced before in recent memory.

At a local level, Isuzu has done the very best to ensure customers continue to access vehicles, spare parts and services while observing the stringent safety protocols. As a way of assisting customers especially Small & Medium Enterprises (SMEs) withstand the shock waves, Isuzu has entered into partnerships with financiers such as Family Bank and Co-operative Bank to support purchases at customer friendly terms.

Isuzu recently delivered one hundred, 33-seater PSV buses under a leasing scheme supported by the Co-operative Bank to enable the passenger transport sector, which has been severely hit, get back to business.

Ksh2 billion

The amount of money that Isuzu has invested over the last two years in capacity expansion in terms of plant assembly reorganisation and retooling

It is important to note that the Kenya government has played a key role in setting a policy geared towards rebuilding the economy. Under the Big 4 Agenda led by President Uhuru Kenyatta, the government has set aside funds to purchase vehicles from local assemblers under the economic stimulus package, which strongly complements the ***Buy Kenya, Build Kenya*** procurement policy. This is not only a great show of situational awareness but also a major stamp of approval by the government, for local manufacturing.

Isuzu is optimistic about the resilience and recovery of the economy. The company will continue to fully support its customers to ensure they access vehicle transport solutions that meet their needs, with genuine parts and robust aftersales services to fulfil its promise of being a "Trusted logistics Partner".

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DT Dobie and Volkswagen committed to local assembly

Since the launch of the first locally manufactured German vehicle in 2016, DT Dobie and Volkswagen have expanded their locally assembled offering to include other models, satisfying both customer demand and supporting the Kenya Government's Big 4 agenda in the manufacturing sector.

Speaking at the launch of their latest model, the Tiguan Allspace, DT Dobie's Business Development Director Matt Olivier said the company was looking to assemble more of models locally.

He said: "DT Dobie's more than 70-year history in Kenya, coupled with Volkswagen's commitment to local assembly, really demonstrates the brand's promise to local motorists for the future. A wide model range and a further commitment to expansion will see over 90 percent of the vehicles delivered in 2020 having been assembled in Kenya, which is an incredible achievement."

The VW Polo Vivo, first launched in 2016, has shown great success in the Kenyan market as an alternative to second hand vehicles. It is powered by a 1.6-litre 16 valve fuel efficient engine and has a long list of safety equipment, including Anti-locking Brake System (ABS), Electronic Brake Pressure Distribution (EBD), stability control and child-proof locks on rear doors.

Standard equipment include air-conditioning, Bluetooth connectivity, USB/CD and SD card slot, multifunction steering wheel, fog lamps and dual airbags. All this for only Ksh1.69 million (inclusive of VAT).

The second vehicle, the Volkswagen Caddy Kombi retailing for Ksh2.9 million (inclusive of VAT), was launched in 2019. This vehicle has two rear sliding doors with a seating capacity of up to seven passengers. It is equipped with a 1.6-litre engine, which delivers 102 horsepower. The power goes to the front wheels via a five-speed automatic or manual transmission.

The safety features are Anti-locking Brake System (ABS), Electronic Differential Locks (EDL), and Electronic Stabilisation Programme (ESP), child lock on sliding doors, engine drag torque control and traction control system (TCS). This is a cost efficient machine that perfectly combines versatility, flexibility and solidity, making it adaptable to different situations.

The third model launched is the new Tiguan Allspace, which is a seven-seater alternative to the popular Tiguan launched a short while ago. The Tiguan Allspace has been extremely well received globally, providing a seven-seater compact solution.

The Volkswagen Tiguan Allspace has a two-litre turbo charged 132 kilowatt engine mated with a seven-speed automatic transmission and features 4Motion permanent four-wheel drive. There are two trim specifications to choose from, with pricing starting from a very competitive Ksh4.5 million (inclusive of VAT) for the Trendline, and Ksh5.5 million (inclusive of VAT) for the Highline.

The long list of equipment and driver aids includes Anti-locking Brake System (ABS), Electronic Stability Programme with counter-steer support (ESP) and Anti-Spin Regulation (ASR), among other functions.

The safety of drivers and passengers features strongly in the specifications for both models. There are three point belts in the front with height adjustment and seat-belt tensioner, and three key point seat belts for centre seat in second row of seats.

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Toyota Kenya increases local assembly capacity to champion the 'Buy Kenya Build Kenya' policy

The manufacturing sector features prominently as one of the key industries that power the economic growth of the country. To further entrench the position of the sector in economic contribution, President Uhuru Kenyatta identified manufacturing as one of the anchoring pillars under the Big Four development agenda.

The automotive industry has the potential to significantly contribute to the manufacturing sector and contribute to growing the sector's share to the GDP from the current 9.2 percent to 15 percent by 2022, in line with the national government's 'Buy Kenya Build Kenya' policy. The local automotive industry is producing just about 6,000 vehicles per year, which is only a fifth of the installed capacity of 34,000 units, compared to the 1980's, where the industry was producing over 13,000 vehicles per year.

Toyota Kenya has over the years been a great champion of growing the local automotive assembly through the production of various models under its stable, hence building the local content supply chain, transferring technology and creating direct and indirect jobs for Kenyans.

Currently, Toyota Kenya has an annual output of 350 Hino trucks, 700 Land Cruiser pick-ups, which are commonly used by the National Police Service and the tour operators, and 3,000 Yamaha motorcycles – all locally assembled.

As part of its local assembly commitment, Toyota Kenya in October 2019 introduced the assembly of the Hilux pick-up ranges, bringing their locally assembly line-up to a total of 11 varied models. The Hilux production has created over 200 jobs out for the first batch of 1,200 units.

As production progresses, the local assembly will provide opportunities for localisation of components used in the assembly of vehicles, which will further develop the local content supply chain through the manufacturing of local parts.

Despite the challenges brought along by the Covid-19 pandemic, Toyota Kenya will continue to expand its local assembly output by introducing new models next year.

The country's automotive sector has great potential, with a case in point being the success of the Government Vehicle Leasing Programme. This has seen the provision of locally assembled vehicles and transport services to the National Police Service, through a leasing programme that is currently in its fifth phase. Under this programme, Toyota Kenya provided over 2,500 vehicles backed by a fully-fledged fleet management system and advanced driver training to all users.

The implementation of the National Automotive Policy would further boost the local assembly capacity. By having the National Automotive Policy in place, the cost of vehicles would substantially reduce, giving many Kenyans an opportunity to own new vehicles whilst at the same time creating jobs through the increased local component manufacturing to support the assembly plants.