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FRIEDRICH EBERT STIFTUNG

The Auto Industry **in Sub Saharan Africa:**

Investment, Sustainability and Decent Jobs

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All activities in the Sub-Saharan Africa region are organised through the regional office located in Johannesburg, South Africa.

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CESTRAR, COTRAF
Rwanda

Summary

While much attention has been paid to the lack of structural transformation or to processes of premature deindustrialisation, a number of Sub Saharan African countries have actually made important steps in the development of a manufacturing sector, and have attracted increasing investment towards an emerging auto industry.

The present report specifically focuses on seven countries that have either experienced a flourishing automotive sector or that show promising prospects of future expansion: Ghana, Ethiopia, Kenya, Namibia, Nigeria, Rwanda and South Africa.

Although structural weaknesses persist (poor infrastructure, uneven distribution of skills, lack of real market integration, etc.) these seven countries have all demonstrated a commitment to grow the industry by implementing targeted policies and establishing partnerships with big auto players. Countries like Ghana (Ghana Automotive Development Policy, GADP), Kenya (National Automotive Policy, NAP), Nigeria (Nigerian Automotive Industry Development Plan, NAIDP) and South Africa (current South African Auto Masterplan, SAAM) formulated targeted auto plans to develop their industries. Kenya, Rwanda, Ethiopia, Ghana and Nigeria signed memorandums of understanding (MOU) with Volkswagen, Toyota, Nissan, BMW and other big auto companies to establish vehicle assembly facilities, assess future mobility concepts and launch training centres for production and after sales. Ethiopia and Rwanda are exploring paths for the production of electric vehicles and the promotion of greener mobility.

Overall, the auto industries in these seven countries reveal significant potential to attract future investment and to further expand. For sustainable growth, however, important policy challenges must be addressed. From an industrial development perspective, the large inflow of used vehicles and the prevalence of SKDs/CKDs assembly still weigh against the establishment of a local manufacturing base. This should be promoted more proactively, by focusing on increasing localisation and deepening the local supply chain. Measures to support domestic demand for new vehicles, like incentives and financing schemes, should also be developed or enhanced. Issues related to urban mobility and environmental sustainability also emerge as increasingly pressing matters.

The most compelling objective, however, remains the creation of more decent jobs. This is especially pressing considering how vulnerable and informal employment remain the norm in Ghana, Rwanda and Kenya; casual and precarious forms of work continue to increase in Nigeria; gender and race divides persist in Namibia; poverty wages are still used as a competitive advantage in Ethiopia; and social protection is scant and anti-union behaviours are frequent in Namibia and Nigeria. It is therefore urgent to intervene in order to expand employment opportunities and secure quality occupations. This is where unions are called in, to embrace challenges, build capacity among workers and leaders, and to ultimately make sure that investment plans translate into decent opportunities for the most vulnerable and less protected workers.

Indeed, an effective union intervention will have to entail:

- the promotion of social dialogue where this is not sufficient
- the development of stronger systems of collective bargaining and of minimum wage agreements where they are missing
- the extension of social protection and OSH policies to all.
- All this, while keeping a vigilant eye on the impact of the current COVID-19 pandemic to ensure that the crisis does not evolve into further losses for workers, precarity and violations of the rights of workers and unions.

Abbreviations

AAAM	African Association of Automotive Manufacturers
ACFTA	African Continental Free Trade Area
AGI	Association of Ghana Industries
AGOA	African Growth and Opportunities Act
AITF	Automotive Industry Transformation Fund
AMCE	Automotive Manufacturing Company of Ethiopia
AMEO	Automobile Manufacturers Employers' Organisation
AMH	Associated Motor Holding
ASCCI	Automotive Supply Chain Competitiveness Initiative
AUKMW	Amalgamated Union of Kenya Metal Workers
AVA	Associated Vehicle Assemblers
BAI	Bishoftu Automotive Industry
BSC	Bachelor of Science
CBA	Collective Bargaining Agreement
CESTRAR	Rwanda Trade Unions Confederation
CETU	Confederation of Ethiopian Trade Union
CKD	Complete Knock Down
COMESA	Common Market of Eastern and Southern Africa
COTRAF	Congress of Labour and Brotherhood
COTU	Central Organisation of Trade Unions
DTIC	Department of Trade, Industry and Competition
ECOWAS	Economic Community of West African State
EDPRS	Economic Development and Poverty Reduction Strategy
EEF	Ethiopian Employers Federation
EEP	Ethiopian Electric Power
EIC	Ethiopian Investment Commission
FBU	Fully Built Units
FC, T&PIWTU	Federation of Commerce, Technique and Printing Industry Workers' Trade Union
FDI	Foreign Direct Investment
FDRE	Federal Democratic Republic Ethiopia
FES	Friedrich Ebert Stiftung
FKE	Federation of Kenya Employers
FRA	Fiscal Responsibility Act
GADP	Ghana Automobile Development Policy
GDP	Gross Domestic Product
GIPC	Ghana Investment Promotion Centre
GRIPS	Graduate Institute for Policy Studies
GSS	Ghana Statistical Services
GTP	Growth and Transformation Plan
ICU	The Industrial and Commercial Workers' Union
ILO	International Labour Organisation

Abbreviations

IPRC	Integrated Polytechnic Regional College
ITUC	International Trade Union Confederation
KVM	Kenya Vehicle Manufacturers
LRA	Labour Relations Act
M & Z	Metje and Zigler
MANWU	Metal and Allied Namibian Workers Union
MEIBC	Metal and Engineering Industries Bargaining Council
MetEC	Metal and Engineering Corporations
MIBCO	Motor Industry Bargaining Council
MIDP	Motor Industry Development Plan
MIFOTRA	Ministry of Public Service and Labour
MINEDUC	Ministry of Education
MITSMED	Ministry of Industrialisation, Trade and SME Development
MLIREC	Ministry of Labour Industrial Relations and Employment Creation
MNC	Multinational Corporations
MoF	Ministry of Finance
MOLSA	Ministry of Labour and Social Affairs
MOTR	Ministry of Transport
MOU	Memorandum of Understanding
NAACAM	National Association of Automotive Component and Allied Manufacturers
NAAMSA	National Association of Automobile Manufacturers of South Africa
NBF	National Bargaining Forum
NEASA	National Employers' Association of South Africa
NEF	Namibia's Employers Federation
NIC	National Investment Corporation
NSA	Namibia Statistics Agency
NUMSA	National Union of Metalworkers of South Africa
OEM	Original Equipment Manufacturers
OICA	International Organisation of Motor Vehicle Manufacturers
OSH	Occupational Safety and Health
POAN	Peugeot Opel Plant Assembly
PSF	Private Sector Federation
RDB	Rwanda Development Board
RFA	Regional Framework Agreement
REM	Rwanda Electric Mobility
RMC	Rwanda Motorcycle Company
RMI	Retail Motor Industry
RSSB	Rwanda Social Security Board
SAAM	South African Automotive Masterplan
SHC	State Housing Company
SKD	Semi Knock Down
SSA	Sub Saharan Africa
UN	United Nations
USD	United States Dollar
VMIATSA	Vehicles, Machinery Importers and Assemblers Trade Sector Association
VW	Volkswagen
WHO	World Health Organisation
WMF	Windhoeker Maschinenfabrik (Pty) Ltd

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1. Introduction: the SSA auto industry in a global context

The research project reported here responds to ambitious intentions and tries to serve multiple purposes.

Firstly, it covers a largely investigated industrial sector, the automotive industry, while shedding light on still relatively unexplored markets. In particular, it seeks to highlight the potential of a number of Sub-Saharan countries that have not received sufficient attention compared to more advanced North African auto industries like Algeria, Tunisia, Morocco or Egypt. Beyond the long established **South African** industry, this report thus includes a focus on **Ghana, Ethiopia, Kenya, Namibia, Nigeria, and Rwanda.**

While being at different stages, the auto industries in all of these seven countries have attracted *new investments* or have some potential to expand in the near future. In this regard, the present research tried to explore investment plans of the major auto-players present in the country, together with governments' intentions to support the development of the industry and existing policy frameworks. Such an investigation was driven by various factors: the idea of *sustainability*, the scope, the objectives and the potential impact (in terms of local development on the labour market and on the broader economic environment) of the proposed investments.

Indeed, as far as investment plans, and research *per se*, are concerned, this project did not take place in an easy period. Fully unfolded during the highest peaks of the COVID-19 crisis, it also seeks to provide a preliminary assessment of how the pandemic has affected and will be affecting investment decisions and industrial development paths in the seven countries analysed. In addition, it must be stated that the pandemic imposed some predictable limitations on the research itself – the present report represents the outcome of brilliant efforts made by the ground researchers to overcome them.

Ultimately, the report considers both *promised* investments and investments that seem to be *still in place.* Of course, how the world economy and the single countries will eventually get out of the crisis, and the overall economic and social impact this will have, is yet to be clearly seen. In this regard, given the significant degree of uncertainty, a follow-up study might be needed in the years to come.

Secondly, within an assessment of the expected impact of the new investments, the present project covers a crucial aspect, especially important in the light of the countries considered – the *employment* issue. It not only seeks to address whether the promised investment will respond to the pressing need of generating employment

The auto industries in all of these seven countries have attracted new investments or have some potential to expand in the near future.

– which is extremely urgent across the African continent – but it specifically questions whether the awaited jobs will be *decent*. For this purpose, it engages with some of the main issues emerging across the different contexts: issues of poverty and vulnerability, the presence of a fixed minimum wage, the increasing employment of precarious types of work, issues related to skills development and education, equality (per gender and race, among others) and political representation.

Even in this case, the way the pandemic will affect employment strategies and labour market dynamics cannot be fully predicted yet. While some corporate decisions already determined partial restructurings or temporary halts, the actual and overall impact of the COVID-19 crisis will probably be more visible only on a mid to long term basis.

Finally, and most importantly, the present report discusses *what trade unions can do* in order to secure decent jobs in the sector and to make sure that the promised investments will translate into *quality employment* creation. This is not only a call for the unions already involved in the project and for IndustriALL members or FES partners. This is a broader call for unions to critically reflect on issues of bargaining and representation, on the changing world of work, on evolving employment categories and on how to respond to detrimental labour laws or to aggressive corporate strategies. In this regard, the report tries to voice all the recommendations advanced by the seven country reports and to collate them together, hoping to provide a platform for collective reflection and for a strong, hopefully regional or continental, political strategy ahead.

As many other African countries not represented in this report, the cases collected here represent economies extremely rich in resources, skills and capabilities, with huge potential for economic and social development, which deserve *new and sustainable investments*. Indeed, these will not be sustainable if they will not generate more and quality jobs.

We want investment and industry development, but not without *decent jobs!*

1.1 The auto industry in Sub Saharan Africa: potential and challenges

Besides the most developed auto industries in North Africa (Morocco, Algeria, Tunisia, Egypt) and the long established South African industry, the automotive sector in the rest of the continent is characterised by relatively small, isolated markets at their infant stage (eg. Rwanda) or still obstructed by severe structural weaknesses.

Many countries are land-locked and still poorly connected to the neighbours on the continent or to large buyers/advanced auto hubs (Barnes *et al*, 2020). This adds to high transactional cost as transportation of goods and services are time consuming and expensive.[1] In financial terms, setting-up a large-scale vehicle manufacturing plant requires a massive initial investment, still inaccessible to many small African economies.[2] The level of existing infrastructure is often very low with insufficient road coverage – a pattern still serving the extractive industries and interrupted provision of water and electricity.

As Markowitz and Black (2019) note, "*Sub-Saharan Africa has the lowest density of infrastructure of any world region. The existing infrastructure is primarily geared to supporting extractive industries, at the expense of stimulating growth in sectors with value upgrading potential.*"

The availability of adequate skills to meet the needs of the industry is often limited, and these are unevenly distributed across the working population. Besides the lack of access to quality education, the distribution of skills is often worsened by persistent gender and racial inequalities (see Namibian or South African cases). In addition to structural weaknesses, market 'distortions' like the still high importation of second-hand vehicles, the scarce localisation in the manufacture of components (still subject to frequent global sourcing), and the excessive assemblage of CKDs and SDKs as opposed to proper manufacturing, frequently weigh on the growth and the expansion of the infant African industries (Black *et al*, 2018; Barnes, *et al*. 2020).

The SSA region, however, also shows positive signs of growth and steps towards regional integration, which will increasingly attract new investments and hopefully determine more intense trade flows. In this regard, the launch of the AfCFTA in 2018, bringing together 55 economies from the continent, represents a visible attempt towards the creation of a common exchange area (Barnes *et al*. 2020). At the same time, moderate growth coupled with an emerging middle class undoubtedly constitute an attractive factor for foreign investors. In this regard, increasing domestic demand plus positive steps in the direction of regional integration are a promise of potential expansion and future growth.

Taken individually, several SSA economies have started investing and supporting either the revitalisation (eg. Nigeria) or the early establishment of their automotive industries (eg. Rwanda). The seven countries selected for this study, albeit at different stages in the development of their auto sectors, all show some promising indicators of future expansion, and important challenges for both policy makers and organised labour.

For example, Kenya, Rwanda, Ethiopia, Ghana and Nigeria all signed MOUs with Volkswagen to establish vehicle assembly

[1] **Godfrey, S. Jacobs, M. (2020)**, report recently completed for the International Transport Workers' Federation (ITF) on the two major transport corridors in the Southern African region. Without exception, interviewees (truck drivers, transport operators and government officials) noted lengthy delays at border crossings as a major challenge to trade within the region.

[2] **In Morocco,** for example, the Renault plant in Tangier (the biggest on the African continent, with a manufacturing capacity of 400 000 cars a year and a workforce of 6 747) was built at a cost of 1 billion Euro. See https://middle-east-online.com/en/renault-inaugurate-giant-tangier-plant.

The Sub Saharan region is lively and willing to grow, with strong potential to expand and attract new and significant investment.

facilities, assess future mobility concepts and launch training academies for production and after-sales. Policy-wise, countries like Ghana (Ghana Automotive Development Policy, GADP), Kenya (National Automotive Policy, NAP), Nigeria (Nigerian Automotive Industry Development Plan, NAIDP) and South Africa (current South African Auto Masterplan, SAAM) have all demonstrated commitment to the development of their auto industries through the formulation of targeted industrial plans. These plans include a mix of generous incentives aimed at attracting future investment, and will be discussed in the following sections.

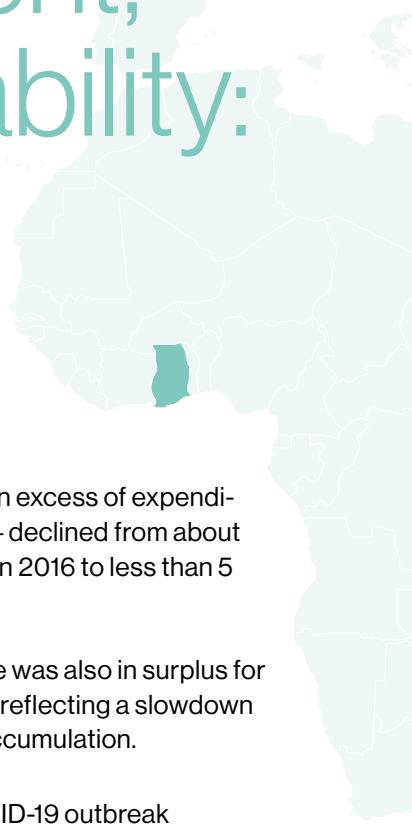
Likewise, countries like Ethiopia, Rwanda and South Africa have attempted to establish Special Economic Zones offering favourable conditions for the installation of new industrial plants and manufacturing facilities. Sometimes such zones are not fully operational, and their labour implications are frequently questionable, but their design certainly shows a firm intention to attract investment and expand industrial capacity. Aiming to increase their participation into global value chains while promoting greener growth, companies in both Ghana (Kantanka Motors) and Rwanda (Ampersand, Safi and REM) are exploring or already testing the production of electric vehicles (electric motorbikes, in Rwanda's case). Attempts to increasingly localise production in the automotive industry are also visible in countries where a local manufacturer is actively supported, like in the case of Kantanka Motors in Ghana or of Bishoftu Automotive Industry (BAI) in Ethiopia.

Together, these steps show that the auto industry in the Sub Saharan region is lively and willing to grow, with strong potential to expand and attract new and significant investment – all reasons to pay increasing attention and possibly conduct further research. On the other hand, the challenges highlighted also serve as a reminder of how investments will not be enough without a serious and coordinated policy effort – some industrial policy recommendations are also included in the following sections.

While shedding light on the potential of the SSA automotive industry through the country cases analysed, this report also focuses on weaknesses and challenges that still need to be addressed. In particular, within broader issues related to persistent poverty and inequality, the study focuses on the compelling need to associate new investment with the creation of more and quality jobs – decent jobs.

Firstly, the country reports underline what is currently not decent in the labour markets and in the industrial sector analysed. They point at problems like underemployment, increasing casualisation that most often followed the privatisation and the deregulation of the sector, gender and race disparities, the lack of agreed minimum wages, sectoral bargaining and low union representation. In this sense, the seven country reports highlight areas for intervention and gaps to fill. How such gaps can be filled and what role the existing trade unions can actually play in the process, is discussed in the final chapter. The chapter collates and combines the suggestions and recommendations forwarded at country level, to ultimately indicate a common ground for a proper, collective debate on the matter.

2. Industry development, investment & sustainability: **country views**



2.1 Ghana

Prior to the outbreak of the COVID-19 pandemic, Ghana's economy appeared to be doing well on a number of indicators. The macroeconomic outlook seemed stable with an inflation rate entering the Bank of Ghana's medium-term target of 6 to 10 percent. At the end of 2019, inflation was 7.9 percent, the lowest in almost a decade.[3]

The fiscal deficit – an excess of expenditure over revenues – declined from about 8.7 percent of GDP in 2016 to less than 5 percent in 2019.

The primary balance was also in surplus for the last three years, reflecting a slowdown in the rate of debt accumulation.

[3] **Ghana's economy** has traditionally been associated with high rate of inflation. Taming inflation has been a key macroeconomic objective since the adoption of Structural Adjustment in the mid-1980s.

Table 1 Ghana's macroeconomic performance before the COVID-19 outbreak (2016-2019)

External Variables	2016	2017	2018	2019
Trade account as percent of GDP	-4.0	2.3		3.4
Current account as percentage of GDP	-5.2	-3.4	-3.1	-2.8
Gross International Reserves (months of import cover)	2.8	4.3	3.6	4.0

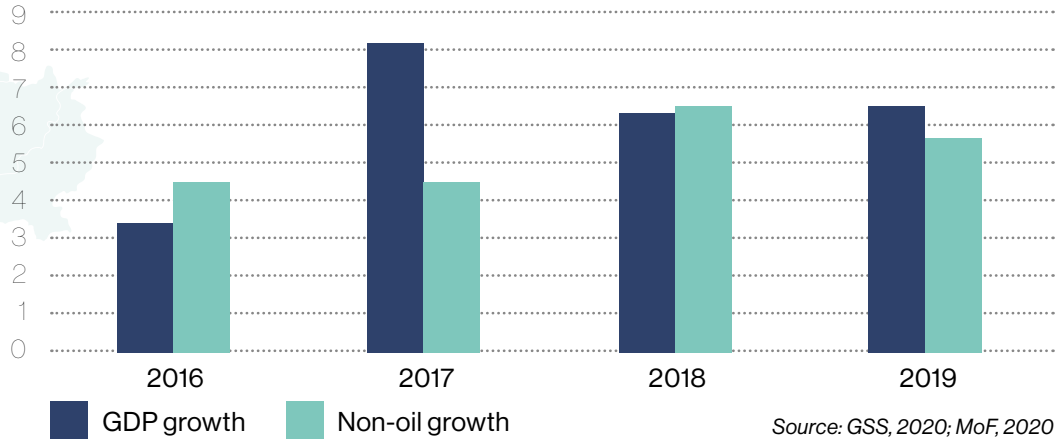
Source: GSS; MoF, 2020

In terms of external trade, the country appeared to be turning the corner on the high deficit that characterised its trade with the rest of the world. Export was rising faster than imports. The negative trade balance recorded in 2016 (-4.0) was reversed with a positive balance of 3.4 percent of GDP. The current account deficit narrowed from 5.2 percent of GDP to 2.8 percent.

GDP grew at an average of 7 percent in the past 3 years and it was projected to grow at 6.8 percent in 2020. Overall, economic growth has been led principally by the growth of industry, which has recorded an average growth of 10.9 percent since 2017. Industry growth has been fuelled by increased activity in the oil and mining subsectors. Gold outputs and oil production has expanded significantly in the last few years.

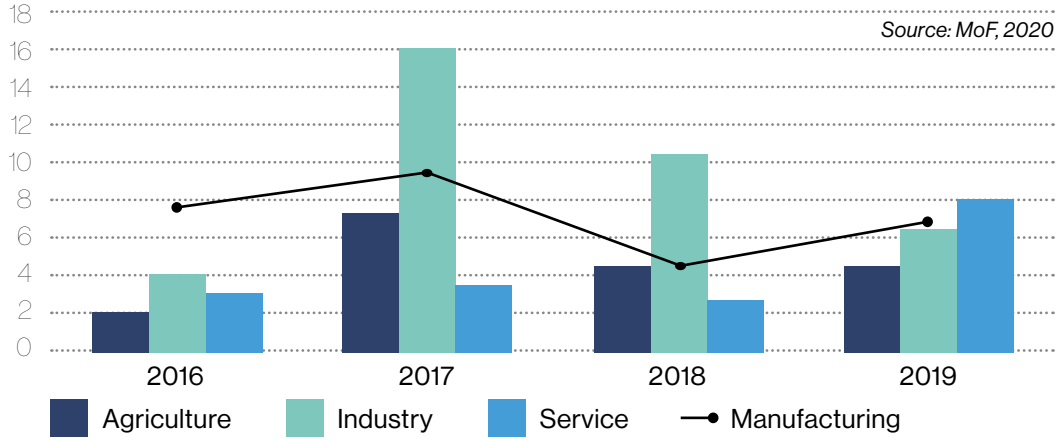
Significant was also the expansion of manufacturing following the implementation of the government's flagship Industrial Development Programme, dubbed One-District-One-Factory. This programme seeks to install a factory in all the administrative districts of the country. The programme also aims to support the revival of existing but struggling manufacturing firms. The manufacturing sector has achieved a growth rate averaging 6.6 percent since 2017.

Figure 1 Economic growth in Ghana (2016-2019) – at constant 2013 prices



Source: GSS, 2020; MoF, 2020

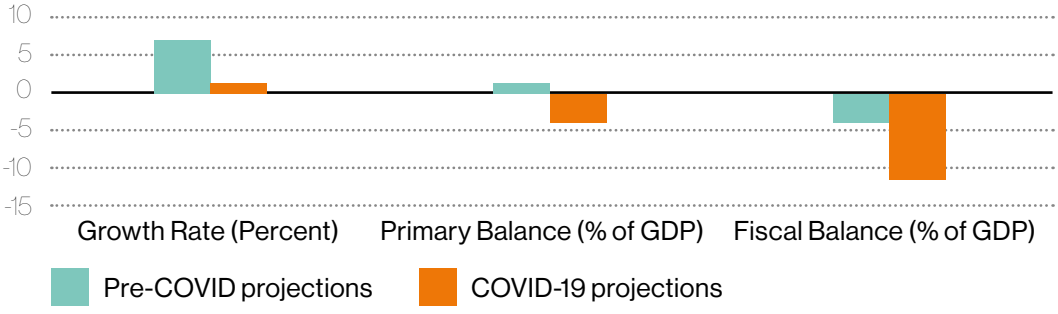
Figure 2 Economic growth by industrial sector (2016-2017) – percent



Source: MoF, 2020

The outbreak of COVID-19 and the restrictions imposed to contain it have changed the macroeconomic situation. Growth projections for 2020 and beyond have been reviewed downward. GDP growth for 2020 has been revised to 0.9 percent from an initial projection of 6.8 percent. The fiscal debit (11.4 percent of GDP) is now expected to significantly breach the mandatory threshold of 5 percent of GDP imposed by the Fiscal Responsibility Act. The primary balance will hit a deficit for the first time since 2016 and inflation is expected to rise. The resulting decline in real incomes will affect demand, particularly the demand for durable consumer items including vehicles.

Figure 3 Ghana's 2020 macroeconomic projections: pre-COVID-19 and after partial lockdown



2.1.1 The Ghanaian auto industry

An important component of the government's Industrial Development Programme is the ambitious attempt to attract major automobile companies to Ghana and to assemble or manufacture automobiles. In 2019, the government put forward the Ghana Automobile Development Policy (GADP). Among other objectives the automobile development policy seeks to make Ghana a fully integrated and competitive industrial hub for automotive manufacturing in West Africa. This is to be achieved in collaboration with the private sector – global, regional and domestic. The policy also seeks to generate highly skilled jobs in automobile assembly and manufacture of components and parts.

The GADP offers attractive and generous fiscal incentives to companies that locate assembly plants in Ghana. Incentives include fiscal and market guarantee schemes. Among the fiscal incentives are five-year corporate tax holidays for companies/assemblers that undertake Enhanced Semi Knock Down (SKD) assembling of vehicles, and companies that engage in car assembly at the level of Complete Knock Down (CKD) are offered a ten year corporate tax holiday. While companies that are engaged in basic SKD are not eligible for corporate tax exemptions under the GADP, they nevertheless may be qualified for tax exemptions under the Ghana Investment Promotion Centre Act. In addition to the corporate tax exemptions, imports of plant, machinery and equipment intended for building Assembly Plants for SKD, Enhanced SKD and CKD are exempted from import duties and related charges.

The fiscal incentives are supported by an array of other incentives that are aimed at securing the domestic market for the companies that assemble or manufacture locally. These include a ban on imports of overaged vehicles, salvaged and flooded vehicles. There is also an assurance that the government's procurement of vehicles will be done specifically to favour domestically assembled or manufactured cars.

In response to these incentives, and even before the GADP was launched, a number of significant global automobile firms indicated their intention to locate assembly plants in Ghana.

On August 30, 2018, the Ghanaian government signed a historical MOU with the German carmaker Volkswagen (VW) for the establishment of an assembly plant in the country. The signing of the MOU coincided with the visit of the German Chancellor Angela Merkel. Two years after the signing of the MOU, the President of Ghana joined VW on August 3, 2020 to launch the company's first ever range of locally assembled fleets of cars. This has been hailed as a success story and a harbinger for the revival of the auto industry in particular and manufacturing in Ghana.

Since the signing of the MOU with VW, several other global auto manufacturers have signaled their intention to locate assembly plants in Ghana. On August 29, 2019, Ghana signed another landmark MOU with Toyota, one of the world's biggest carmakers, for the establishment of Toyota and Suzuki Assembly Plants.[4] According to the Chief

[4] **See** https://allafrica.com/stories/201908300577.html#:~:text=Ghana%3A%20First%20Ghana%2DAssembled%20Toyota%20Vehicle%20Outdoors%20August%202020,-30%20August%202019&text=The%20President%20and%20Chief%20Executive,in%20Ghana%20by%20August%202020.

The vast majority of vehicles imported into the country are used or pre-owned vehicles.

Executive Officer of Ghana Investment Promotion Centre (GIPC), significant global automakers such as Renault, Nissan, Changan, Honda and Hyundai have all indicated their readiness to install plants for the assembly of their brands in Ghana.

The Ghanaian auto industry also has a local assembler. The Kantanka Group was the first to assemble a "made in Ghana" car in 1998. In 2013, the Group installed a full-scale automobile assembly facility producing eight vehicles per month and, by 2016, it was producing 100 cars per month. The group appears energised by the government's increased focus on the automobile assembly and the entry of the global automobile giants into the country.

These developments come on the heels of a booming and diverse automobile industry dominated by imports of mostly used cars and parts. Vehicle import is among Ghana's top three imports. In 2018, vehicle imports accounted for 12.5 percent of total imports to Ghana, making it the highest imports item by value. In 2019, vehicle imports as a proportion of total imports increased slightly, reaching 14 percent (UN Comtrade).

Annual import of vehicles has averaged about USD 1.8 billion since 2016. The vast majority of vehicles imported into the country are used or pre-owned vehicles. The estimate is that between 70 to 80 percent of the vehicles imported and registered in Ghana are used cars.

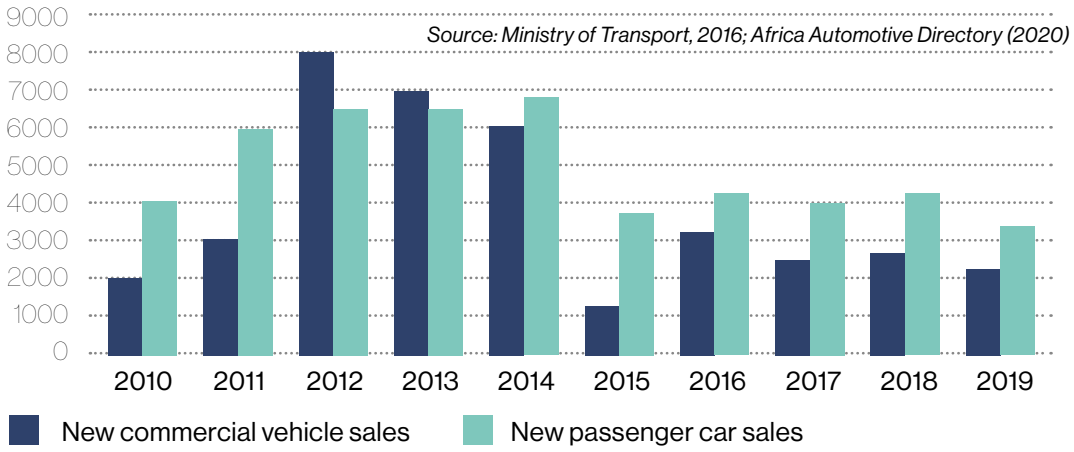
Table 2 Total imports and import of vehicles

Year	Total Imports (USD billion)	Vehicle Imports (USD billion)
2019	10.4	1.69
2018	11.9	1.85
2017	12.7	1.87
2016	11.3	1.78

Source: UN Comtrade

The market for new cars is relatively small and appears to be on the decline. From a peak of nearly 7000 in 2014, sales of new passenger cars have dropped to below 4000, a decrease of more than 50 percent. The rising demand for vehicles is met through imports of cheap and often overused vehicles. In the last decade about 1.8 million vehicles have been registered in Ghana. New vehicles represent just about 5 percent of that number with the remaining 95 percent being used vehicles. But these are not just used vehicles; they are also very old vehicles. According to the Ministry of Transport the average age of vehicles in Ghana is 14.2 years.

Figure 4 Sale of new vehicles in Ghana (2010-2019) – numbers per year



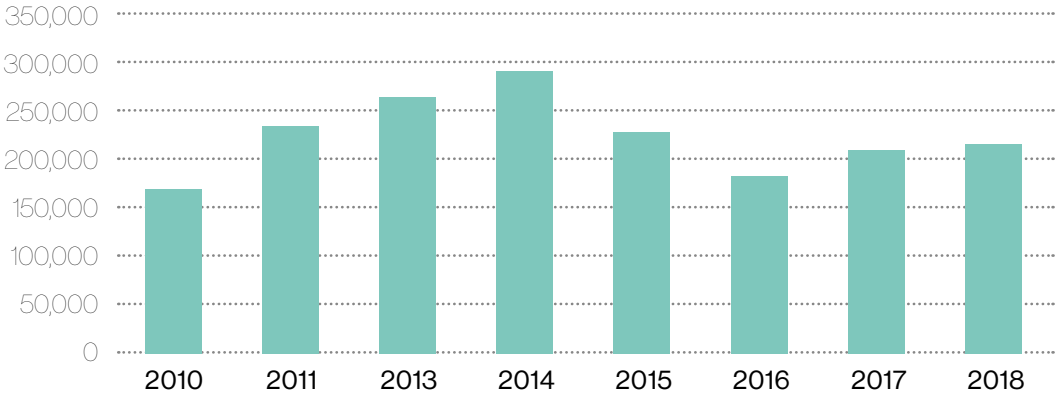
Source: Ministry of Transport, 2016; Africa Automotive Directory (2020)

The growth in demand for vehicles reflects rising incomes and an expanding middle class. It is an answer to the poor public transport system that forces the relatively affluent middle class to do whatever it takes to own a car.

The recourse to second-hand or used cars reflects the absence of a vehicle-financing scheme towards the purchase of new vehicles, which remains expensive and unaffordable for the majority of the population.

The Ghana Automobile Development Policy seeks to change such dynamics. By encouraging domestic manufacturing of vehicles, restricting imports particularly of used cars, and introducing an assets-based vehicle financing scheme, the policy aims to replace the ageing fleets of vehicles on Ghana's roads with newer and affordable fleets.

Figure 5 New vehicle registration in Ghana (2010-2018)



Source: Ministry of Transport (2015); Author's calculations

ABOVE:
A neighbourhood of Accra in Ghana.

Photo by Etornam Ahiator on Unsplash

2.1.2 Current state of investments and production/assembly

The automotive industry in Ghana is structured around the following main players. The dealership companies, which started the importation of automobiles into the country a long time ago. Companies such as Mac Ghana, Mahindra, Mechanical Lloyd, Toyota Ghana, Auto Parts, Nissan, Mitsubishi and Universal Motors among others are household names in car dealerships. These companies deal mostly in new vehicles and parts and they serve the relatively wealthy segment of the Ghanaian society. They also provide after sales service. There are also a plethora of garages that deal in both new and used vehicles.

Another noticeable feature of Ghana's auto industry is the massive trade in spare parts. The dealership companies provide new and genuine parts. This is often expensive for most Ghanaians. Therefore a flourishing trade in used spare parts exists across the country. The domestic demand for engines, tyres, batteries, ball bearings, headlights and lubricants among others is on the rise. Spare parts dealerships are among the most lucrative businesses in Ghana. Like the vehicles, the bulk of imported parts are used parts.

In terms of vehicle assembly or manufacture, the industry remains at an infant stage even though Ghana has had a long history of wanting to assemble/manufacture vehicles domestically. Kwame Nkrumah's ambitious industrialisation programme in the early years of Ghana's independence included the idea of assembling vehicles in the domestic economy. A number of vehicle assembly plants were set up as State-Owned Enterprises. These included GHAMOT Ghana Limited, the National Investment Corporation (NIC) Vehicle Assembly Plants and Workshop and Neoplan Assembly Plants.

The first vehicle assembly plant opened in Accra in 1969. Auto Parts Vehicle Assembly Plant had the capacity to assemble 600 Nissan cars, 600 buses, pickups and trucks per year. Eventually, the plant assembled only an unspecified number of Nissan vehicles using semi knock down components from its original equipment manufacturers in Japan. UAC Motors, SCOA, RT Briscoe/ATS/KOWUS, GHAMOT and Neoplan Ghana Limited operated other vehicle assembly plants. The rugged Bedford trucks were also assembled in Ghana.

These early attempts to assemble and manufacture vehicles locally, and indeed the entire industrialisation programme, fizzled out in the 1970s and 1980s when the economy was hit by the global economic crisis. As part of the implementation of Structural Adjustment the state-owned manufacturing entities were privatised and refocused. GHAMOT became Toyota Ghana and turned away from Vehicle Assembly Company to a dealer in Toyota vehicles.

Auto Parts Vehicle Assembly was the first vehicle assembly plant opened in Accra in 1969.

2.1.2.1 Kantanka Motors

In the 1990s the local Kantanka Motors revived the idea of automobile assembly in Ghana. The company produced its first assembled vehicle in Ghana in 1998. The company established a reasonably modern automobile assembly infrastructure in 2013. It was producing eight (8) vehicles per month at the time. In 2016, its production capacity had increased to 100 cars per month.

Kantanka assembles both conventional and electric cars. Its fleet includes electric saloons, electric four-wheels, electric pickup trucks and conventional four-wheel drives. The company has a contract with a foreign original equipment manufacturer from whom it procures components for its vehicle assemblies. At the same time, the company claims it produces its own engine blocks. The company is currently assembling vehicles using enhanced SKD kits.

The company now enjoys the fiscal incentives offered by the government to foreign automobile manufacturers. It has a 10-year tax holiday, and receives exemptions on the import of equipment meant for assembly of vehicles.

2.1.2.2 Volkswagen

As indicated earlier, VW signed an MOU with the Ghanaian government in August 2018 to commence vehicle assembly in Ghana. The company registered its local subsidiary VW Ghana, which is 100 percent owned by VW South Africa. The MOU had envisaged that the first locally assembled VW vehicles will be released in early 2019. For reasons including the delay in the launch of the Ghana Automobile Development Policy and an unclear regulatory and fiscal regime, this was pushed to 2020. Therefore, in August 2020, the company unveiled the first fleets of VW cars ever assembled in Ghana.

The company is now assembling six of its models in Ghana. These are Tiguan, Teramont, Amarok, Passat, Polo and Caddy. VW imports these brands as partially disassembled parts for re-assembly in Ghana. In other words, the company is engaged in basic SKD in its local assembly of vehicles. The company is therefore not eligible for tax holiday as specified under the Ghana Automobile Development Policy. The company can, however, apply for incentives under the Ghana Investment Promotion Centre Law.

VW Ghana's current investment in vehicle assembly is valued at USD 10.5 million. This first phase of investment is expected to see the company assemble up to 2,000 vehicles per year. In the second phase VW Ghana has announced an investment of up to USD 22 million, which is expected to turn out an average of between 10,000 and 20,000 vehicles per year by 2022.

2.1.2.3 Nissan

In November 2018, Nissan signed an MOU with the Ghanaian government to establish a vehicle assembly plant in Ghana. Thereby, Nissan has become the second major automobile manufacturer to signal its intention to manufacture or assemble vehicles in the country. Nissan has the biggest share of new car sales in Ghana, with 32 percent of the market.

The assembly plant will be located in the Tema Industrial enclave for proximity to the country's largest seaport. The company had planned to begin its assembly of vehicles in

2.1.2.3 Nissan (continued)

the first quarter of 2020 with plans to put its first locally assembled vehicle on the road before the end of the year. In preparation for this, in 2019 the company had established its West African Regional office in Accra and began to train sales and after-sales technicians to serve the West Africa sub-region. These plans appear to have been delayed and, according to sources from the Trade and Industry Ministry, Nissan is yet to commence its vehicle assembly operations.

It is unclear when the company will unveil its locally assembled vehicles. However, according to Nikkei Asian Review, Nissan plans to install a vehicle assembly plant with capacity to produce 60,000 vehicles a year by 2022.

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2.1.2.5 Sinotruk

Sinotruk, a Chinese company that manufactures heavy-duty trucks, minibuses and other vehicles, including lifting and earth-moving machinery, signed an agreement with the government of Ghana during the Ghana-Shandong business conference in September 2018 to develop an assembly plant in Ghana. The assembly plant is expected to initially produce some 1,500 trucks a year for sale in Ghana and West Africa. At full capacity the company is expected to employ about 250 technicians and engineers. In addition to creating jobs, the plant will also offer training and technology transfers in car assembly and related manufacturing activities. Information about the state of the Sinotruk assembly plant is sparse. However, according to information from Ghana's Presidency and from the Information Ministry, Sinotruk has commenced its local manufacture or assembly of its trucks.

ABOVE:
A drone shot of the vast landscape of Ghana, Accra.

Photo by Virgyl Sowah on Unsplash

2.1.3 Investment sustainability and local development

The large number of global automobile manufacturers that are either assembling vehicles in Ghana or have signaled intentions to do so, is being celebrated as a boom for the country's industrial ambitions. The development fits well into the current government's policy of One-District-One-Factory, which aims to plant a factory in each of the administrative districts of the country. The policy is seeking to relaunch Ghana's industrialisation programme that was more or less curtailed by the implementation of Structural Adjustment in the 1980s.

The Ghana Automotive Development Policy (GADP) seeks to build an industrial hub for automotive assembling, thereby generating highly skilled jobs, improving the balance of payment and transforming the quality of the national transportation fleet. These are extremely high ambitions. At the same time, the interest in the Ghana automotive industry shown by the global giants illustrates the feasibility of the programme and a possible realisation of its objectives. There are, however, challenges ahead.

The sustainability of the nascent auto investments remains a challenge. Ghana on its own is a small market both in terms of population and income levels. And as we have indicated, the demand for new vehicles is small. The larger demand for vehicles is met through imports of pre-owned or used vehicles, since such vehicles are cheaper and more affordable for most Ghanaians. The higher demand for used and often older cars results from the absence of a financing scheme. Prospective buyers of vehicles have to finance it directly from their savings or investments.

Banks in Ghana hardly give car/vehicle loans. They are generally excessively risk-averse. The high borrowing cost – interest rates – deters people from borrowing to buy cars. The Ghana Automobile Dealers Association estimates that bank-financed car loans are just about 5 percent of new car sales.

The limited information available on the investment plans of the automobile manufacturers suggest that these challenges have been factored into their plans. The companies are not building factories. They are renting buildings or using facilities owned by their dealership companies. In

other words, there are no legacy production, industry or sunk costs that these companies would need to protect in the future. This is consistent with investment patterns observed elsewhere with the assembly of SKD kits. There is no real investment for legacy production. Also, it is most likely that the COVID-19 pandemic will play a role in the future investment decisions of these companies. Toyota has been explicit about the impact of the pandemic in delaying the start of its production. Going forward, the expansion plans of the companies will depend on how the pandemic plays out in the coming months and years and how it affects economic activities in Ghana and the African region as a whole.

Banks in Ghana hardly give car/vehicle loans. They are generally excessively risk-averse.

Nonetheless, the Ministry of Trade and Industry insists that this is but the very first initial step towards the building of a robust automobile industry. The Ministry fully recognises the challenges. It is aware that real manufacture of vehicles with backward and forward linkages with the rest of the Ghanaian economy will be realised when the government manages to address the challenges in financing, and large scale imports of used cars and eventually incentivise the companies to move to enhanced SKD or CKD. The government is already implementing a number of initiatives to address some of these challenges.

The recent amendment to the Customs Act (Act 1014, 2020) – which bans the import of salvaged vehicles and overaged vehicles – seeks to address the perennial problem of excessive imports of used cars. The measure seeks to guarantee the local market for the companies that are undertaking assembly of vehicles locally. In addition, the government is working with the companies and the local banks to establish an asset-based vehicle-financing scheme for locally assembled vehicles to ensure affordability.

Some of the companies are also introducing schemes to boost the sale of new vehicles. Volkswagen is already undertaking a feasibility study for an integrated mobility solution, which will incorporate the viability of introducing car sharing, ride hailing and shuttle services. The companies are also demonstrating sustainability of their investments and commitments by seeking to join the various industry associations in the country. The Association of Ghana Industries (AGI, interview) indicated that VW Ghana has applied to join the association.

In addition, the government is offering preferential procurement for locally assembled vehicles. It has already directed all agencies, ministries and departments to first consider procuring locally assembled vehicles when using public funds. In an interview with the AGI, it emerged that the government has procured more than 500 vehicles from Kantanka Motors. Recently, the State Housing Company (SHC) bought five locally assembled cars from VW.

The government is also implementing a special vehicle purchase/financing and ownership scheme for public sector workers. In its mid-year review of the 2020 budget statement, the government indicated that it was going to establish the Automotive Development Industry Support Centre. The centre will coordinate the establishment of the Vehicle Financing Scheme, linking financial institutions to individuals and groups for the purchase of newly-assembled vehicles. These are some of the measures to switch vehicle demand away from imported used vehicles to new and locally assembled ones.

It is also important to emphasise that the entire automotive development initiative in Ghana has the regional and sub-regional markets in mind. The companies are not only attracted by the prospect of an expanding middle class and market in Ghana, but also by the expanding market in West Africa in particular, and Africa in general.

In AGI's view, Ghana is leveraging the ECOWAS market and the creation of a sin-

> There are plans to resuscitate the abandoned glass and tyre factories to support the automobile assembly as the companies progress from SKD to CKD.

gle African market under the aegis of the African Continental Free Trade Area (ACFTA) for its industrialisation programme. Ghana is the second largest economy in West Africa and plays a significant role in the affairs of the Economic Community of West African States (ECOWAS). The country is also the host of the ACFTA Secretariat.

Furthermore, the incentives regime for the automotive industry is calibrated to ensure the sustainability of investments and the industry. The government recognises the heavy investment outlays required for the companies to move from SKD to CKD. It has therefore structured the incentives in a manner that gives more benefits to companies as they upgrade from basic SKD to CKD. All the participating companies in the Ghana auto programme have submitted to the ministry an assembly and investment plan indicating when they intend to commence production and how they plan to move from SKD kits assembly to CKD assembly.

Some binding constraints remain, with significant impact on sustainability of the new investments. The first constraint is the huge gap in skills and expertise. The government intends to use the automotive industry to drive the creation of highly skilled jobs. But the industry itself will require a minimal level of skilled manpower in order to progress from basic SKD assembly to CKD. At the moment such skills are limited. No more than one-fifth of adult Ghanaians have secondary or post-secondary education. The bulk of the educated population has a general education in non-technical subjects and Ghanaians with automotive specific skills and knowledge are few. The automotive industry policy recognises this challenge, and it proposes Skills Training and Technological Capacity Upgrading as a major thematic area. The objective is to expand the skills base for the automotive industry and technological capacity for the supply of parts and components.

The other binding constraint relates to domestic politics and the power of the import lobby. Vehicle importers have already mounted strong opposition against attempts to restrict or ban imports of used and overaged vehicles, and the main opposition party in Ghana is backing them. Given that the country is getting closer to a major election in December, the government appears to be backpedalling on some of the key policy pillars of the Ghana Automotive Development Policy. The promise to ban imports of salvage vehicles and vehicles that are over 10 years old, which was already cast into law, has been suspended following agitations by importers and dealers.

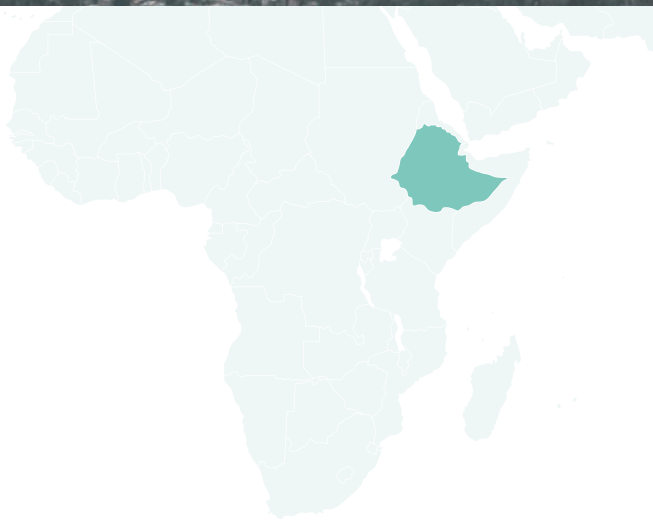
Overall, the developmental impact of the recent investments is small and limited given the limited scale of production activities involved in SKD assembly. The Ministry expects this to change as the companies move to CKD assembly and begin to source parts and components domestically. The government is taking steps to develop ancillary industries that will facilitate linkages between automobile assembly and the rest of the economy.

There are plans to resuscitate the abandoned glass and tyre factories to support the automobile assembly as the companies progress from SKD to CKD. The AGI is also optimistic about the future developmental impact of the investments in the automobile industry given government plans to develop an integrated aluminium industry. According to the AGI, local firms have begun asking about opportunities available for them to participate in the automotive value chain. It is acknowledged that it will take a while for local firms and the domestic economy to benefit from the new investments, but the journey is worthwhile.

ABOVE:
A daytime aerial view of Addis Ababa in Ethiopia.

Photo by Gift Habeshaw on Unsplash

2.2 Ethiopia



Ethiopia has been one of the Sub-Saharan African countries that succeeded in gaining considerable economic growth over the past decade, averaging 10.9% annual growth between 2004 and 2014, with a GDP of USD 63 billion in 2015 that makes it the ninth largest economy in Africa and the third largest in Eastern Africa (Deloitte, Africa Automotive Insight, 2017).

The Ethiopian government has adopted an Industrial Development Policy to transform the currently agricultural-led economy into an industry-based one, with the aim of lifting the population out of poverty and becoming a middle-income country by 2025. For this purpose, the country implemented a Growth and Transformation Plan (GTP I) and is now on its second plan (GTP II).

Within GTP II, manufacturing in general and the metal and engineering-automotive industry are considered key sectors on the path to industrialisation, with the potential to create job opportunities for engineers, technicians and related trained professionals in the years to come (FDRE Ministry of Industry, 2018).

2.2.1 The Ethiopian auto industry: profile and investment plans

According to the Ministry of Transport, Ethiopia is among the least motorised countries in the world and is situated at the very bottom of the list of nations in terms of car ownership, estimated close to 975,000, up to 1.3 vehicles and 2 cars per 1,000 (Ministry of transport and Herald, weekly newspaper, 2020). In terms of production or assembly, the country still ranks very low. It ranges between 8,500 and 12,000 assemblies of new vehicles per year, with all parts of the vehicles imported as CBU, SKD or CKD seat or kit, without any significant production of components or creation of backward and forward linkages (FDRE MIDI interview).

Due to the shortage of foreign currency reserves, almost all assembly companies are operating in under-production.

The automotive industry in Ethiopia is dominated by vehicle sale and after-sale services with little vehicle assembly, which instead is dominated by Chinese brands (both passenger and business vehicles). So far, no vehicle production, including spare parts in full scale (original vehicle components or spare parts) by local or MNCs has taken place. Only a few local factories that mould and forge parts (eg. Akaki metal engineering) or produce batteries and machinery, along with one local, long-established tyre factory, can be mentioned as vehicle accessory producers (desk review and interview with FDRE MIDI).

Based on the data obtained from the FDRE Metal Industry Development Institute (MIDI), there are 58 companies that assemble passenger and commercial vehicles (trucks for dry, wet cargo and public transport), including three-wheeled vehicles and motorcycles, registered in the country. Out of these companies, only one is a government-owned enterprise – the Bishoftu Automotive Industry (BAI), which is part of the Metal and Engineering Technology Corporation (METC) – the rest are private companies mostly established on a joint venture basis between local and foreign investors (FDRE MIDI interview).

Today, the Ethiopian automotive industry is not significantly labour-absorbing and can be considered at its early stage, with new vehicle assembly ranging between 8,000 and 12,000 (numbers easily fluctuate) vehicles per year.[5] However, the number of assembled new vehicles has recently been increasing.

Most vehicle assemblies are SKD, while companies with CKD are struggling to compete with SKD and new imported and used vehicles, given the absence of a national tax law or of a clear policy to encourage CKD and similar value addition assembly processes or manufacturing (Interview with Li-Fan and MIDI). For example, sometimes it is much easier to simply engage in new or used vehicle sales because of the absence of a clear policy requiring the engagement in full scale complete knockdown processes. CKDs have their own overhead costs like establishing the plant, hiring and training human resources, brand promotion etc. (Interview with Li-Fan representatives). Overall, the demand for vehicles is still growing steadily (vehicle use grew by 2% annually between 2005 and 2014 according to Deloitte, Africa Automotive Insight, 2017).

Currently, an estimate of the annual car sales range between 10,000 to 12,000 new vehicles, including locally assembled and more than 30,000 (up to 40,000) used vehicles. Experts comment that volume matters in order to attract significant FDI – an annual sale of 200,000 new vehicles would attract global vehicle manufacturers, including producers of components and spare parts. Unfortunately, due to the high price, the majority of the vehicle demand is covered by used vehicles, and out of these above

[5] **South Africa** has a new vehicle market of 550,000 units per year, Vietnam 300,000.

Up to 85% of the vehicle market in Ethiopia is dominated by used vehicles.

More than 70% of imported fuel and spare parts are consumed by used vehicles annually.

84% are passenger cars, with business vehicles in second place (Interview with MIDI). However, due to the shortage of foreign currency reserves, almost all assembly companies are operating in under-production. The famous multinational vehicle manufacturers are present in the Ethiopian market, but there are substantial challenges hindering the sector, which, as a result, does not move forward as expected. These challenges include severe foreign currency shortage (unique to Ethiopia in comparison to other African countries), weaknesses in the incentive structure, the inflow of used vehicles and parallel imports (Kenichi Ohno, GRIPS, 2019).

Like other Sub-Saharan African countries, the vehicle market in Ethiopia is also dominated by used vehicles, estimated to be up to 85%. Ethiopia is one of the countries in the world that does not put an age limit on the import of vehicles, although this is changing. The age of the used cars currently being imported ranges from 15 to 20 years old (since production).[6] These vehicles are imported from the Gulf, Europe and America, either through the main transit or through the used vehicle business hub, Dubai (VMIATSA, 2019).

Used vehicles consume more fuels and need frequent maintenance and spare parts compared to new vehicles (VMIATSA, 2019). According to the FDRE Ministry of Transport, more than 70% of imported fuel and spare parts are consumed by used vehicles annually, which drain the hard-earned foreign exchange. In addition, this has a negative environmental impact and contributes to the raise in vehicle accidents in the country (www.motr.gov.et**)**

Indeed, the high price for new vehicles in comparison with other African countries is due to the government's multiple high restrictive tax levies on imported new vehicles, which push people to opt for used cars. **The tax (Surtax, VAT, withholding etc.) on imported vehicles is one of the highest in the world, 120 to 300 percent, together with the highest tax imposed on passenger vehicles based on their engine size.** These high tax structures and tariff levies on imported vehicles will reduce the domestic demand and hamper the development of a local automotive industry (Kiniche Ohno, GRIPS, 2019).

The local passenger vehicle market is determined by many factors. These include:

- price or affordability
- vehicle brand or brand reputation
- aftersale value
- easy maintenance
- availability of spare parts (ranges of options, availability of genuine spare parts and considerable price variations) – an area in which the Japanese brand Toyota is the leader.

In addition to these factors, the local vehicle dealers and commission agents have some power in manipulating the market of passenger vehicles, especially the used vehicles market. For example, a 2015 Toyota used vehicle (Toyota Yaris, 1300-1400 cc) can be sold for about USD 26,742 and above but other brands, locally assembled with similar engine sizes, can be purchased at about 20,056 up to USD 22,730. This is still very expensive for the majority of Ethiopians, who on average want to have an ordinary vehicle for personal mobility costing around USD 9,359 to 12,034 – the average price until some years ago (interview with local vehicle dealer).

[6] **Far from the international** standard that is between two to four years old.

2.2.2 Policy directives, investment incentives, tax issues

The industry is complex, involving high and integrated technology that can be transferred, and can drive the whole industrialisation process by creating quality jobs for engineers and technicians

Since 2018, the latest change in government executives, there have been some developments in terms of industrial policy, where the private sector has attracted increasing focus. Unlike other Sub-Saharan African countries like South Africa – and even by contrast to neighbouring Kenya – Ethiopia doesn't have any clear national policy guide to develop the automotive industry. For example, South Africa, Kenya and Nigeria have national automotive industry development policy plans in place, with various incentives specific to the sector (VMIATSA, 2019).

Following discussions with FDRE MIDI, it is clear that the automotive industry in Ethiopia is still treated under the general investment or FDI incentive package. This shows a lack of understanding of the unique nature of the industry from the government side, with the industry only lately being given special attention under the metal and engineering key priority sectors. The industry is complex, involving high and integrated technology that can be transferred, and can drive the whole industrialisation process by creating quality jobs for engineers and technicians (FDRE MIDI interview). So far, only the SOE BAI (Bishoftu Automotive Industry) has plans to, in the next five years, localise 60% of the imported components by redesigning, designing and producing locally, aiming at manufacturing a local brand vehicle (Interview with BAI representatives).

In order to facilitate and attract FDI, there are a number of competitive fiscal and non-fiscal incentive packages for investors. Incentives include corporate tax breaks, customs duty exemption on imported equipment, no income tax for foreign workers, access to loans, low land and factory building rents (low land lease for 50 to 80 years, the cheapest in the world). The government also highlights low cost electricity, availability of water and an abundant and inexpensive labour force adding to the presence of industrial parks and zones with all infrastructures, where it is much easier to establish a plant (FDRE Industry Minister, Investment opportunities in Manufacturing Industry, 2017).

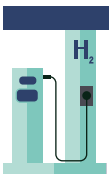
In addition to the relatively favourable business environment and the strong government support for both foreign and local investors, the country also offers special geographical and preferential trade arrangements aimed to create opportunities for integration within the global market or global value chains. Geographically Ethiopia is located at the crossroad between Europe, Middle East and Far East markets, with the near, convenient access to the Red Sea through the port of Djibouti.

Furthermore, the country has access to global markets via the African Growth and Opportunity Act (AGOA), a preferential trade agreement between the USA and 37 Sub-Saharan African countries in place until 2025 which covers a wide range of exports. Ethiopia also benefits from COMESA (Common Market of Eastern and Southern Africa) and the many bilateral trade agreements concluded with Western countries, including the Netherlands, Belgium and Luxembourg. Ethiopia is also part of the "Everything but Arms" programme that has been set up to provide access to the EU market for Lesser Developed Beneficiary Countries, free of duty and without quota restrictions, for all export products except arms (EIC, Investment guide to Ethiopia, 2017).

2.2.3 Supportive institutions and key stakeholders

In order to facilitate, license, and promote FDIs, the government established various institutions. These include the Ethiopian Investment Commission (EIC), the Industry Ministry, the FDRE Metal Industry Development Institute and the Industrial Park Development Corporation. In addition to the above governmental institutions, there are also non-governmental institutions related to the automotive industry and working on labour and related issues. Among these, there is only one association to mention representing major vehicle sales and assemblers in the country: the Vehicle, Machinery Importers, and Assemblers Trade Sector Association (VMIATSA). VMIATSA was established in 2014 and is composed of eleven leading brand vehicle companies to represent and facilitate its members' interest. Other organisations like Friedrich Ebert Stiftung (FES) and ILO-Ethiopia country offices are also present. FES has been working with CETU for many years on labour issues. IndustriALL Global Union has also been working with the Industrial Federation of Textile, Leather and Garment Workers Trade Unions and the National Federation of Energy, Chemical and Mining Workers Trade Unions for decades, running various union building projects.

2.2.4 International vehicle brands in the country



By 2030, Marathon motors group plans to boost production with a 5.5 billion euro investment to reach vehicle assembly of up to 700,000 annual units, of which 500,000 will be hydrogen-powered fuel cell passenger and commercial vehicles.

Currently, there are multinational vehicle brands partnering with local companies including **Li-Fan** and other Chinese brands, **KIA** assembled by Belayab Motor, **Peugeot, Geely** and **BUD** by Mesfin Industrial Engineering, **Hyundai** by Marathon motors group and other multiple Chinese brand vehicle assemblers. In terms of assembly, the above-mentioned companies claim they have the capacity to produce a range from 5,000 up to 10,000 vehicles each, annually, but currently they are each only producing in the hundreds – below 500 vehicles – annually (Ethiopian News Agency, Addis Ababa).

Marathon motors group, in addition to currently assembling Hyundai vehicles with an annual production of up to 5,000, has recently introduced the Hyundai IONIQ electric car into the market and plans to import hydrogen fuel cell vehicles in the next few years. By 2030, the company plans to boost production with a 5.5 billion euro investment to reach vehicle assembly of up to 700,000 annual units, of which 500,000 will be hydrogen-powered fuel cell passenger and commercial vehicles. Furthermore, it is forecasted that the country's demand for passenger cars will reach 2 million annually and preparation to meet the future demand and exploit the market is underway (Ethiopian News Agency, Addis Ababa, 29 January, 2019). The Chinese government-owned brand **JAC** recently restarted its assembly plant and is assembling truck and passenger vehicles in partnership with the local **Tamrin International Plc and Li-Fan,** for modern taxi cabs and for other business (www. addisinformer.wordpress.com).

In 2019, **Volkswagen** also signed an MOU with the Ethiopian government to join the auto industry. The company is carefully seeking to enter the market and soon will kick off or start up with a gradual step-by-step plan to invest a worth of USD 700 million. According to the VW representatives briefed on the local news, training facilities and other preparation (a starting point) is expected to launch soon (www.cnbcafrica.com/videos/).

ABOVE:
A lookout point at Blue Nile Gorge, which is downriver from the Grand Ethiopian Renaissance Dam in Ethiopia.

2.2.5 Infrastructure building in light of automotive industry development

The automotive and related industries require sustainable and reliable energy sources. According to the Ethiopian Electric Power Authority, the government of Ethiopia strongly believes that the energy sector plays a key role for the overall socio-economic development of the country, thereby building a green economy resilient to climate change by 2025. The country is determined to develop abundant untapped renewable energy resources that can be used to generate electricity.

Hydropower is a major source of electricity with a generating capacity of about 45,000 MW. In addition to this, there is an ongoing project on wind energy (some already operational), solar and geothermal power plants with the capacity of generating 10,000 to 15,000 MW (Plan Commission GTP II midterm review, 2018). The country is now generating 4,315 MW, whereby it was planned to reach 17,208 by the end of GTP II with the completion of some of the ongoing hydropower mega projects, including the GRE.

The Grand Ethiopian Renaissance Dam – the largest hydroelectric power dam in Africa – is under construction on the Nile River (76% completed), with an additional capacity of 6,450 MW electricity (www.eep.org). According to EIC, Ethiopia offers the most globally competitive electric power rate estimated at USD 0.03/kWh for FDI as an incentive (EIC, Investment directives, 2017).

Road and traffic infrastructure development is also one of the prerequisites for the development of the automotive sector. The country has an area of around 1.1 million square kilometres, which therefore requires huge investment to connect the major parts of the country through road networks. One key indicator regarding the road infrastructure is the total length of all-weather roads at regional and federal levels, which passed from 110,000 to 121,196 km and aims to reach 220,000 km at the end of GTP II (GTP II, 2016). In addition to government initiatives connecting the major parts of the country through road networks, emphasis

The Grand Ethiopian Renaissance Dam – the largest hydroelectric power dam in Africa – is under construction on the Nile River.

was also given in connecting major industrial centres through modern express ways. The first of its kind was a modern six-lane 80 km expressway from Addis Ababa to Adama started in 2010, with its all-modern digital traffic management system completed and operational in 2014. The second phase, Modjo-Hawas, reached about 60% and preparation is underway to start the third phase of an expressway that connects Addis Ababa to the port in Djibouti, the main Red Sea outlet of the country (FDRE Ministry of Transport).

In addition to road infrastructure development, there is also promising growth in terms of railway line development, given the fact that the country owns one of the best airlines in Africa (Star Alliance). Recently the country completed a 756 km modern electric railway that runs from Djibouti port to Addis Ababa, also providing strategic logistic transport services with an expansion plan to reach 5,000 km at the end of GTP II. Moreover, the government and private sectors so far have built 10 industrial parks in the country and most of them are now operational, with the aim of facilitating an easy establishment of enterprises with all infrastructures in one window service across major parts of the country. According to sources, so far only Li-Fan motors has a vehicle assembly plant in the Eastern Industry Zone (about 30 km East of Addis Ababa). However, the country didn't develop automotive cluster development areas like textiles and garments, for which most industrial parks and facilities are allocated to labour intensive activities (like textile, garment, shoe and leather apparels, etc). In terms of developing an automotive cluster, the country should learn from South Africa and Nigeria, where there are various policy incentives instruments aimed at building automotive specific and related industrial clusters and zones (VMIATSA, 2019).

2.2.6 The industry and the COVID-19 crisis

Since the outbreak of the COVID-19 crisis, it was found out that those companies that are engaged in vehicle sales and after-sale services have not been much affected in terms of the business. Except for a lack of some imported spare parts (interviews), the business for sales and after-sale services is going well as usual. Some even claim that business is at a peak, since the need for new vehicles and maintenance services increased as a result of the pandemic and of the state of emergency, during which public transport was only allowed to carry passengers at 50% of their capacity. Unfortunately, this resulted in exacerbating the already inefficient public transport facilities.

For the vehicle assemblers, this is one of the most difficult times ever, due to the shortage and the lack of access to foreign exchange to import vehicle components as SKD or CKD kits. Some companies are operating partially, using kits imported before the pandemic, while others had to shut down for the time being (interviews with certain companies and Federation).

Some vehicle assembly companies explained that, with the limited foreign exchange reserves currently, they are competing for the limited foreign currency with other essential public goods like drugs (medicine), while used vehicle dealers still manage to import.

2.3 Kenya

Kenya's automotive industry has come a long way since the 1960s, ultimately gaining a leading position in Eastern Africa's motor vehicle assembly region. The automotive industry in Kenya is characterised by Fully Built Units (FBU) and Completely Knocked Down (CKD) production. The activities in this industry comprise both vehicle production and assembly – including passenger cars, light commercial vehicles and pick-ups, heavy commercial vehicles (buses and trucks) and automotive parts and component manufacture.[7]

Currently, vehicle production is done through contract manufacturing at three assembly plants, namely:

- Isuzu East Africa Limited (formerly General Motors EA Ltd),
- Associated Vehicle Assemblers (AVA)
- Kenya Vehicle Manufacturers (KVM).

AVA and KVM undertake assembly work on behalf of other dealers. Collectively, the three assemblers have installed a capacity of 34,000 units per year, which is sufficient to meet the East African region's annual demand of 15,000 units (Kenya Association of Manufacturers, 2018).

Vehicle production has been fluctuating widely over the last two decades, with production levels occurring in the range of just above 5,000 to well over 9,000 units. Data on the economic surveys for the previous two years, however, show that the industry has registered increases in output in the previous three years. In 2019, the local vehicle assemblers produced 7,802 units. This represents 38 and 60 percent increases relative to the 5,653 and 4,877 units produced in 2018 and 2017 respectively.

Kenya's vehicle population was placed at over 2 million in 2019, comprising both imports and local assembly (Government of Kenya, 2019). How the local players in the sector can share in this growing market has been a central question in the industry. Looking back three years, the number of new vehicle registrations has showed an upward trend, increasing by 5.2 percent from 282,672 units in 2017 to 297,289 in 2018 (Kenya National Bureau of Statistics, 2019) – and in 2019 increasing by 10.1 percent, recording 327,176 units (Kenya National Bureau of Statistics, 2020), and thereby indicating a higher level of vehicle ownership.

Turning now to market demand, Kenya's automotive market is highly dominated by used imported vehicles. It is noted that, of the imports, a very large variety comprises secondhand brands, which account for over 85 percent of imported Fully Built Units (FBUs) (government of Kenya, 2019). The secondhand market is where most people buy their passenger cars, the driving factor being affordability. In an interview with a Kenya Motor Industry Association representative, taxation was cited as a factor which compounds the existing affordability challenges: currently there is import duty, excise duty and VAT.

Accordingly, at present, the industry is running at just 16 percent of its installed productive capacity (Kenya Association of Manufacturers, 2018). Available statistics from the Kenya Motor Industry Association show that total new vehicle sales (combined FBU & CKD) has been tapering in the last two years, dropping from 14,003 to 12,981 units in 2018 and 2019 respectively. In a time

[7] **The third sub-sector** under automotive industry is motorcycles production and assembly

Sales are expected to register a significant drop, with the year's figures currently standing at 5,467 units.

of continued economic uncertainty caused by the COVID-19 pandemic, the automotive industry is staring at a potentially rough 2020. Sales are expected to register a significant drop, with the year's figures currently standing at 5,467 units. Amid this downturn, growing demand for locally assembled vehicles over the last three years reflects a ray of optimism. This is evidenced by the progressive increase in CDK sales, from 4,607 units in 2017 to 6,894 units in 2019. A closer scrutiny of the sales data gathered by the Kenya Motor Industry Association show that commercial vehicles account for principally all the CDK sales between 2013 and 2020. By and large, corporate/companies represent the largest market for the new vehicle sales. Based on the sector and industry analysis, it appears that sustained growth of the commercial vehicles market is being driven by demand for transportation in the construction, mining, agri-business, tourism, energy and retail sectors (Davies and Schiller, 2018).

From an economic standpoint, nearly all assembling is focused on the commercial vehicle segment. According to the interviewed representative from Kenya Motor Industry Association, production of passenger vehicles is deemed very uneconomical in the assembly plants. Capacity in the assembly plants is constrained by the lack of raw natural resources and raw materials needed for automotive parts and components production, with levies imposed on raw materials brought into the country representing a further disincentive to competitiveness of the local automotive industry.

2.3.1 Investment plans and location decisions

The interviewed shop stewards pointed to several new investment plans in their respective assembly plants. These are coded under the following three categories: new products, additional labour input, and product and service quality.

AVA has recently signed four assembly agreements for the production of four models, namely: **Toyota Hilux new model, Mahindra, FIE canter trucks and Proton saloon car.**

KVM, on the other hand, has signed two assembly agreements for production of the **Ford Everest Pick model, and the Bajaj four-wheeler mini passenger 'vehicle' (quadricycle)**, both expected to go into operation in 2021. Further additional labour input is also anticipated at KVM.

The current assemblies of **Volkswagen Polo Vivo, VW Caddy Van and Peugeot 5008 and 3008 models** do not enable sufficiently high local input. The plans, albeit unconfirmed, are looking to underpin further local input by moving the production of these models from semi-assembled to fully knocked down.

On product and service quality, the **Isuzu East Africa** investment plan focuses on further building quality into their products. The assembly plant plans to invest in a quality body shop facility, the observation being that most of the locally built bodies, especially for buses, do not provide a comparable level of quality to those imported.

In the context of location decisions, potential growth in product demand seems to be a factor in the investors' location strategies. With the spotlight on policy support to promote domestic auto sales, the motor vehicle assemblers will be seeking to step in to fill up the supply gaps caused by import restrictions. These include measures around age restriction on vehicle imports (as a start), targeting vehicles that are above 5 years with capacity of more than 1,500 cc, and tax measures to increase the cost of imported vehicles.

2.3.2 Investments and decent work

Beyond achieving job growth, the shop stewards interviewed presented differing opinions and perspectives on whether the above investments would produce a positive impact on decent work. The positive views on decent work emerged from the comments expressed by Isuzu East Africa and AVA representatives. For Isuzu East Africa, investing in a plant for vehicle body construction will, through subcontractors, transition the workers now engaged on contract basis into the formal labour market. The representative from AVA asserts that this objective can be achieved by the management and trade union working together to determine what they believe to be a fair rate of payment for the level of work done. In an apparent departure from the views held by the other participants, a KVM representative had the view that decent work is not likely to be realised with the ongoing piece-rate pay system, the contention being that the employees under this system are not covered by the CBA, and therefore earn wages at a rate of pay less than the rate paid to permanent and fixed-term employees.

The other pertinent issue is that workers are not eligible for severance pay or another form of compensation in the event of termination, irrespective of how long the employee had worked for one entity.

2.3.3 Policy and institutional capacity

An examination of the Industrial Transformation Programme (Government of Kenya, 2015), developed by Kenya's Ministry of Industrialisation and Enterprise Development shows that the automotive industry is not listed among the 13 target industry sectors to deliver projects that will achieve results on the GDP and employment growth in the immediate term. Regardless, the industry does appear to be receiving increasing attention in political discussions, and is recognised as an important contributor to Kenya's manufacturing pillar under the Big Four agenda, which in 2016/17 identified Four Priority initiatives to be implemented over the following five years (2017-2022). In his March 13, 2019 speech, President Kenyatta underscored the government's aim to prioritise motor vehicle assembly and manufacturing of spare parts as part of the agenda to promote manufacturing under the Big 4 Agenda for wealth and employment creation (President's Strategic Communications Unit, 2019).

Information disclosed by the interviewed Kenya Motor Industry Association representative indicated that the National Automotive Policy that has come about is focused more on driving an increase in manufacturing, production and jobs within the sector. Early efforts are underway in aiming to revamp the local assembly of motor vehicles. **An excerpt from Centum Capital[8] Managing Director Fred Murimi's interview with KTN News, on June 21, 2019, revealed a set of demand-oriented proposals, anchored on these policy measures:**

- **Stop importing** commercial vehicles
- **Reduce the age** limit from 8 to 5 years for imported passenger vehicles with engine ratings of more than 1500 cc
- **Give exclusive preference** to local purchases from companies which have assembly plants in Kenya by all public entities making a procurement of motor vehicles and motorcycles in all government purchases

The proposed policies are however yet to be enacted, having been stayed following the suspension of regular parliamentary sittings due to COVID-19. In the meantime, the Car Importers Association is also lobbying in opposition to the proposal that focuses on reducing the age limit from 8 to 5 years.

[8] **Centum** is East Africa's leading investment company listed on the Nairobi Securities Exchange and Uganda Securities Exchange, and maintains 17.8 percent stake in leading local vehicle assembler Isuzu East Africa

RIGHT:
The Kenyan union signs collective agreement with Isuzu East Africa

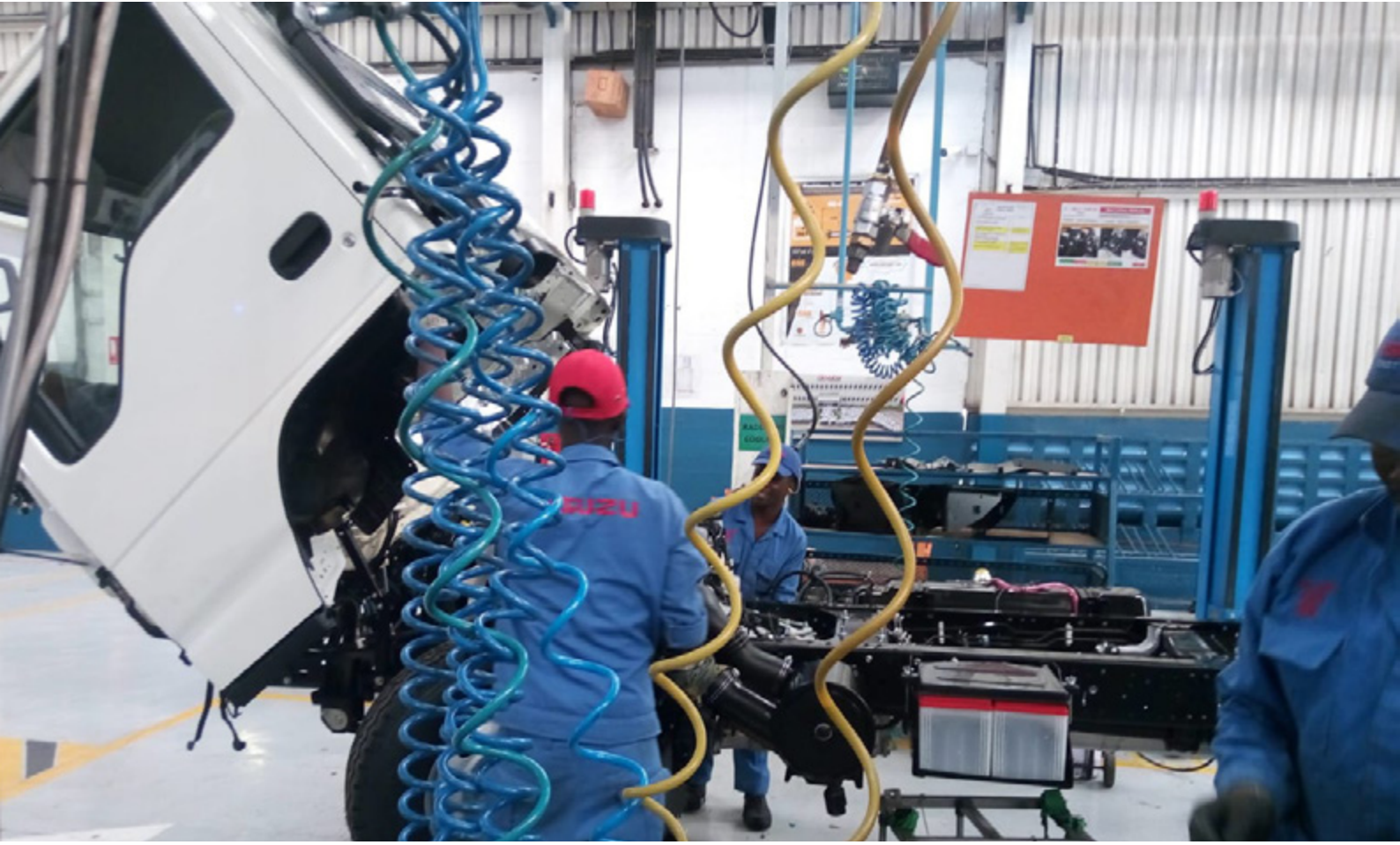
2.3.4 Sustainability of investment plans

Comments from industry and sector representatives (i.e. Kenya Motor Industry Association and Kenya Private Sector Alliance) point to one key concern: the challenge of sustaining demand for vehicles that are assembled locally in the long run.

The overarching challenges being faced are prices and market factors. Looking at the aspect of price, typically, it is more costly to buy a vehicle assembled in Kenya compared, for example, to one assembled in South Africa. For the long-term sustainability of the sector, the vehicle prices need to be reduced on account of lower tax rates. According to the Kenya Private Sector Alliance representative, particular consideration should be given to adjusting the parameters of the tax system.

When it comes to market size as a factor accounting for the growth of the automotive industry, it is noted that given the level of demand it is unlikely that this process will ever grow much beyond its current level, as noted from the following comment from Kenya Motor Industry Association representative:

> *"Kenya is a relatively small market; the vehicle population, currently standing at about 2.5 million is not likely to grow too much bigger in the next 10 to 12 years. Even then, there is potential for sustainability. In order to increase sales volumes, the manufacturing can be expanded and do local assemblies export as well. Overall, commercial vehicles are expected to drive the vehicle assembly sub-sector. Furthermore, the plan to develop the bus rapid transit system is expected to drive the growth of the commercial vehicles market. The assembly plants in turn, are expected to help to develop the local manufacturing of parts and components, like brake linings. With new technologies transforming the industry, this has to be done in such a way that everybody is keeping up with modern technology."*



ABOVE:
Workers at an auto manufacturing plant in Kenya.

2.3.5 Employment creation and decent work

The key informants' responses indicate higher expectations about job growth through the development of new product lines. One question for which it was difficult to receive a straightforward answer, was with regards to the number of jobs that these new investments are expected to generate, specifically in relation to the area of 'knock-down' assembly. At that point in the study the participants were uncertain about the degree of awareness of the "knock-down," this being the key factor determining the number of available jobs. For example, the VW assembly that was recently launched accounts for only a handful of jobs, with most of the work performed in South Africa. Isuzu East Africa's anticipated new investment in a plant for vehicle body construction is expected to accrue to a sizeable number of new jobs – in the range of 15 to 20 percent of the unionisable employees.

2.3.6 Global value chains and backward and forward integration

Integration into global value chains occurs through the production and management systems set by the principal company that provides the franchise. The principal company provides the key investment in addition to assisting the local dealers to get up to date with current technology in terms of local component manufacture that must be line with global standards.

Backward and forward linkages have, however, not occurred without hitches. From

Kenya Motor Industry Association's perspective, the production linkages have been marked by ups and downs, due to a regular stream of new regulations with which the industry players have to figure out how to deal.

The major local content in the assembly plants, among other components, include the arterials batteries, leaf springs for suspension systems, wiring harnesses, seats and trimming materials, lubricants, paints and other process materials, tyres and tubes, glass, welding metal, bolts and nuts, metal brackets and vehicle bodies (Kenya Association of Manufacturers, 2018). According to the Kenya Private Sector Alliance representative interviewed, forward linkage in the production process is largely reflected in outsourcing the construction for body sub-assemblies. The most relevant in this case is Isuzu East Africa, which has outsourcing arrangements with automobile body builders (original equipment manufacturers) for manufacturing truck and bus bodies.

2.3.7 Environmental impact and sustainability

Our analysis of the interviews makes it useful to consider the issue of environmental impact and sustainability from two perspectives. The first perspective considers the issue of environmental compliance. Key informants expressed the view that vehicle manufacturers are generally inclined towards ensuring the manufacturing processes meet with and integrate with the environmental laws and regulations.

The second, and rather curious angle, considers the issue of emission standards. An observation flagged by one of the key informants brings to the fore the question of how current industry standards relate to the engine technologies, in view of acceptable limits for exhaust emissions of new vehicles. The following comment illustrates these concerns: *"Most of the assembled vehicles have the type of engine that cannot be allowed in some other places. They do Euro 2 or 3, but currently we are at Euro 7."*

Data and statistical information held by Isuzu East Africa indicate that new vehicles in Kenya are currently at EURO 0-4 emission level.[9]

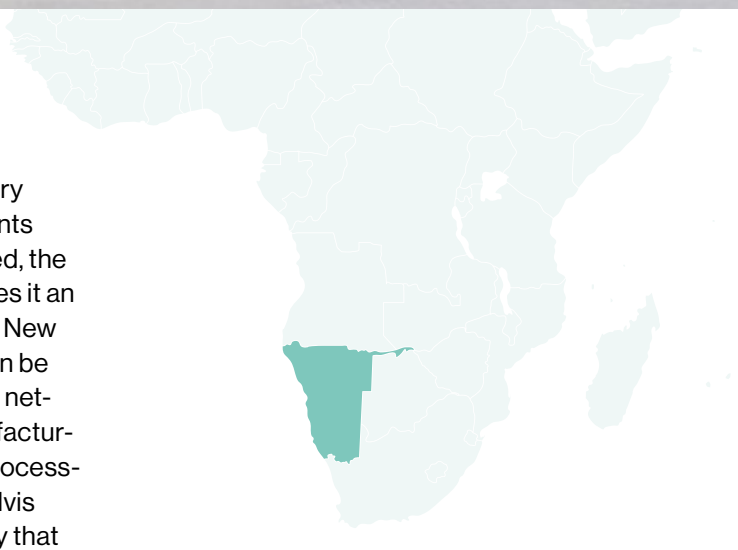
2.3.8 Impact of COVID-19

The general findings show that the automotive industry has had to scale back production primarily due to disruptions in the supply of parts and the inability of production line trainers to travel into the country. Overall, assembly plants scaled down their operations by roughly 30 to 40 percent. The industry has so far seen purchase order cancellations and postponements resulting from business closures, including those that remain temporarily closed and those that may have closed forever. Since the industry is fully dependent on the transport sector, the challenges are further compounded by changes in transport behaviours which include pandemic-related transport restrictions. According to the Kenya Private Sector Alliance, so far, the disruptions have not resulted in permanent job losses.

[9] **Isuzu,** 'Production of Cleaner Vehicles in Kenya', wedocs.unep.org, UNEP, 2018, https://wedocs.unep.org/bitstream/handle/20.500.11822/25233/ProductionCleanerVehicles.pdf?sequence=7&isAllowed=y

ABOVE:
Metje and Ziegler's MAN sales and servicing dealership in Windhoek.

2.4 Namibia



Namibia's auto industry is also at a very incipient stage, but it definitely presents potential for further expansion. Indeed, the country's geographical location makes it an attractive destination for investment. New auto manufacturers and investors can be attracted by the proximity of regional networks and Original Equipment Manufacturers (OEM) as well as by the export processes happening through the Port of Walvis Bay. This port is located in such a way that the link to strategic markets is supported by fast transit to the European, American and Southern African markets. According to the Ministry of Trade, the Investment Centre *"automotive companies will find optimal conditions not only for testing, but also as a new platform for manufacturing and exporting"* (Nam Investment Centre, 2015).

The Competition Commission of Namibia in 2017[10] defined the automotive industry in Namibia as being responsible for the distribution and retailing of vehicles, for the servicing and maintenance of motor vehicles, and for the sales of vehicles and automotive-related components. However, it further posited that the Namibian Automotive Industry is still under-developed, with active market players only in automotive retail and the automotive aftermarket services such as panel-beating and motor repair service centres.

The automotive industry in general has three segments: vehicle and parts manufacturing, vehicle retail and or vehicle distribution, and the aftermarket services. At present, Namibia mainly operates under vehicle retail and aftermarket services. The sector has a few players that dominate the market – including Toyota, Nissan and Volkswagen. These companies have been involved in retail only. The Competition Commission[11] revealed that there were 10 franchise dealerships distributing brand new vehicles, with the majority operating in Windhoek. Metje and Ziegler (M&Z) have the franchise rights of about 11 brands, followed by Associated Motor Holding (AMH) with seven brands, and Pupkewitz Motors with six brands. Furthermore, there are over 50 registered dealers across the country and over 30 companies selling car parts and accessories. Most of the compa-

[10] **Namibian** Competition Commission (2017) study on the Automotive Industry

[11] **Ibid**

nies are located in Windhoek, Swakopmund and very few in the northern towns of the country.

The set-up of the industry also allows for informal businesses[12] that are operating and providing motor and mechanic services to customers. There is currently no record as to how many informal automotive businesses are in operation. However, the 2018 report by the Ministry of Labour on the informal sector highlighted that those operating under Wholesale and Retail trade accounted for 2,452 jobs, which is 54.4%[13] of the industry economic activities in the informal sector.[14]

Namibia at the moment does not manufacture or assemble passenger vehicles except for the manufacture of military vehicles and agricultural machinery by the Windhoeker Maschinenfabrik (Pty) Ltd (WMF). There was, however, a company called Barden International that set up shop in Namibia just after independence. The firm closed in 2004 shortly after General Motors breached their contract. Barden International was responsible for bringing Chevrolet to Namibia. Thus, the market for vehicle manufacturing to date does not exist.
The industry itself is almost entirely retail. There were no car-making companies until December 2018, when the first assembly plant was opened in Namibia – a joint-venture agreement between Groupe PSA and Namibia Development Corporation (NDC)[15] to assemble OPEL and PEUGEOT vehicles in Walvis Bay. According to the Ministry of Trade, the plant produces 1 vehicle per hour, with a capacity of up to 5,000 a year. The plant assembles approximately 30 car parts, models of Peugeot and Opel. According to industry players, this cannot be considered a manufacturing plant since Opel and Peugeot assemble SKDs.

The assembly plant and the sector are still undergoing final policy and regulatory perfection, for example on the endorsement of a manufacturing certificate. State regulations are in line and address the retail aspect, but when it comes to manufacturing, some of the policies have to be amended to address the new manufacturing investments. The rest of the sector is purely import based, as all vehicles are imported mainly from South Africa.

Therefore, new investments will be welcome in the country. However, there are strategies that need to be employed to ensure that sustainable industrial structures are formed, and most importantly, that decent jobs are created. For instance there is a Pilot Investment Promotion Strategy that was drafted by MITSMED for the automotive sector in 2015. The strategy identified five areas with a potential to attract investment: automotive testing (permanent test track and corresponding facilities), aftermarket (e.g. off-road equipment), metal component suppliers (Tier 2 and 3 suppliers), wiring systems and components, and OEM assembly of commercial vehicles (Siddiqui, n.d.).

The strategy also identified the investment promotion instruments and the activities needed to achieve its objectives. The aim of the strategy is *"to achieve an increase in number, value and nature of domestic and foreign direct investment in Namibia. This activity is to be achieved by, among others, creating an enabling environment for investment, which involves having in place an appropriate legal and regulatory framework; a proper plan and strategy for marketing Namibia as a preferred investment destination and enhancing Namibia's positive competitiveness ranking"*[16] which highlights some possible focus areas on the industry. However there are no policies that target the automotive industry specifically.

It is not easy to determine the actual GDP contribution of the sector as national data such as the NSA only provide aggregated data on Wholesale and Retail Trade.
Also considering that the WMF products are for military vehicles, the figures are not publicly reported as they are shrouded in military secrecy.

[12] **Any business** that is not registered with the Ministry of Finance, Ministry of Trade, Social Security Commission or any other trading authority, and does not pay tax is considered informal.

[13] **This data** is not disaggregated.

[14] **Ministry of Labour** & Social Security Commission (2016/17) Namibia Informal Economy Case Study Report

[15] **The Namibian** Government owns 49% of the plant.

[16] **Ministry of Industrialisation,** Trade and SME Development. (2015/16) Annual Report, Growth at Home Strategy. http://www.mti.gov.na/downloads/MITSMED%20Annual%20Report%20201516...final.pdf

2.4.1 Investment, COVID-19 and future prospects

This year, the COVID-19 pandemic has had a quick and serious effect on the globally integrated automotive industry. This has probably already set a heavy weight on an industry already adapting because of a downshift in global demand. For example, China, Europe and the United States are markets for vehicles and motor parts for the country, hence the impact on these markets was also felt in Namibia. Companies up and down the value chain in Namibia experienced the weight of supply and demand disturbance, and public concern for health and financial well-being has also slowed the local economy. Cost-cutting and operational fitness programmes that started well before the pandemic remain key, but the retailers ought to secure critical investments.

China, Europe and the United States are markets for vehicles and motor parts for the country, hence the impact on these markets was also felt in Namibia.

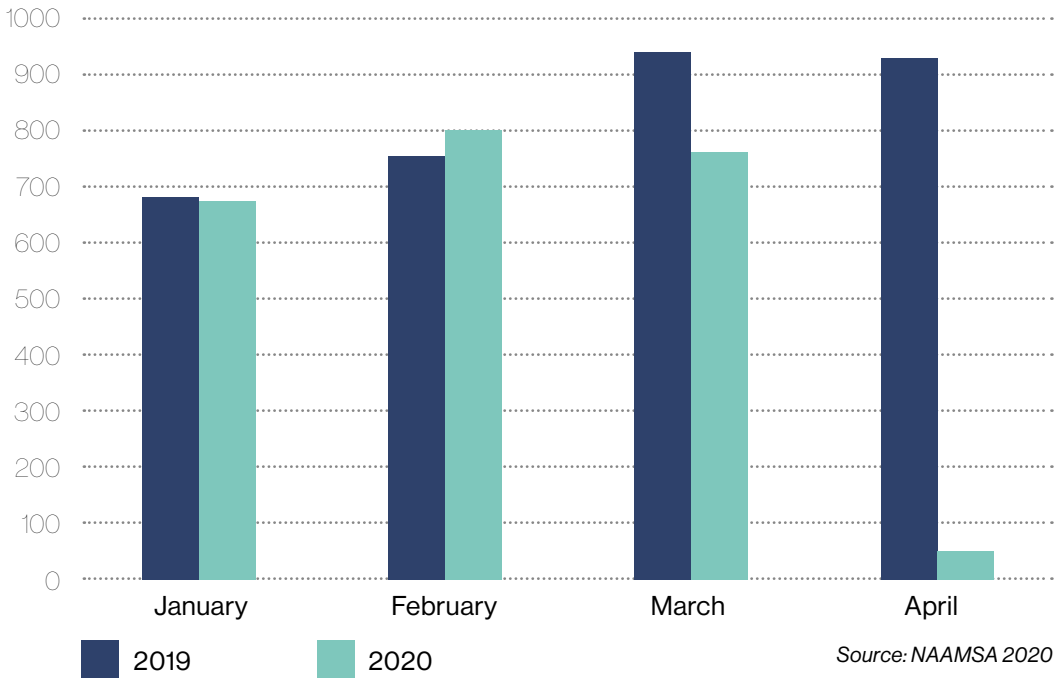
Fitch Solutions Country Risk and Industry Research show that new vehicle sales in Namibia will contract sharply in 2020 as the implementation of a lockdown to stem the COVID-19 spread in the country and the subsequent economic fallout will result in a much weaker demand for vehicles, which will mark six consecutive years of a declining automotive market (Fitch Solutions, 2020). The implementation of strict movement restrictions between mid-March and April 2020 also resulted in a notable reduction in sales. An example of reduction is in small vehicles (like the H120), which saw the total new vehicle sales contract by 33.9% year-over-year to reach 3,517 units (Fitch Solutions, 2020). Therefore, the total vehicle sales forecast for the country was revised to be much lower and sales are expected to contract by a further 17.0% in 2020 to reach a total of 8,633 units. This is in contrast to a previous forecast of a 0.5% increase prior to the COVID-19 outbreak, when a low base effect resulted in a sales recovery in 2020 (a contraction in sales every year since 2015 was expected).

However, due to the negative impact the health crisis will have on the Namibian economy, the demand for non-essential items such as vehicles is expected to remain well below the number of vehicles sold in 2019.

The Risk team expects the Namibian economy to contract by 6.2% in 2020 owing to the negative consequences of the ongoing COVID-19 outbreak. This was supported by the findings of the current study in which the informants shared that there was a 60% decline in sales volume which led to expensive stock. It was added that since the tourism sector is a major customer for automotive dealers, the pandemic has significantly slowed the business income.

According to Nghinomenwa, (2020), a Simonis Storm Securities (SSS) analysis of Namibia's new vehicle sales data compiled by the National Association of Automobile Manufacturers of South Africa (NAAMSA) for April 2020, only 50 new vehicles were sold countrywide compared to 759 in March 2020. A car is the second most expensive purchase the average person makes in their life after a house. According to an SSS analysis, on a monthly basis, Namibians reduced expenditure on new vehicles, leading to a monthly decline of 93,4% in sales. New vehicle sales declined by 94,6% on an annual basis. The findings further explained that the Khomas and Erongo regions were in lockdown from 27 March to 5 May 2020, which would have restricted vehicle sales in these two regions. However, sales would have continued in the remaining regions (during the first lockdown period from 28 March to 14 April 2020) and commercial banks were declared essential services, ensuring continued vehicle financing. The results of the SSS research on car sales from January to April are depicted in Figure 6.

Figure 6 Namibia new vehicle sales



Source: NAAMSA 2020

Historic data show that April 2020 marks the highest drop in vehicle sales in Namibia since 2,000 on a month-to-month and year-on-year basis (Nghinomenwa, 2020). Sales are expected to remain in deep negative territory as forecasted by Fitch Solutions due to the extent of the decline in H120, with sales only regaining positive growth trends from 2021 onwards. As an ageing vehicle fleet due to multiple years of contractions that leads to favourable low base effects, the sales in 2021 is forecasted to increase by 3% to reach a total of 8,892 units.

Additionally, economic growth is expected to return to a positive territory in 2021 alongside an improvement in the global economic environment (Fitch Solutions, 2020).

2.4.2 Current investment plans

The government of Namibia has identified the automotive industry as a priority sector in the Growth at Home strategy. Currently, one company has been involved in the manufacturing of vehicles for security services (Windhoeker Maschinenfabrik), while a number of companies have produced parts for the automobile industry. Most of these companies have produced parts for the domestic market on a small scale, driven by consumer demand, while one company has assembled vehicles exclusively for the export market. There are currently no policies which are targeted to the automotive industry specifically, but from the regional comparison, Namibia could be able to draw some lessons on how to promote and develop its growing automotive industry successfully. The country's regional integration agenda and existing policies on trade and development are being reviewed by the Ministry of Industrialisation, Trade and SME Development (MITSMED) to incorporate manufacturing as a necessity for the automotive industry. MITSMED has currently commissioned work to identify niche markets for the development of a growth strategy in this industry.

The government has over the past years played a crucial role in building and sustaining the country's manufacturing base, which

may have a positive impact on the automotive industry. This is mainly through the intervention of introducing policies, which influenced the evolution and momentum of the Namibian manufacturing base. The Namibian automotive industry is closely linked to the South African automotive industry, from where most vehicles are being imported (Siddiqui, n.d.). Given the state of market integration in the region, it is envisaged that the Namibian automotive industry has the potential to manufacture for and integrate with the regional value chains and create economic and social opportunities for Namibia in the area of diversification, product development and technology transfers.

2.4.2.1 Peugeot-Opel Assembly Namibia (POAN)

The geographical location, the Port of Walvis Bay and the strategic market engagement are qualities that can boost investment.

In Namibia, investments in the automotive industry are competitive in grey areas (retail) as opposed to manufacturing. The sector is dominated by retail of grey inputs including pre-owned vehicles, while within the retail industry panel beaters are dominant mainly in the informal economy. The market for vehicle manufacturing is therefore non-existent but poses an opening for new investment. At the moment Peugeot-Opel Assembly Namibia (POAN), along with the Ministry of Industrialisation, is focused on finalising all policy and regulatory matters to ensure full production by 2021. The government currently owns 49% of POAN. The percentage divide and involvement of government is to ensure that there is consideration of Black Empowerment as part of local development.

Furthermore, the situation of Peugeot has put pressure on government spending since inception, since the cash flow has not met expectations due to low sales. Nonetheless, the firm has not laid the workers off, nor has it cut their salaries. The assembly plant continues to operate under these conditions as a contribution towards sustainable livelihood for workers, despite the sustainability of the company being on the line. The Namibia Employment Federation representative shared that the standard of living can be uplifted through decent salaries and by encouraging citizens to move their earned money, because if more money is earned, more money will be spent in the economy hence the decision to increase the government tax. The imbalance of wages and working conditions is due to discrepancies between employers. The race challenge could be curbed if the players worked together as a unit and created sustainable employment as in the case of Peugeot.

The key stakeholders in the industry are convinced that Namibia is a hotspot for new investments. The geographical location, the Port of Walvis Bay and the strategic market engagement are qualities that can boost investment. **However, one of the companies that operates in the retail sector opined that it would be a challenge to set up manufacturing plants in the country due to a variety of reasons, including:**

1. **the policies** at the moment are not attractive enough for investments, and
2. **it would** require billions of USD to establish a full-fledged manufacturing plant.[17]

Still, the concept of sustainable investment needs to be explored and made key when considering new investments. One of the policy makers, the Ministry of Labour stated, *"Sustainable investments mean diversification of economy, growth, expansion, job creation and job security that offer decent conditions of employment. This presupposes good labour relations anchored on meaningful collective bargaining and social dialogue"*.[18]

On the other hand, the Ministry of Trade looks at it as an investment that "must be congruent with the Sustainable Development Goals (SDG) criteria, whether on materials, production process, human capital and deployment of capital."[19] The ministry further states that, in order to achieve such sustainability, Corporations should have Sustainability Policies and a Reporting Framework.

[17] **Namibia Employer's** Federation Rep, interview extract.

[18] **Ministry of Labour** Interview extract

[19] **Ministry of Trade** Interview extract

2.4.3 Trade union and stakeholder engagement

The sentiments of the trade union are that the industry can handle new investments as long as they are legal and credible, including manufacturing and plants for cars. The challenges come in when investors want to impose unacceptable conditions on the state *vis-à-vis* the higher rate of unemployment and the shortage of skills in some sections of the economy.

The unions are in support of new investments, on the condition that the following three issues are taken into account:

1. **the involvement** of unions at investment discussions,
2. **the prioritisation** of local development (citizen benefits), and
3. **the upholding** of employment standards (workers' rights are not violated).

Furthermore, the Competition Commission[20] indicated that a feasibility study to determine readiness is required if the government wants to develop the industry. They also highlighted that the success of the investments will depend on the products to be manufactured and imported.

2.4.4 Government efforts to create a conducive environment for investment

There are incentives that the Ministry of Trade is busy finalising when it comes to new investments (new incentive regime).[21] This is coupled with policy reviews to ensure investments can be sustainable.

The key stakeholders[22] proposed that, in order to achieve local development and sustainable investments, there needs to be:

1. **a policy/legislation revie**w (Trade and Investment Acts and documents to speak to local development for the citizens, incorporate skills transfers, and VAT for government),
2. **conditions on expected** investments with regards to timelines, tax, employment and locally sourced materials,
3. **tripartite engagement** before investments are set up,
4. **advocacy for workers** to gain more knowledge on a policy level,
5. **capacity building** for the unions as they represent workers,
6. **an education system** to make sure students continue to get quality education and
7. **a portion of ne**w investments that invest in skills transfer.

[20] **Competition** Commission interview extract

[21] **The process** is still ongoing and hence the Ministry could not give out detailed information

[22] **Ministry of Trade,** Ministry of Labour, MANWU, NEF

2.5 Nigeria

2.5.1 The automotive industry in Nigeria

The post-independence era was a period of state led investment in critical areas of the economy and the Federal Government of Nigeria established six assembly plants.

The first assembly plant in Nigeria was established in 1959 with the assemblage of SKD Bedford truck components by United Africa Company, a private multinational enterprise. This was consolidated with the ambitious import substitution industrial expansion strategy covering broad segments of manufacturing in textile, chemical, household items, and automobiles.

The post-independence era was a period of state led-investment in critical areas of the economy and the Federal Government of Nigeria established six assembly plants (two for cars and four for trucks). The two car plants were Peugeot Automobile Nigeria in Kaduna and the Volkswagen assembly plant in Lagos. The truck plants were in Enugu, Kano, Bauchi and Ibadan. All of these plants were established between 1975 and 1983. During this period both the Federal Government and state governments such as Kaduna and Lagos had shares in the automobile companies. At the time, the total sum of government shares in an assembly plant amounted to about 70 percent.

With an overall developmental effort, the focus of the government was to ensure the utilisation of local contents, transfer of technology and employment for Nigerians. To some extent, these objectives were achieved with the development of auxiliary industries like tyre and glass manufacturing and small-scale industries manufacturing car accessories like bumpers, car upholstery, auto batteries and plastic inputs. These industries contributed to as much as 40 percent of the components of vehicle assembly.

The automotive sector experienced growth in terms of production between the 1970s and 1980s, partly due to shared investment with the government and due to other manufacturing sectors that provided raw materials and parts to the automotive sector (such as petrochemical and iron and steel sectors), which was functioning and largely state owned.

In 1982, the Federal Government had further signed fresh pacts with other OEMS including Suzuki, Mazda, Nissan and Peugeot to set up new plants across the country. But the onset of economic recession stalled the implementation and establishment of new auto plants. Prior to the collapse of the auto sector, local assembly plants had installed capacity for 108,000 cars, 56,000 commercial vehicles, 10,000 tractors and 1 million bicycles annually (Source, Guardian 31st January, 2010).

ABOVE:
A worker washes a car in Abuja, Nigeria.

Photo by Truman Tyoden on Unsplash

There are three fundamental tiers in the automotive supply chain, which generally include OEMs, dealers and n-tier suppliers. In the period between the 1960s and late 1970s at least four of the automotive supply tiers were present in Nigeria in one form or the other, including Tier 3, 2, OEMs and distributors. The automotive industry at its peak in the 1970s absorbed as much as 40 percent of local content with the growth of auxiliary industries manufacturing tyres, furniture, glass and other car accessories. In this period employment in the sector was estimated to be over 100,000.

In 1986 the military regime fully implemented the Structural Adjustment Policies (SAP) which was part of the International Monetary Fund's (IMF) conditionality for granting loans to Nigeria's government. The SAP policies included privatisation of particularly national industrial assets, deregulations, currency devaluation and austerity, among others. These neoliberal policies reversed virtually all the gains that had been previously made concerning industrialisation and decent work.

Following the implementation of the neoliberal SAP in 1986 in Nigeria and the attendant crisis of foreign exchange and the collapse of the middle class the automotive sector experienced a significant downturn. While it is true that the neoliberal policies, particularly privatisation, impacted the automotive sector hugely, other manufacturing sectors such as petrochemical and mining – the forward linkages to the automotive industry – were negatively impacted too, which contributed to the overall decline of the automotive sector in Nigeria.

Prior to the implementation of the SAP, assembly plants in Nigeria relied largely on locally sourced materials for production. Aside from the impact of privatisation on the automotive sector and other linked industries, there was a large influx of imported and relatively cheaper vehicles into the Nigerian automotive market. This had a huge impact on the production and sales of local assembly plants, and several plants were shut down between the 1980s and 1990s. Equally, employment in the automotive and linked sectors drastically dropped.

It is estimated that there are **60 vehicles for every 1,000 people** in Nigeria

By the 1990s, the automotive and auxiliary industries like iron, steel and petrochemicals had almost totally collapsed. By the end of the decade, used foreign vehicles dominated auto sales in the country, and their rise negatively impacted the development of backward integration in the industry. Auxiliary industries to the automotive sector, such as the petrochemical, iron and steel industries, drastically rolled back the growth in the use of local content, hence local automobile assemblage increasingly relied on importation of spare parts and other inputs with all vagaries of naira devaluation and forex scarcity.

The prospect for economic growth soared after return to democratic governance in 1999. Nigeria benefitted from renewed confidence for investment and a high price of crude oil in the decade between 2005 and 2015 when GDP grew steadily at over 5 percent. The Federal Government divested its equity stakes in the assembly plants (Volkswagen of Nigeria Limited, Peugeot Automobile Nigeria Ltd, Steyr Nigeria Limited and Leyland Nigeria Limited).

The period witnessed a resurgence of the middle class and increased activities in general retail and sales of new automobiles. During this period, the National Automotive Council had developed policies to discourage importation of used vehicles through increased tariff applications and incentives for new investments in the automotive sector. The National Automotive Design and Development Council (NADDC) issued licenses to over 40 firms to set up vehicle assembly plants.

A significant step was already taken with Honda, Nissan, ANAMMCO and Dangote Trucks, PAN Peugeot and INNOSON, setting assembly plants in Lagos, Enugu, Kaduna and Nnewi. Other assembly plants include Kia motors, JAC (Elizade Motors) Hyundai Motor Company, Ford motor Company and GIC Motors. The NADDC also signed an MOU with Volkswagen for the establishment of an assembly plant in Nigeria. Under the agreement, Volkswagen would implement a phased approach in relation to the assembly of vehicles, initially from assembly kits with a long term view of establishing Nigeria as an automotive hub in West Africa.

In 2014, the Federal Government introduced the National Automotive Policy administered by the National Automotive Design and Development Council (NADDC) to discourage the importation of used vehicles. While there are prospects for growth and improvement in the automotive sector, the national automotive policy did little to address the import-dominated market.

The current regime is focused on diversification of the economy from oil to critical productive sectors like agriculture, mining, and manufacturing. There are, therefore, prospects for new investments in the automotive and allied sectors with the planned implementation of the National Automotive Industrial Development Plan (NAIDP). The focus of the NAIDP 2014-2024 is to revive, develop and sustain the local automotive industry in terms of vehicles and its components in Nigeria. The five key components of the NAIDP are: investment promotion, infrastructure development, improvement of standards, skills development and market development.

Nigeria, with a population of approximately 200 million people and a growing middle class (estimated to be about 40 million), continues to show huge potential for a vibrant automotive sector. The total vehicle population is put at 11,5 million with an estimated ratio of 60 vehicles to 1,000 Nigerians, or 0.06 vehicle per person. This indicates that the vehicle market is still largely untapped and that, given the right policies and dogged commitment to implementation, the Nigeria Automotive sector can bounce back.

ABOVE:
A masked man walks past an informal store selling spare auto parts in Ikorodu, Nigeria.

Photo by Tobi Oshinnaike on Unsplash

2.5.2 New investment and sustainability in the Nigerian automotive sector

The industrial growth experienced by the automotive sector, largely due to the national economy improving between 2004 and 2014, was consolidated upon with the National Automotive Policy Act of 2014, which espoused a roadmap for attracting investment in the auto-sector.

The automotive industry has a vital role to play in the country's economic development and offers huge potential, including employment creation of up to 10 percent, a contribution to GDP of up to 10 percent, the beneficiation of raw materials, and the encouragement of local industrialisation along the automotive value chain (NADDC 2020). The economic essence of the automotive sector to industrial and national growth presents the motivation needed for the government to invest in the automotive supply chain and encourage investment in the sector.

In 2012, Nigeria imported 100,000 new cars and 300,000 used vehicles and the total import was estimated at USD 3.5 billion. During this period auto imports witnessed rapid growth in tandem with the rising GDP growth. These positive developments created an enabling environment for the enactment of law to promote investment in the sector and ensure resurgence of local manufacturing (NIRP 2014).

There was a noticeable resurgence of activities in the automotive industries with the introduction of the Automotive Policy Bill in 2014. This provided a cocktail of incentives needed to revitalise the industry for job creation, local value addition and technology acquisition. About 54 firms have so far been licensed for vehicle assembly and 28 of those firms are somewhat operational. According to NADDC the sector attracted over USD 1 billion in investments in 2019.

PWC, in a study from 2016, had also appropriately highlighted the potential contribution of ride sharing companies in boosting sales of new and used vehicles. It argued that the frequent use of these vehicles and the related wear and tear would require replacement of parts to meet the standards and pass the checks of the car ailing companies. The report highlighted that the prospects could hit 6,866,000 units in a rapid growth scenario, 4,162,000 in a medium one or 1,803,000 in a slow growth scenario (Guardian 21 July, 2019).

However, current realities reveal that given the huge number of licenses issued, local vehicle assembly has shown little promise for industry development, job creation and technology transfer as enunciated in the automotive development plan.

The National Automotive Industry Development Plan (NAIDP) unarguably is a step by the government to encourage investment in the automotive sector. The NAIDP provides a series of incentives to ensure existing assembly plants thrive and to attract new investors in the sector.

The fiscal incentives for the initial phase from 2013 to 2015, as contained in the plan, are listed below (Deloitte).

- **Commercial vehicles** (HS Headings 87.01, 87.02, 87.04, 87.05, 87.16) are to attract 35% duty without levy while cars (HS Heading 87.03) are to attract levy of 35% charged on the Fully Built Units (FBU) in addition to the 35% import duty.
- **Tariff** on Completely Knocked Down parts (CKD), Semi Knocked Down parts I (SKDI) and Semi Knocked Down parts II (SKDII) for use by local assembly plants will be 0%, 5%, and 10% respectively.
- **Assembly plans** to import FBU for cars at 35% duty without levy and commercial vehicles at 20% duty without levy, in numbers equal to twice their imported CKD/SKD kits.

“This closure [of land borders] led to a 35% rise in vehicle importation through the Lagos seaport

Similarly, a circular released by the Federal Ministry of Finance (ref: BD/FP/DO/09/1/224) confirmed that the past President approved a number of additional incentives to encourage new investments in the automotive sector beyond those contained in the NAIDP. Such incentives include: all machinery and equipment for tyre production are now duty and VAT free; all machinery and equipment imported for the purpose of vehicle assembly will attract zero percent import duty and will be VAT free; pioneer status to be granted to all tyre plants and harmonised 20% duty on car, lorry and bus tyres (Deloitte, 2015).

While there are criticisms of the National Automotive Design and Development Council (NADDC) and the NAIDP, which the recommendations will be based upon, there has also been some development in the sector. However, the benefits of such developments do not appear to have been evenly spread, and they have rather accrued ‘vertically’, concentrated at the top of the industry.

The Director General of NADDC confirmed in January 2020 that automotive manufacturing companies made investments worth a total sum of 360 billion naira into the sector in 2019 only. These new investments have brought Nigeria’s automobile production capacity to at least 408,870 units per year. An average of 2.8 trillion naira (about USD 8 billion) was being spent annually on the importation of vehicles. This points to the potential investment prospect in the automotive sector if policies can be put in place to effectively drive patronage of local assembled vehicles and discourage importation.

The government had banned the importation of vehicles through land borders during the closure of land borders. It was gathered that this closure has led to a 35% rise in vehicle importation through the Lagos seaport (a major import/export gateway in Nigeria).

While the NAIDP has been approved, the Automobile Policy Bill, which is a legislative instrument to promote investments in the sector, was passed by the senate in 2017 but has been rejected by the President, on the basis of suspected contradictions in the provisions of the bill. For instance, the Automobile Development Bill provides a 10-year tax holiday which contradicts the Pioneer Status act. The pioneer status act is a fiscal incentive given to companies in designated pioneer industries which provides for a 3-year tax holiday that can be extended for another 1 or 2 years.

The Automobile Policy Bill, if the grey areas are resolved and it is accented to by the President, will give effect to the provisions of the NAIDP, which also includes a 5 billion naira, zero-interest loan to procure locally assembled vehicles to Nigerians. The absence of a legal framework in terms of policy to attract Original Equipment Manufacturers (OEMs) is considered for the poor performance of the automotive sector. For example, Volkswagen Motors recently signed a Memorandum of Understanding (MOU) with the Nigerian government

10%

11,000 locally manufactured vehicles were sold in 2019 – a 10% increase from 2018.

80%

About 80% of workers were away from work for months due to the COVID-19 health crisis.

to re-establish its assembly plant, but its implementation hinged on the signing of the automobile policy bill.

The sale of locally manufactured vehicles in Nigeria reached 11,000 units in 2019 alone – an improvement of 10 percent from the previous year. At the beginning of 2020, manufacturers had expressed confidence that sales will improve in 2020 especially with the finance initiative and closure of land borders. Meanwhile, the COVID-19 health crisis has disrupted the automotive global supply chains and world of work, with about 80 percent of workers away from work for months. This has stalled the expectations of growth in the sector.

Most of the auto firms are involved in the assemblage of Semi Knocked Down (SKD) vehicles with very little or no local content. As a matter of fact, in the reckoning of the Unions (SEWUN and AUTOBATE), most of the firms are involved in auto import, sales and service. The Honda Manufacturing Plant assembling motorcycles and Honda cars is reputed to be involved in auto assembly (SEWUN). The other plant owned by Aliko Dangote in Kaduna is also reputed to be involved in solid development of new assembly line infrastructure (Source: NADDC). The NAIDP doesn't address the issue of investment in new technology to drive environment and climate friendly manufacturing.

In the Nigeria Industrial Revolution Plan released in January 2014, the key challenges militating against the development of the automotive sector were identified as:

1. **Fiscal measures** – Nigeria currently does not have adequate fiscal measures to encourage the development of the local auto industry. Many countries restricted import of fully built units (FBU) (e.g. Brazil in the 1960s, and Egypt) or used high import duties which took cognisance of the level of competitiveness in the operating environment. Over time the duties were reduced as local capacity expanded.
2. **Poor local patronage** – Existing locally assembled automobiles are not adequately patronised by the public and private sector. Many countries with developed auto sectors have leveraged public procurement to push the industry to develop.
3. **Import of used vehicles** – Nigeria has become a huge market for used vehicles imported from developed markets. These have become a way for Nigerians to access less expensive cars. Many emerging market countries, in developing their local auto sector, controlled the importation of used vehicles (while some other countries even banned such imports). These were then strategically replaced with affordable vehicles made locally by their domestic automotive industries. It is critical to always ensure affordable cars are available, so that citizens can aspire to and afford to own vehicles.
4. **Unequipped auto clusters and support infrastructure** – Nigeria's auto clusters are not adequately equipped with supplier parks and dedicated port infrastructure.
5. **Scale of operators** – The existing auto assemblers in the country need expansions of existing assets.
6. **Other structural barriers -** High cost of power, tough investment climate, inadequate skills, high cost of funding, low finished goods standards for exports, etc (NIRP, January 2014).

It was gathered that the bulk of the automobile companies that are licensed as assembly plants are involved in the importation of fully built vehicles into the Nigerian automobile market. These companies, the bulk of which only engage in auto sales and services, enjoy benefits via the government's support to assembly plants in an attempt to encourage further investments in the sector. This has impacted on the local production, use of local contents and, more importantly, on the workers.

The full resurgence of the automotive sector is dependent on a vibrant economy and full commitment to the outlined plans in the NAIDP

The large number of auto-dealers granted licenses to set up assembly plants are happy to draw on the 10-year tax waivers and other incentives and concessions for vehicle assembly. Unfortunately, the conditions contained in the NAIDP are quite loose in terms of migration from SKD to CKD, which offers opportunities for greater value addition and qualitative employment. The policy provided that when the annual sales figures reach about 10,000 units of cars and SUVs, and 3,000 units of commercial vehicles, vehicle assemblers can move to CKD. But the policy also provided that assembly plants are free to move to CKD operations, even if their sales figures are lower (NAIDP).

The full resurgence of the automotive sector is dependent on a vibrant economy and full commitment to the outlined plans in the NAIDP strictly for established auto manufacturers and not emergency car assemblers as we have seen with over 40 licenses issued. Nigeria has a large and youthful population and petroleum and steel resources are critical to a supportive ancillary industry and a supportive policy for auto-sector revival.

It is imperative that the Federal Government drives very aggressively the patronage of locally assembled vehicles by taking the lead in buying locally assembled vehicles for officials, Departments and Agencies. It is counter-productive for the government agencies and officials to have imported about 105 SUVs and over 300 cars for National assembly members in the first quarter of 2020.

Beyond patronage and vehicle purchase financing, the whole question of sustainability rests on the creative and effective implementation of the Automotive Industry Development Bill when assented to by the President and ensuring that only genuine manufacturers retain the license and enjoy the prescribed benefits for local assemblage of vehicles.

This component of policy implementation must address decisively the disruptive impact of smuggled vehicles and ensure adequate protection for locally assembled vehicles. The Africa Continental Free Trade Agreement (AFCTA) provides an opportunity to address the perennial question of smuggling through structured trade and exchange across the continent and particularly the West Africa sub region.

The general manufacturing environment must be improved with accelerated development of supportive infrastructure, particularly power and roads. The auto industry like every other manufacturing firm will benefit from an improved macro-economic environment with a stable exchange rate and predictable access to foreign exchange. It is important to extend similar support to auxiliary industries particularly steel, machine tools and petrochemicals. This will ultimately boost local content and assist in mitigating the impact of unstable exchange rates.

Prior to the COVID-19 outbreak, between 2018 and 2019, the Nigerian economy had recovered from recession and the automotive industry experienced growth in production and sales, to the point that profits are said to have been used to pay salaries in other sections of the industry in Africa.

2.6 Rwanda

2.6.1 The Rwandan auto industry

In 2018 Rwanda had **16.8 vehicles for every 1,000 people.**

This number has been growing at a pace of 10% on average in the last 5 years.

The automotive industry in Rwanda is still at its infant stage, but the government of the Republic of Rwanda has put much effort in developing the sector. A big part of new investments is in electric vehicles, and in particular in the assembly of electric motorbikes and cars, following the country's attempt to implement a green growth agenda across several productive sectors (Kobina, 2020). Since the Second Economic Development and Poverty Reduction Strategy (EDPRS, 2013) (GoR, 2013), currently continued with the National Strategy for Transformation (GoR, 2019), Rwanda pursues a green economy approach to its economic transformation, with a policy framework represented by the National Green Growth and Climate Change Adaptation Strategy (GoR, 2011). The strategy outlines the pathway to a sustainable and secure future Rwanda.

So far companies like Ampersand, SAFI and REM (Rwanda Electric Mobility) are reported to have started operations to assemble electric motorbikes. VW – CFAO Motors Rwanda is the only company in Rwanda assembling internal combustion cars and planning to assemble e-cars in the future. Besides that there is Rwanda Akagera Motors which is an exclusive distributor for Mercedes Benz, Nissan, Renault, Kia, Futon and Mahindra.

Future investments are expected in the expansion of the current companies, most of which want to expand their business towards the assembling of e-cars. Victoria Motors is distributing Mitsubishi vehicles at the moment but is planning to assemble hybrid cars and it is in the testing stage (Kobina, 2020).

The number of motor vehicles had significantly grown over five years (2012-2017). In the period of 2012-2017, overall vehicle ownership in the country grew by 63% (average annual growth of 12.6%). Still the motorisation rate is very low: Rwanda had 16.8 motor vehicles for every 1,000 inhabitants by the end of 2017 (NISR, 2018). This number has been growing at a pace of 10% on average in the last 5 years. Looking just at private vehicles, there are 4.8 private cars and 6.3 private motorcycles per 1,000 inhabitants (NISR, 2018). This shows that the government of the Republic of Rwanda should put significant effort into the automotive sector so that citizens can start owning vehicles made in Rwanda, not imported second-hand from somewhere else. This could also have important spill-over effects on the rest of the economy.

ABOVE:
A motorbike parked at Ampersand's swap station in Kigali, Rwanda.

Photo by Ampersand.

2.6.2 The industry and COVID-19

The sector was heavily affected by the COVID-19 crisis so far, hit hard by unemployment caused by restructuring and the interruptions in the assembling of cars at VW – CFAO Motors Rwanda and of electrical motorbikes in Ampersand, REM and Safi.

REM had a plan of assembling and completing 160 e-bikes by the end of April 2020, but due to COVID-19 it will not be able to achieve this goal – they have only managed to assemble and complete 10 e-bikes. Furthermore, in REM a restructuring has occurred, with the company putting workers on hold without getting paid, which really affected them. At the time of writing, 50% of workers in REM have returned to work, because the COVID-19 situation in Rwanda had reportedly improved (Kabanda, 2020).

Ampersand didn't hire any new staff during the lockdown from March until the middle of May 2020. Their structure stayed the same and they didn't reduce the salaries of their workers. Ampersand has also supported their motorbike drivers, paying them a once-off amount of USD 94 for the time during lockdown when they didn't work (Wale, 2020).

COVID-19 has affected Safi: it has delayed their programme of training their new workers to assemble and drive their electric motorbikes. Now things are going better, and they have started training their workers and re-started their production (Tony, 2020). Generally, the main negative impact was the loss of jobs and income; loss of job opportunities and the socio-economic issues related to movement/work/business limitations (Musoni, 2020).

> The VW Rwanda investment is supposed to be sustainable for the workers and for the investors because there is a huge demand for new cars in Rwanda, while the country has been discussing a ban on old cars.

2.6.3 Current investment plans

Rwanda's dynamic investment facilitation agency, the Rwanda Development Board (RDB) has sought to boost the country's attractiveness. Special Economic Zones (SEZ) meant to offer an attractive package of tax and customs incentives. For example, Volkswagen has established its Rwanda operations in Kigali's SEZ, where it will be eligible for a seven-year corporate income tax holiday if it invests over USD 50 million (Risks, 2018).

The government of Rwanda has ambitious industry and trade investment plans in different sectors. One of the sectors taken into consideration is the auto industry, since this is still at an infant stage where there is currently no manufacturing of vehicles. However, there are some initiatives in place which have started the assembling of vehicles, including both motorcars and motorbikes (Kobina, 2020).

VW established its factory and started assembling cars in Rwanda in 2018. This is the only company that is assembling cars in Rwanda so far, with an announced plan of producing 5,000 vehicles per year and creating 1,000 jobs. In its future investment VW also has a plan of investing in the assembly of electric cars, and the Victoria Gorilla, an exclusive dealer of **MITSUBISHI**, is planning to start the assembly of hybrid cars (using both fuel and electricity) in Rwanda (Dahir, 2019).

YUTONG has a plan to start the assembling and the production of their buses in Rwanda and it has already registered its investment business in the Rwanda Development Board. YUTONG will probably start the production of buses in 2021.

TVS, BAJAJ and Rwanda Motorbikes Company (RMC) are assembling internal combustion motorbikes. **Ampersand, Safi and Rwanda Electric Mobility (REM)** have started assembling electric motorbikes, but the production is still very low – most of them only launched the investment in 2018 (Kobina, 2020). Ampersand has a plan of working with the existing internal combustion motorbikes companies instead of going for electric cars. It aims to build affordable electric motorbikes and charging stations for five million taxi drivers in East Africa, with plans to raise 3 million USD in equity capital and further plans to raise 7 to 10 million USD in the East Africa region in 2022 (Wale, 2020).

2.6.4 Investment, sustainability and local development

VW CFAO Motors Rwanda is the only company that is assembling cars in Rwanda so far. The VW Rwanda investment is supposed to be sustainable for the workers and for the investors because there is a huge demand for new cars in Rwanda, while the country has been discussing a ban on old cars. This is part of the new national transport policy to reduce greenhouse gas emissions from old cars and support green and clean transport, together with the 'Made in Rwanda' brand. This is also intended to help the investors sustain the business and support the stability of workers in terms of having long and decent contracts.

VW CFAO Motors Rwanda represents a significant contribution to the local development of the country, having promised to provide many jobs to the local population and to create 1,000 new jobs per year (Dahir, 2019). It is also expected to contribute

to the development of the country through significant taxation.

In addition, there are several motorbike assembly investments in Rwanda such as BAJAJ and Rwanda Motorbikes Company (RMC), which are assembling internal combustion motorbikes. Ampersand, Safi and Rwanda Electric Mobility (REM) have also started assembling electric motorbikes. Ampersand aims to build affordable electric motorbikes and charging station systems for five million taxi drivers in East Africa.[23]

Ampersand has 43 employees so far, and occasionally the company hires contract workers tasked with special work such as mechanical operations or specific projects like the construction of changing stations. It's operations are still incipient since it is a small company at its starting point. At the time of writing, Ampersand has produced only 20 motorbikes, with aims to produce 40 additional motorbikes in November 2020 and to conduct more work on the assembly of batteries. The company recently met some delays due to COVID-19 and the late reception of some incentives such as import duties from the government. Ampersand is aiming to produce between 1,000 and 2,000 motorbikes by 2021 (Wale, 2020).

Safi has about 15 employees so far but it is in the process of hiring additional staff. The company is currently training the workers to assemble and ride the electric motorbikes. In this training programme Safi is focusing on women to increase female participation in the automotive sector (Tony, 2020).

REM (Rwanda Electric Mobility) is working in a strong partnership with RMC (Rwanda Motorcycle Company), which started its business of assembling both internal combustion engine motorbikes for RMC in 2017 and e-motorbikes for REM in 2019. REM is a Rwandan company with a shareholder from Singapore. It is assembling electric motorbikes and it is planning to assemble electric cars in the future. REM has been conducting research during the last two years and it has officially started doing its business in January 2020. It imports completely lockdown parts and assembles them in Rwanda.

REM has only one expert from Singapore who provides training on new technology – the rest of the personnel are all from Rwanda. REM is going to use e-trucks in its operation by testing them to see if they can also be assembled in Rwanda, hoping to further expand their business in this direction (Kabanda, 2020).

[23] **See for example:** https://www.newtimes.co.rw/business/rwandas-electric-motorcycle-company-marks-250000km:

The South African automotive industry contributes 6.8% to the Gross Domestic Product (GDP)

The South African automotive industry accounts for 29.9% of manufacturing output

The South African automotive industry accounts for 14.3% of exports

2.7 South Africa

2.7.1 The SA auto industry

The South African automotive industry is a major player in the South African economy. It contributes 6.8% to the Gross Domestic Product (GDP); accounts for 29.9% of manufacturing output and 14.3% of exports; employs 110,000 workers in vehicle and component production; and the annual investment by vehicle assemblers amounts to R7.2 billion.[24]

Given the recent poor performance of the South African economy with four consecutive quarters of negative growth, the importance of investments by the automotive industry for the economy cannot be underestimated.[25]

However, the COVID-19 pandemic is having a major impact on the South African auto industry. Reported data for August 2020 indicate a year-on-year drop of 39% in domestic production; a 41% drop in total exports; a 35% drop in total local sales; and a 33% drop in total imports as a result of the impact of the COVID-19 pandemic on the auto industry.[26] With uncertainty surrounding the duration of the pandemic, it is hard to predict the full impact the crisis will have on the industry. Current expectation is that South Africa's recovery, by the end of 2020, could have been around 20% lower in terms of productive activity than before the COVID-19 crisis.[27] The poor economic indicators and the uncertainty around the COVID-19 pandemic cast doubt on the investment plans of the vehicle manufacturers in the years ahead.

This section will focus on the South African auto industry as a whole, including the component segment of the auto value chain in order to examine the investment strategies of the major original equipment manufacturers (OEMs) as well as some major component suppliers. However, interviews confirmed how the decisions about investments in South Africa are in most cases part of investment strategies formulated at the headquarters of the OEMs for the broader Sub-Saharan Africa (SSA) region, so some consideration will also be given to the regional dimension.

[24] **Department of Trade, Industry and Competition,** Portfolio Committee on Trade and Industry, South African Automotive Masterplan: Post 2020 Policy Framework, 10 September 2019. Accessed at http://www.thedtic.gov.za/wp-content/uploads/Automotives.pdf on 24 August 2020.

[25] **The South African** economy contracted by -0.8% in the 3rd quarter of 2019, -1.4% in the 4th quarter of 2019, -2% in the first quarter of 2020 and a huge -51% drop in the second quarter of 2020.

[26] **Accessed at** https://naamsa.net/ on 19 September 2020.

[27] **Barnes, Justin.** (2020). COVID-19: The South African auto industry. 10.13140/RG.2.2.21078.80965.

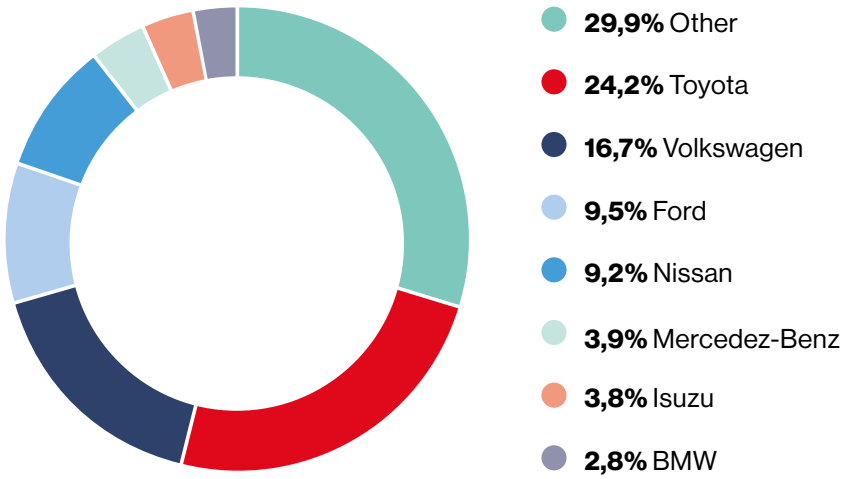
ABOVE:
Cars parked in the colourful Bo-Kaap neighbourhood of Cape Town, South Africa.

Photo by Devon Janse van Rensburg on Unsplash

2.7.2 A snapshot of the local auto industry

The SA auto industry comprises the following OEMs, with their respective market share: Toyota leads with 24.2% of new vehicle sales, followed by Volkswagen (16.7%), Ford (9.5%), Nissan (9.2%), Mercedes-Benz (3.9%), Isuzu (3.8%) and BMW (2.8%). Other vehicle importers (Hyundai, Kia, Renault, Tata, Mazda, Honda, etc) make up the rest of the new vehicle market share.

Figure 7 South African auto assemblers with new vehicle market shares



Source: NAAMSA, Automotive Export Manual 2020.

There are about 200 first tier suppliers and 80 second tier suppliers. In terms of ownership, first tier suppliers are mainly large multinational companies with about 75% foreign ownership. South African ownership in component manufacturing companies is more present in the second tier suppliers.[28]

In labour relations terms, the sector as we have defined it above falls under separate collective bargaining arrangements. The seven assemblers/OEMs are in the National Bargaining Forum, represented by the Automobile Manufacturers Employers' Organisation (AMEO), with the National Union of Metalworkers of South Africa (NUMSA) on the union side. The auto components sector falls primarily within the Motor Industry Bargaining Council (MIBCO), although there are about 20 components manufacturers which for historic reasons are under the Metal and Engineering Industries Bargaining Council (MEIBC). MIBCO covers a wide range of sectors and involves two employers' organisations and two trade unions. The negotiations in MIBCO take place for all the sectors in plenary but the negotiations for the components sector are the most important and are primarily between the Retail Motor Industry (RMI) and NUMSA.

In terms of contribution to the South African economy, the industry plays a significant role:

- **It contributes** 6.8% to GDP (manufacturing and retail);
- **The total automotive revenue** in South Africa amounted to R500 billion in 2019;
- **In 2019**, the export of vehicles and automotive components reached a record amount of R201.7 billion, equating to 15.5% of South Africa's total exports;
- **The industry** accounts for 27.6% of the country's manufacturing output;
- **Vehicles and components** are exported to 151 international markets;
- **The auto sector** is the country's 5th largest exporting sector out of all 104 sectors;
- **The manufacturing segment** of the industry presently employs more than 110,000 people across its various tiers of activity (from component manufacturing to vehicle assembly);
- **Combined** with the industry's strong multiplier effect, the industry is responsible for approximately 457,000 jobs across the South African economy's formal sector.[29]

Whether this contribution can be sustained is questionable given the country's poor economic performance and the impact of the COVID-19 pandemic.

The auto industry is largely driven by the strength of the economy, which determines demand for new vehicles. It is therefore not surprising that the new vehicle market sales, particularly passenger cars and light commercial vehicles, took a dip in 2019 on the back of the subdued macro-economic environment and pressure on consumers' disposable income.[30]

The COVID-19 pandemic and lockdown has exacerbated the downturn in sales. In the second quarter of 2020 household expenditure decreased by 49.8%, expenditure by the government decreased by 0.9%, and the tourism sector came to a complete halt affecting land transport, air transport and transport support services.[31] A direct consequence of the current environment is company closures and the consequential retrenchment of staff. One such example is Bidvest car rental, one of the biggest car rental companies, indicating their intent to close their car rental business.[32]

[28] **NAACAM** interview.

[29] **Accessed at** https://www.naamsa.co.za/SalesStats on 24 June 2020.

[30] **In respect** of total passenger vehicle sales, 80.9% is taken up through the dealer channel, 12.7% to the rental industry, 3.5% to industry corporate fleet sales and 2.9% to government. Automotive Industry Export Council (AIEC) Automotive Export Manual 2020.

[31] **Accessed at** http://www.statssa.gov.za/publications/P0441/P04412ndQuarter2020.pdf on 08 September 2020.

[32] **Accessed at** https://www.iol.co.za/business-report/economy/closures-job-losses-loom-as-wheels-come-off-car-rental-business-50893743 on 08 September 2020.

2.7.3 The industry in a global context

The South African auto sector is a minor player in the global auto production landscape, accounting for only 0.69% of total global production volumes in 2019 – only marginally improving on its 0.63% of global production volumes in 2018. It ranks only 22nd in terms of total units produced in 2019, with 631,983 units, well behind the leading producer, China, with over 25 million units; the USA with almost 11 million units; Japan with just under 10 million units; and Germany and India with just over 5 million units each.[33]

The industry therefore has a long way to go to achieve the 1% global vehicle production target set by the South African Automotive Masterplan (SAAM) (see more below). There are many challenges facing the South African vehicle manufacturers in becoming a bigger global player. SAAM notes that:

"... the South African automotive industry is beset with numerous competitiveness challenges. The South African automotive industry remains a marginal player globally, with comparatively small vehicle assembly plants, and an underdeveloped automotive components industry relative to leading developed and developing economy competitors. This is despite the automotive industry remaining critical to the South African economy, both in its totality, and in respect of the manufacturing portion of the automotive value chain. The South African automotive industry is at best a second-tier player within global automotive value chains, although this perspective varies considerably from one major vehicle operation to the next. It would appear as if at least four of the seven light vehicle OEMs are firmly within the second tier of their parent company's global operations, with the balance third tier operations."[34]

The industry, however, has potential. In 2019 SA was one of only four countries that increased the number of vehicle units produced. Furthermore, its leading position in Africa is a reason for optimism. It produced 631,983 (57%) of the 1.1 million motor vehicles manufactured on the continent in 2019. The only other major African vehicle manufacturing country is Morocco which produced 394,652 (36%) vehicles during 2019.[35] The full list of vehicle producing countries on the African continent appears in the table below.

Similar to global production, only the South African vehicle volumes increased over the 2018-2019 period.

Table 3 The SA auto industry on a continent scale

Country	2018	Contribution, 2018 (%)	2019	Contribution, 2019 (%)
Algeria	70,597	6.4%	60,012	5.4%
Egypt	18,500	1.7%	18,500	1.6%
Morocco	402,085	36%	394,652	36%
South Africa	610,854	55%	631,983	57%
	1,102,036	100%	1,105,147	100%

Source: International Organisation of Motor Vehicle Manufacturers (OICA)

[33] **Automotive** Export Manual 2020.

[34] **Barnes, J.**, Black, A., Comrie, D., & Hartogh, T. (2018). South African Automotive Masterplan report 1 Geared for Growth South Africa's automotive industry masterplan to 2035. A report of the South African Automotive Masterplan Project. The South African Department of Trade and Industry (the DTI) Government of the Republic of South Africa, 18th December.

[35] **International** Organization of Motor Vehicle Manufacturers (OICA), World Motor Vehicle Production (2019). Accessed at http://www.oica.net/category/production-statistics/2019-statistics/ on 28 August 2020.

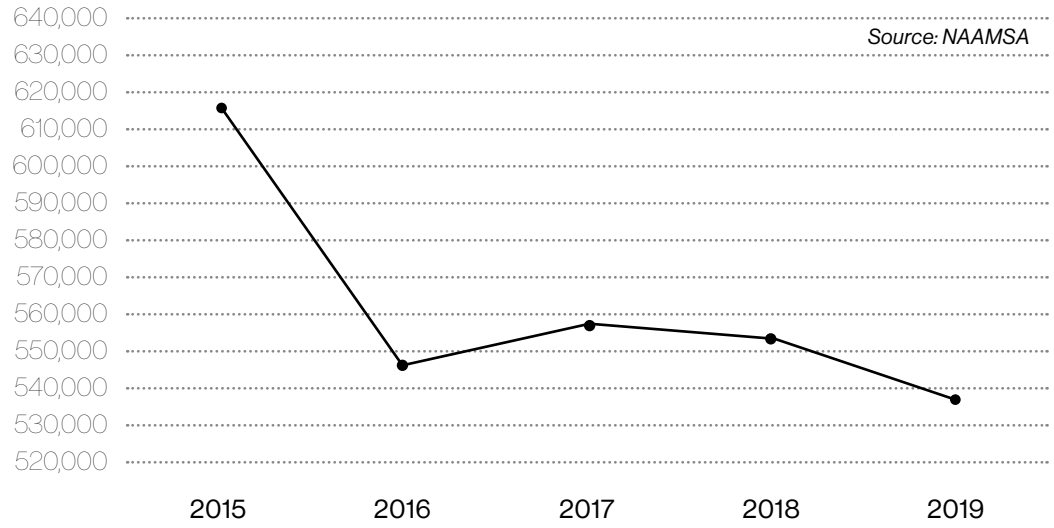
2.7.4 Domestic vehicle manufacturing

As noted above, the key market players in the country are the seven OEMs (BMW, Ford, Isuzu, Mercedes-Benz, Nissan, Toyota and Volkswagen). In terms of geographical location, the OEMs are split between three provinces with Ford, Nissan and BMW operating in Gauteng; Volkswagen, Isuzu and Mercedes-Benz in the Eastern Cape; and Toyota in Kwazulu-Natal.[36]

The local vehicle manufacturing industry has been experiencing declining vehicle sales over the last five years due to low consumer and business confidence, slow economic growth, high unemployment and the ongoing load-shedding of electricity.[37]

The figure below indicates the extent of declining vehicle sales over the 2015 to 2019 period.

Figure 8 SA vehicle sales, 2015-2019



> **Of particular concern is a decline of 467 jobs in the second quarter of 2020; a massive year-on-year decline in vehicle manufacturing due to COVID-19 lockdown restrictions.**

Vehicle sales for 2020 will be significantly lower due to the worsened economic climate and COVID-19 pandemic. The National Association of Automobile Manufacturers of South Africa (NAAMSA) interviewee painted a grim picture of the impact the pandemic is having on the performance of the auto industry. Of particular concern is a decline of 467 jobs in the second quarter of 2020; a massive year-on-year decline in vehicle manufacturing due to COVID-19 lockdown restrictions; and negative economic growth in the country coupled with a global financial crisis.[38]

2.7.5 Vehicle imports

During 2019 a total of 290,624 new light vehicles (passenger cars and light commercial vehicles) were imported into South Africa to meet the domestic demand. This is a decline from the 292,197 units imported in 2018. Imported light vehicle sales increased from 55.7% (2018) to 57.1% (2019) as a proportion of total light vehicle sales, slightly surpassing the 57% mark in 2015.[39]

In terms of the top three countries of origin, SA imported most new light vehicles from India (106,199), followed by Germany (36,759) and Japan (34,351). What is evident is that the importation of new light vehicles continued to hover between 55% and 57%, notwithstanding the declining market – from 587,209 new light vehicles in 2015 to 508,570 in 2019.

[36] **Accessed at** https://naamsa.net/industry-overview/ on 10 September 2020.

[37] **Creamer Media's** Automotive report, June 2020.

[38] **NAAMSA** interview.

[39] **Automotive** Industry Export Council (AIEC) Automotive Export Manual 2020.

2.7.6 Exporting volumes and destinations

The export volumes of light motor vehicles showed a steady increase over the 2015 to 2019 period from 332,725 vehicles (57% of vehicles produced) in 2015 to 386,298 (64.1%) in 2019. The top three destinations of South Africa's light motor vehicle exports are the United Kingdom, Germany and Japan. Mercedes-Benz held the position of top exporter over the 2015 to 2018 period but was overtaken by Volkswagen in 2019.

It is worth noting that no African country features in the top ten destinations of light motor vehicle exports.

While there is growth potential in the SA market, that growth is dependent on sustained economic growth.

2.7.7 The South African auto industry policy framework

The South African Automobile Masterplan (SAAM) is the current policy framework to transform the South African automobile value chain in order to become a global player by 2035. SAAM, under the Department of Trade, Industry and Competition (DTIC), was jointly developed by stakeholders in the automotive value chain (government, industry and organised labour).

This aspirational plan is built around the below **six strategic implementation pillars** to realise the industry's 2035 vision. The six pillars are aspirational, and only time will tell whether they are attainable. SAAM recognises that it will require the commitment of all stakeholders (firms, unions, government, and broader civil society) to realise the objectives set out in its policy framework.

2.7.7.1 Local market optimisation

Under this pillar the local market will need to grow to absorb increased vehicle production volumes and there also needs to be greater alignment of locally produced vehicles and local demand thereby reducing the demand for new vehicle imports to satisfy local demand. The objective here assumes two interrelated challenges. First, while there is growth potential in the SA market, that growth is dependent on sustained economic growth. The SA economy has been sluggish over the last few years resulting in people reprioritising spending. This may explain a drop in the local demand for new vehicles. As for the alignment between locally produced vehicles and local demand, SAAM notes that SA consumer demand is for small passenger cars with only the Polo/Polo Vivo and Chevrolet Spark being locally produced. While economy of scale is a key determinant in the OEM industry, vehicle manufacturers should also seek to meet the demand of the local consumers to boost production volumes.

2.7.7.2 Regional market optimisation

This pillar advocates for the development of a regional automotive plan with SA playing a leading role in the development of the region's auto industry. The SAAM notes some of the challenges in the region – for instance the state of SSA economies and the importation of second-hand vehicles – and advocates for a gradual approach to realise the region's auto manufacturing potential.

ABOVE:
Workers struggle against precarious work.

2.7.7.3 Localisation

Under this pillar there should be a move towards greater local manufacturing of components to service the auto value chain. Linked thereto is the development of skills needed in the value chain, enhanced productivity and the ability of the government to provide a cost effective and uninterrupted supply of electricity. The establishment of the Automotive Supply Chain Competitiveness Initiative (ASCCI), a joint initiative between the government, organised labour, OEMs and suppliers, signalled the intent on the part of all industry stakeholders to move in the right direction. As for the provision of uninterrupted electricity supply, indications are that SA is likely to experience load shedding for the foreseeable future. With that in mind, some OEMs are investing billions to generate their own electricity supply.[40]

2.7.7.4 Automotive infrastructure development

This pillar advocates for an improved infrastructural shift in the automotive value chain, from logistical linkages, transport infrastructure, industrial parks, skilled and available labour, to technological changes like fuel quality. The Tshwane Automotive Special Economic Zone, an automotive component supplier industrial park in Mamelodi, Pretoria, is an example of the progress being made to ensure greater infrastructural development in the automotive value chain.[41]

2.7.7.5 Industry transformation

The realisation of this pillar will advance the transformation of the automotive industry in the form of Broad-Based Black Economic Empowerment (BBBEE) at tier two and three suppliers and a labour force representative of the demographics of the country.

2.7.7.6 Technology and associated skills development

Under this pillar the automotive industry must develop its capacity to meet and also compete in the development of new technological innovations required by the global automotive industry. This will include new materials development, product recycling, and more. Linked thereto is the ongoing skills development needs to train the workforce to use the new technologies in a competitive global automotive industry.

[40] **Volkswagen** announced investing R3.5 billion in a bio-gas plant to generate electricity at its Uitenhage plant. This will enable the plant to operate independently of power from Eskom's electricity grid. See https://techcentral.co.za/vw-to-take-its-huge-uitenhage-plant-off-the-eskom-grid/93526/ . Other OEMs are doing likewise. See https://techcentral.co.za/ford-joins-vw-in-taking-plant-off-the-grid-in-south-africa/93899/

[41] **Accessed at** https://fordauthority.com/2020/09/new-ford-south-africa-special-economic-zone-to-generate-8500-jobs/ on 19 September 2020.

2.7.8 Investment plans, local development and sustainability

It has been noted that there has been a downturn in the number of units produced over the recent period, but this has not deterred new investment by the country's major OEMs. Collectively, Mercedes-Benz, Nissan, BMW, Ford, Toyota and Volkswagen have pledged to invest R39 billion in new capacity over the next five years.[42]

These investments announced by the major OEMs clearly signal a degree of confidence in the local economy. In Table 4 we detail the investment announcements by the respective OEMs.[43]

Component manufacturers, on the other hand, invested R3,5 billion in 2019 with a further R20 billion investment expected over the next five years.[44] In Table 5 we list some of the investments of component companies during 2019.[45]

Table 4 Investment plans of SA OEMs

OEM	Type of investment	Job creation	Project timeline
Mercedes-Benz	R10 billion investment for new generation model C-Class model to be introduced in 2021.	No indication.	Investment announced at the beginning of 2018.
Toyota	R4,28 billion investment of which R2,43 billion in new passenger car model introduction in 2021 and R454 million in new Hiace minibus taxi and other portions in warehouses and facilities.	500 new jobs and 1,000 jobs in the supply chain.	Announcement made in 2020.
Isuzu	R1,2 billion investment for new generation bakkie.	Saving of 1,000 jobs.	Announcement made in 2019.
Nissan	Investment of R3 billion for new Navara bakkie.	1,200 new jobs and multiplier in supply chain.	Announcement made in 2019.
BMW[46]	R6,16 billion investment at its Rosslyn plant to produce new BMW X3.	No indication.	Announcement made in 2018.
Ford[47]	R3 billion investment at its Silverton plant to increase output.	1,200 jobs.	Announcement made in 2017.

Source: NAAMSA (interview)

[42] **WhoOwnsWhom,** The Motor Vehicle Industry October 2019.

[43] **OEM** investment data obtained from NAAMSA interview.

[44] **NAACAM**, Automotive Export Manual 2020. Accessed at https://naacam.org.za/auto-export-manual/ on 03 September 2020.

[45] **Creamer Media's** Automotive Report, June 2020. No further details are available.

[46] **Accessed at** https://www.timeslive.co.za/sunday-times/news/2018-06-25-driving-forward-huge-investment-as-bmw-group-sa-starts-producing-the-new-x3/ on 24 June 2020.

[47] **Creamer Media's** Automotive Report, June 2020.

ABOVE:
ZF Lemförder SA's new plant in East London, where production of front and rear axles takes place for their client, Mercedes-Benz SA.

Table 5 Investment plans, SA component manufacturers

Company	Investment
ZF Lemförder SA	R240 million
Ebor Automotive Systems	R140 million
VM automotive (Pty) Ltd	R426,23 million
Faurecia Interior Systems South Africa (Pty) Ltd	R250,72 million
Atlantis Foundries (Pty) Ltd	R82,3 million and R90 million in 2020
Metair	R650 million

Source: Creamer Media

The National Association of Automotive Component and Allied Manufacturers (NAACAM) interviewee stressed the point that any new investments by the OEMs in, for example, a new vehicle model, will lead to new investments by component manufacturers as they must supply the OEMs with the required components for the duration of the contract.

This snowballing effect is most beneficial to first tier suppliers, which are ordinarily tied to a seven-year supply agreement with the OEM. But it is also beneficial to the second-tier suppliers which manufacture the sub-components for the first-tier suppliers.[48] There is therefore a strategic relationship on new investments between the OEM and first tier suppliers given the close link between the two. Second-tier suppliers are generally manufacturers producing a range of products for clients beyond the auto industry and there may not be a straightforward link between OEM investments and second tier suppliers.

The transformation of the automotive supplier base is a key priority of the SAAM. The R6 billion Automotive Industry Transformation Fund (AITF) is geared towards supporting black participation in the auto supply chain. The SAAM target is to have 500 tier two and three suppliers by 2035, of which 25% needs to be black-owned.[49]

[48] **NAACAM** interview.

[49] **NAACAM,** Automotive Export Manual 2020.

3. The labour issue: decent jobs and gaps to fill

3.1 Ghana

3.1.1 Decent employment in Ghana

Decent employment is hard to find in Ghana, despite years of consistent economic growth. At about 8.4 percent, open unemployment is relatively low, but the majority of the workforce is engaged in vulnerable employment (76.4% in 2017).[50] Less than one quarter of the workforce has wage employment and more than half is in self-employment. Vulnerable employment – the combination of self-employment and employment in family-based enterprises – covers more than three-quarters of the Ghanaian workforce. While the overall unemployment rate is low, young workers (18.5%) face more than twice the national unemployment rate.

[50] **In relation** to the Ghanaian labour market, vulnerable employment is a term used to indicate the sum of self-employment and employment in family-run small businesses.

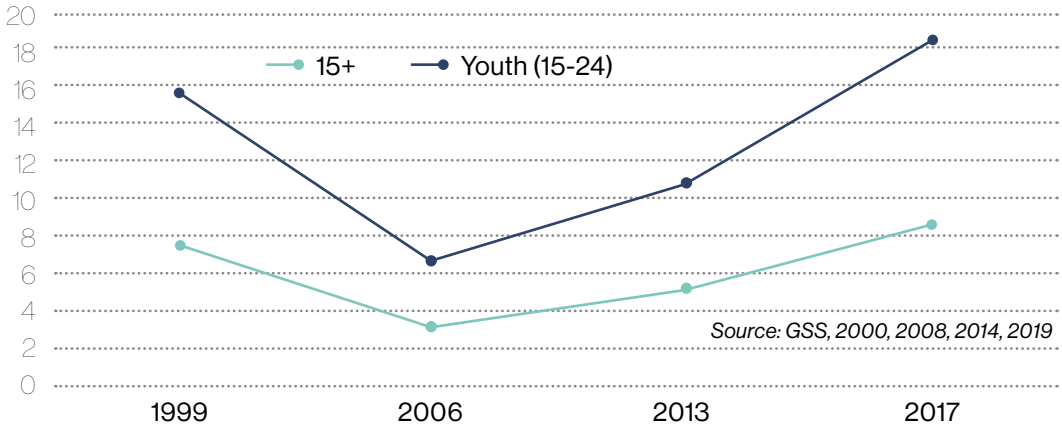
[51] **Workers employed** on short periods, usually less than 6 months.

Table 6 Ghana's workforce per employment status, 1999-2017 (%)

Status	1999	2006	2013	2017
Wage employment	13.8	16.4	20.2	23.5
Self-employment	68.7	55.9	52.4	53.4
Contributing family worker	17.2	25.2	22.3	16.9
Domestic employee	0.2	0.2	0.2	0.2
Apprentice		2.2	2.0	0.7
Casual worker[51]			2.6	5.2
Other	0.3	0.1	0.1	0.1
Vulnerable employment	86.2	83.5	79.5	76.4

Source: GSS, 2000, 2008, 2014, 2019

Figure 9 Unemployment rate in Ghana, 1999-2017 (%)



3.1.2 The automobile industry and decent jobs

The union is urging the government and the educational authorities to endeavour to strengthen the skills content of national education.

In the face of these gloomy statistics, any investment that promises to create employment is most welcomed especially when targeting the manufacturing sector. Therefore, jobs, or promises to create them, have been cited as one of the core reasons for the huge fiscal and other incentives being offered to attract major automobile firms to set up vehicle assembly plants and to manufacture vehicles in Ghana.

The Ghana Automobile Development Policy is clear about the intention to create *"highly skilled jobs in the automotive industry and the manufacture of components and parts..."*. This policy envisages backward and forward linkages that will facilitate the creation of more jobs in the larger Ghanaian economy. In defending the amendment of the Customs Act, 2015 (Act 891) to ban imports of salvaged and overaged vehicles in Parliament, the Minister for Trade and Industry was categorical that increased investments in the automobile industry will create diverse economic linkages, which will propel the creation of employment. However, at this early stage of low economic activity involved in the assembly of SKD kits, not many jobs are expected. According to the Industrial and Commercial Workers Union (ICU) (interviews) – the union with a dominant presence in the automobile industry in Ghana – VW is currently using many computerised systems in its assembly processes with very little labour employed.

ICU can confirm that VW has not recruited any Ghanaian workers for its assembly plant. The company is relying exclusively on workers and facilities of its dealership company in Ghana – Auto Parts. The union shares the view by the government that this will change when the companies move up the value chain, towards CKD processes. Again, the development of local ancillary industries able to supply parts and components locally will see more jobs being created along the value chain. At the same time, the union is urging the government and the educational authorities to endeavour to strengthen the skills content of national education. It argues that the automobile industry is currently at a high level of technology, which requires high-end skills and knowledge. In addition to markets, the availability or otherwise of skilled labour will determine the expansion and/or the sustainability of current investments.

In terms of labour rights, the union does not anticipate any major challenges. Given that most of the automobile manufacturing companies are working through their dealers in Ghana, where workers are already unionised, the union does not foresee any challenge with unionising workers in the assembly plants. Indeed, the workers currently assembling VW cars are already members of ICU. The union has membership across all major automobile companies in Ghana. In terms of health and safety standards, the union is satisfied with the high standards at the factories. Workers have state of the art tools and machinery as well as health and safety gadgets.

Despite such a positive assessment, the union admonishes the government and its agencies involved in attracting the automobile manufacturers and negotiating the terms of their businesses in Ghana to make them aware of the labour laws in Ghana.

At no point should the investors be made to think that there is cheap labour at their disposal and for their exploitation.

As shown in Table 7, the union has membership in 12 automobile companies including companies that have partnered with their parent manufacturers to assemble vehicles in Ghana.

Table 7 ICU Membership in Major Automobile Companies in Ghana

Name of locals	Male	Female	Total Membership
Auto Parts Ghana Limited	100	16	116
Avery Ghana Limited	12	0	12
Dizengoff Ghana Limited	133	17	150
Ghana Heavy Equipment Limited	31	5	36
Honda Place Ghana Limited	27	4	31
Japan Motors Trading Co. Ltd.	170	13	183
Mantrac Ghana Limited	400	5	405
Mac Auto Ghana	27	5	32
Mechanical Lloyd Ghana Ltd.	91	7	98
Modern Automobile	32	3	35
Rana Motors	660	65	725
Toyota Ghana Limited	144	14	159
Total	**1,827**	**154**	**1,982**

Source: ICU, 2020

3.1.3 The role of unions

The ICU is not new to the automobile industry. The union has been organising workers in the industry for several decades. It has been successful in its unionisation efforts. As shown in Table 7, the union has membership in 12 automobile companies including companies that have partnered with their parent manufacturers to assemble vehicles in Ghana. Equally successful are its negotiations and general industrial relations activities in the sector. Earnings in the industry are above average earnings in Ghana. Workers have access to all the statutory benefits as specified in Ghana's labour laws. The union has been able to negotiate additional benefits such as free or subsidised medical care. There are opportunities and challenges going forward.

As major automobile manufacturers line-up to assemble vehicles in Ghana, the entire dealership industry which the union has been dealing with is up for major transformation. The possibility for the emergence of ancillary industries transforming the automobile value chain and offering more and better paying jobs is on the horizon. The union stands to benefit from increased and diverse membership. The expanded automobile value chain could spawn new and highly skilled workers. Such workers could be harder to unionise.

Furthermore, vehicle manufacturing can spur new processes, including the automation of the value chain. Even if the overall job impact is positive, the processes can transform the existing patterns of industrial relations beyond the capacity of the union. The union is aware of these dynamics and is positioning itself appropriately. The union welcomes the opportunities for new and diverse membership. It also embraces the challenges of a possible revolution of the industrial relations atmosphere in the automobile industry.

3.2 Ethiopia

3.2.1 Trade unions and the auto sector in Ethiopia

In Ethiopia, workers in the private sector are represented by the Confederation of Ethiopian Trade Unions (CETU). The current CETU was established in 1963 and is the only national workers confederation that represent workers at National and International levels. It has nine sectorial affiliated federations with estimates of more than 500,000 workers and 1,182 basic unions as members (CETU Data). CETU is also an affiliate of ITUC and ITUC Africa. The Federation of Commerce, Technique and Printing Industry Workers Trade Union, whose mandate is to organise workers in the automotive and related industry, is also a member of CETU (together with nine other affiliated sectorial federations).

The Federation of Commerce, Technique and Printing Industry Workers Trade Union (FC, T&PIWTU) is mandated to organise workers in electronics, printing, paper and pulp and packaging, automotive sales and services, assembly, machine manufacturing, automotive spare parts and accessories production, among others. Few workers in the automotive and machine and spare parts manufacturing industry are also organised by the Federation of Construction, Metals, Woods, Cement and Related Industry Workers Trade Union. For example, workers from Mesfin Industrial Engineering and Akaki Metal Engineering belong to it. One tyre company is organised by the National Federation of Energy, Chemical and Mining Trade Union (Addis Horizon Tire factory). Except for the industries mentioned above, more than 98% of the automotive sector mandated to organise through the FC, T&PIWTU. So far it represents 7,500 workers and 20 basic unions as members – of these 2,260 workers and 12 basic trade unions are from the automotive sector.

3.2.2 Freedom of association, social dialogue and collective bargaining

Regarding trade union and workers rights, Ethiopia has ratified 22 of the ILO conventions, including 8 fundamental ones. It has ratified the Convention on Governance (No. 144) on Tripartite Consultation. In addition, Ethiopia has ratified 12 technical conventions including No. 15 and No. 155 on OSH. The conventions No. 26 and No. 131 on minimum wage have not been ratified, nor have No. 1 on working hours, No. 154 on collective bargaining, or No. 81 on Labour Inspection (Annie Francis, Mapping of the Textile, Garment Industry in Ethiopia, 2016).

The FDRE constitution grants the right to freedom of association for any purpose, but with exceptions of any actions or organising against the constitution and subsequent laws of the country (FDRE Constitution, 1994). It also grants labour rights to workers as individuals and as part of a group – mainly in the form of the right to form trade unions and to bargain collectively with employers, which can include the right to strike (the most difficult right to be allowed in practice), reasonable working conditions, pay, leave and a safe working environment (FDRE Constitution Article 31, and Article 42, 1994).

The new Labour Proclamation No. 1156 (revised one, 2019) has replaced all its predecessor labour proclamations N0. 377/2003, No. 466/2005, No. 494/2006

Collective bargaining coverage in Ethiopia ranges between 1-2% of the total work force

and 632/2001 and now it is the principal national legal document governing labour issues for the private sector and that covers the whole aspects of employment relations. Part 8, chapter 1, article 113 (Labour law No. 1156/2019) clearly stipulates that workers and employers shall have the right to establish and organise trade unions and associations respectively. In addition, article 114 states that in an enterprise with ten and more workers, workers can establish a trade union (Labour law No. 1156/2019).

Regarding social dialogue as a key instrument of industrial relations at all levels, in many terms this is still at its lowest stage (CETU representative interview). A report from Samuel Andreas Admasie, (Social Dialogue in the 21st Century Ethiopia, June 2020) indicates that all parties believe in the importance of social dialogue in labour relations, but this is not well developed due to a lack of knowledge on the subject matter. The legal ground for social dialogue is set by the International Labour Standards Convention No. 144/1976. This was ratified by proclamation No. 709/2011 – based on this, a tripartite structure has been established at national level composed of five representatives from each of the following: the Confederation of Ethiopian Trade Unions (CETU), Ethiopian Employers Federation (EEF) and the Ministry of Labour and Social Affairs (MOLSA) (representing the government). This is chaired by MOLSA and other governmental ministries can be presented as observers. The mandate of the tripartite social dialogue at national level is purely advisory, and meetings are held every two months (Interview with CETU representatives).

According to an ILO report, collective bargaining coverage in Ethiopia ranges between 1 to 2 percent of the total work force (estimated total workforce of 5 million) (ILO, Inclusive Labour Markets, Labour Relations and Working Conditions, Branch INWORK, 2017). The legal basis of collective bargaining rights lies under the new labour law (No. 1156/2019, chapter 2, article 125 up to 136), which states that a basic union has the right and power to negotiate the employment relation and conditions of work on behalf of their members. So far, the trends in collective bargaining and agreement remain at enterprise or factory level and no sectorial or national level collective bargaining has started or is allowed. There are several reasons for the absence of national or sectoral level negotiations. Some reasons can be attributed to the lack of knowledge on the parts' social partners together with a low level of union density and a low level of industrialisation (interview, CETU representatives). So far, the FC, T&PIWTU has 20 active CBAs in general and 12 in the automotive sector (FC, T&PIWTU Data).

3.2.3 Wage and working conditions

It is evident that the automotive industry is gradually growing, and workers need to be organised. In this regard, the FC, T&PIWTU should keep up with the pace of the industry in organising. So far there is no agency/contractual employment in the sector and formal contractual employment is generally adhered to. In some exceptions, workers are hired through agencies engaged in cleaning and security services (Interview with Union Leaders).

Based on interviews with key informants, so far trade unions can be seen in good terms with their employers in comparison with other sectors like textiles, garments and shoes. However, there are still many challenges with regards to organising workers. This includes the low or negative attitude toward unionisation which makes it difficult for the federation to organise workers (Interview with Federation).

In terms of wages, Ethiopia has not ratified the ILO Minimum Wage convention No. 131. Similarly, the country does not have a Statutory National or Sectoral, nor Regional Minimum Wage. CETU and its partners, like the ILO country office, sponsored various pieces of research on the minimum wage

ABOVE:
A timelapse image taken of vehicles driving on a busy street in Addis Ababa, Ethiopia.

Photo by Gift Habeshaw on Unsplash

“There is no law [in Ethiopia] that protects workers from being paid below fair standards.

issue, but at the time of writing no regulation or declaration regarding the setting of a minimum wage has come up yet (Interview with CETU representatives). Under the new Proclamation, No. 1156/2019, for the first time the issue of minimum wage is mentioned and the government has gone one step forward to establish a Wage Board comprising of representatives of the government, employees and trade unions, together with other stakeholders that will carry out studies for setting and periodically revising minimum wages. However, it is noted that so far, no wage board is officially established, nor has a minimum wage been set (Interview with CETU representative).

In the private sector, wage is decided upon negotiations between employee and employer, and most of the time offered by the employers depending on the type of work or level of skill and experience. The situation is often a case of ‘take it or leave it’, whereby there is no law that protects workers from being paid below fair standards (Interview Federation and desk review).

As the country promotes itself by positioning its relatively competitive wage advantage for foreign direct investment (absence of minimum wage and low wage as an advantage to investors) by comparison to other competing countries, wage remains the lowest by international standards. Workers in various economic sectors earn very low wages. According to a report by New York University, Stern Centre for business and human rights, Ethiopian workers in the textile and garment sectors working in the industrial parks receive salaries as low as USD 26 per month. The report further states that wage conditions are far below the rest of East Africa and some Asian countries – the minimum wage in Kenya is USD 207, in Vietnam it is USD 146 and in Bangladesh and Myanmar it is around USD 95.

During discussions with union leaders the question of the salary in the automotive sector, just like in other sectors, remains crucial. It was also discovered that companies that engaged in vehicle sales and after-sale services tend to pay better than those companies engaged in vehicle assembly. However, even in those companies paying better in relative terms, workers still claim that the salary needs to be raised, as the cost of living is skyrocketing every day and it becomes hard to keep up with.

The discussion held with union leaders from Li-Fan motors, a Chinese vehicle assembler, highlighted how a BSc degree holder in mechanical engineering can be hired at around USD 53 per month, which is far below the expectation of a degree holder at that level. Likewise, the Bishoftu Automotive Industry, the government owned assembly company, is also one of the lowest salary paying companies. Disputing also other working conditions, workers are in uprising – the company is thus currently revising its salary scale and discussing other adjustments.

Some companies forced their employees to take annual leave to reduce workplace congestion, and some companies temporarily suspended workers for some days.

3.2.4 COVID-19 and OSH

The COVID-19 pandemic has already significantly affected the world of work globally, and in Ethiopia specifically (ILO COVID-19 and the textile industry in Ethiopia, 2019; FDRE Job creation commission, 2020). In the time since the first confirmed cases of COVID-19 were found in Ethiopia in late March and early April 2020, the government took various measures in order to minimise the spread of the virus, including the state of emergency directives passed by the council of ministers. Since then, the impact of the virus was felt in every sphere of life and it spread rapidly.

On March 24, a Tripartite COVID-19 workplace response was signed in line with ILO guidelines for response to crisis management when work is under attack by natural and manmade disasters. The signatories of the protocol were MOLSA, CETU and EEF, and they aimed to strengthen prevention methods, to mitigate the impact of the virus among workers and to minimise the adverse impact on the entire economy (MOLSA COVID-19 workplace response protocol, March 2020).

Among others, suspending any ongoing collective bargaining and salary increments were parts of the signed protocol. Accordingly, some unions have already suspended the collective bargaining process. For example, union leaders at AMICE explained that the expected salary increment for this year and the start of new negotiations have already been halted. On the workers' side, union leaders explained that workers are operating under severe psychological stress. Some companies reacted by reducing the number of working days (three days a week at Li-Fan motors, for example) or some provide transportation to avoid contact while using public transport.

Some companies forced their employees to take annual leave to reduce workplace congestion, and some companies temporarily suspended workers for some days. It was also observed that nearly all companies strengthened their workplace safety measures in order to prevent the spread of the virus among workers. Examples include detecting workers and other customers' body heat through infrared thermometers, stringent personal hygienic procedures, and enforcing the use of mouth and nose masks everywhere in the working environment.

3.2.5 Conclusion and recommendations

Although the automotive industry in Ethiopia is still in its early stage, with very few assemblies without significant value addition or localisation, the prospect seems bright with potential to generate decent work for the country's engineers and technicians in the years to come. However, if the industry needs to grow fast and sustainably, all stakeholders need to work together on common issues and forward policy inputs to ensure that the country will have a sound national automotive industry development policy and will gradually improve the bottlenecks that still hinder the industry. Similarly, as the industry keeps growing, with renowned multinational vehicle manufacturers entering the market, trade unions need to keep up with the new progress especially in the areas of organising, strengthening social dialogue and active involvement in the process of sectoral and national levels of discussions.

Based on this study's findings, the following points are recommended:

- **Initiate or push for sector level social dialogue** or any other form of dialogue or platform among partners, especially automotive assemblers representatives or associations, government concerned bodies (like EIC and Industry Minister, MIDI), research centres and trade unions and trade union partners, for a consistent exchange of information on the sector and to contribute inputs and recommendations on short and long term policies, especially in the areas of:
  - Strengthening social dialogue at national tripartite, bipartite on minimum wage/living wage, industry specific OSH and other working conditions;
  - Working among partners to improve tax structures in a way that favours the demand for locally assembled or manufactured vehicles;
  - Establishing a training scheme development for small and medium enterprises, especially aimed at producing spare parts and components;
  - Designing automotive-specific policy incentives for local assembly, localisation and manufacturing of original equipment manufacturing and related accessories that also include a limitation on the use and import of used vehicle; improving vehicle financing schemes in collaboration with private banks;
  - Collaboration, coordination, research and communication and exchanges of information among key partners and with other similar institutions;
  - Sharing of experiences and learning from other countries, like Morocco and South Africa in Sub-Saharan Africa or like Thailand and Vietnam in Asia, on key areas like automotive sectoral policy development, research and communication on the sector, institutional capacity building and cooperation and collaboration among key partners.
- **On the union side**, as the industry is expanding, the federation should be supported in the areas of:
  - Capacity building at confederation and federation level on strengthening social dialogue,
- **At federation and basic trade union levels**:
  - Strategic planning, mapping and networking; organising drives and organising strategies;
  - Communication strategy in general and raising awareness and education about the importance of joining unions for workers through various communication channels;
  - Capacity building for union leaders for example in the areas of union leadership, sound industrial relations and building peaceful industrial relations, awareness on the new labour law (currently revised), collective bargaining skill development, OSH (automotive-specific workplace safety and health), communication and team building and life skill development in the areas of saving and microfinance linkage for workers' economic support and empowerment.

3.3 Kenya

While employers are seemingly less engaged in trying to obstruct unionisation efforts, trade unions are increasingly challenged in the ways they recruit and represent workers.

3.3.1 Current workforce

The automotive sector is one of the biggest industries in Kenya in terms of both the number of people employed and the percentage share of private sector employment. Evidence regarding this has emerged from the 2020 Economic Survey, which shows that in 2019, the 'wholesale and retail trade and repair of motor vehicles' was the third leading industry providing wage employment in the private sector, accounting for 13.0 percent of the total private sector employment just behind the 'manufacturing' and 'agriculture, forestry and fishing' industries, representing 15.9 and 14.4 percent respectively.

Its contribution to employment has been rising steadily over the last five years, from 230,700 jobs in 2015 to 267,700 in 2019 (Kenya National Bureau of Statistics, 2020).

In 2017, estimates placed the number of people employed in the automotive industry at over 12,000, of which 3,000 people were directly employed in assembly plants. Another 3,690 people were employed in downstream spin-offs, and a further 5,782 in support sectors (Government of Kenya, 2019). Overall, the number of workers employed in the three assembly plants amounted to just over 1,000 employees. According to the interviewed representative for Amalgamated Union of Kenya Metal Workers (AUKMW), Isuzu East Africa has around 300 unionisable (non-managerial positions) employees, with almost a similar number in management. AVA has around 280 unionisable employees and about 180 in management, while KVM has around 200 unionisable employees with about 150 in management.

3.3.2 Unionisation and labour relations

AUKMW is the principal trade union in the representation of workers in the Kenyan automotive industry. On the whole, the formal economy is the major source of trade union membership. Workers within the segment of automobile manufacturers are currently engaged under three types of employment contract: permanent employment contracts, fixed-term contracts and piece rate contracts. Isuzu East Africa and AVA have employees under permanent and fixed term contracts. KVM, on the other hand, has employees engaged under all three contract arrangements.

An interview with the representative for AVA indicated that union membership cuts across all three contract categories. Nearly all workers are union members, by virtue of the fact that they receive wages that carry deductions for union dues. The majority of the employees that currently do not belong to a union have simply not initiated the membership process. Comments from one interview also suggest that union membership has been affected (at least temporarily) by divisiveness over a faction of AVA employees that wanted to join the Dock Workers Union. This however was not possible due to unions being sectoral-based. The affected members have at the time of writing sought to rejoin AUKMW.

While employers are seemingly less engaged in trying to obstruct unionisation efforts, trade unions are increasingly challenged in the ways they recruit and represent workers. One of the most fundamental issues AUKMW is having to deal with is long-term job stability. Comments from the interview with a Kenya Engineering Workers Union representative revealed that the Labour Relations Act has also contributed to drive more activity in fixed-term contracts or contracting out work to third-parties. In

ABOVE:
Collective bargaining in Kenya.

the case of AUKMW, it has given impetus to engagement of workers on a piece rating basis, with KVM, as noted above, being the company affected the most. The numbers of workers employed under the piece rating system far outweigh those in fixed-term and permanent positions. For example, in the month of August, the company had 128 piece rating employees as compared to 50 fixed term and permanent employees. The key informant's sentiments show that workers contracted under a piece rating contract system have reduced motivation for trade union activities. According to the Kenya Private Sector Alliance representative, this feeling of obligation among workers to join or remain in the union is for protection of their jobs rather than for better remuneration.

More generally, contingent employment is proving difficult for the union to effectively represent members, in the absence of implicit contracts between workers and employers, as noted from the following comment, *"They recruit daily, a contract of one month, two months; so even if the unions recruit members, you go there and the employees who are members of the union are not there. Even if you take employers to court you find the members are not there and new people have been put in their place."* (Kenya Engineering Workers Union representative)

The informal workforce, which represents about 84 percent of the total workforce remains excluded. According to the COTU representative interviewed, the challenge in organising the informal workers into the formal trade union is, in a sense, inherent to the very characteristics of employment in the informal economy, by the reason that some of them employ as few as 1 to 2 people, while some others have workers who are family members of their employer, which by and large makes it difficult to bargain or negotiate for these workers. As further noted by the Kenya Engineering Workers Union representative, the other impediment of involving informal workers in a trade union has to do with the current legal provision, which is based principally on a continuing relationship between the employer and the worker concerned. According to the Labour Relations Act, employers are bound by the collective agreement to deduct and remit trade union dues and agency fees from unionisable employees covered by collective agreements, including those who are not members of the trade union (Government of Kenya, 2007). For that reason, casual or otherwise non-permanent workers are not unionised, essentially because the process of collection of union dues is based on a check-off system through payroll deductions each month and sending these deductions to the union.

3.3.2.1 Representation

Union representation is structured in three levels: shop stewards, branch officials and national level officials. The key informant interviews revealed the **mechanisms** through which employees in the workplace are represented:

- **Grievance handling** when the worker has issues with the employer that develop into a dispute
- **Collective Bargaining Agreement** (CBA) to improve conditions for terms of service, which are supposed to be better than the minimum legal requirements
- **National Social Security Fund**, where workers' deductions are deposited for purposes of pension and provident fund schemes
- **National Hospital Insurance Fund** for medical purposes
- **Training** through the Directorate of Industrial Training Authority

The various structures of representation also form a continuum of arbitration process for grievance handling in the workplace, based on how difficult it is to come to an agreement. The shop floor is the beginning point and the national office the ultimate level within the union structures. If the grievance remains unresolved, it is referred to the Ministry of Labour.

If no settlement has been reached at this late stage, then it is deemed a dispute, after which the union gets a Certificate of Disagreement, and the matter is referred to the Industrial Court or Employment and Labour Court for judicial settlement. According to AUKMW, most decisions are however often made conclusively at the national level.

3.3.2.2 Bargaining

Bargaining is undertaken by means of collective agreements that have a duration span of up to two years before renewal by parties. Federation of Kenya Employers (FKE) was cited as a significant party to collective agreements in the bargaining process, acting as the neutral arbitrator between the union and employers. The key informant interviews highlighted three forms of Collective Bargaining Agreements (CBA) where workers are represented.

The first form is the national level**,** which sets the terms and conditions of service. This is done through the general wages order and order of the specific industry, and is generally done through tripartite negotiation involving Central Organisation of Trade Unions (COTU), the FKE and the Ministry of Labour. The group sits once a year and is responsible for determining the general wage increase which covers even those who are not members.

The second form is where employers in a sector form an employer's group or organisation under the FKE and bargain with the respective union. The main purpose for doing this is to ensure that there is no high level of labour turnover from one employer to another in a specific sector.

The third form is the company or enterprise level where it is one union to one employer. All the three assembly plants are members of FKE. At present, AVA and KVM are on one CBA on a multi-employer basis, while Isuzu East Africa is on a single establishment basis.

ABOVE:
An auto manufacturing plant in Pretoria, South Africa.

[52] **Collective** Bargaining Agreement ending June 30, 2014

3.3.2.3 Compensation, benefits and incentives

CBAs are used in negotiations for the benefit of several collective interests in respect of the terms and conditions of employment of employees, which the employers within the industry follow; But it is important to note that the CBA of workers at KVM does not cover workers employed under the piece rate system. Essentially, after negotiating and signing a CBA, it is registered in Industrial Court after which it becomes legally binding. According to one informant, the CBA provides the ground for legal action against an employer who fails to meet the terms under the agreement. The CBA between the Motor Trade and Allied Industries Employers Association and the AUKMW contains 32 clauses addressing issues of wage payments and social benefits such as maternity leave, sick leave and holidays.[52]

When it comes to incentives (rewards for good work, including bonuses), the Union leaves this to the discretion of the management, contingent on results achieved. With regards to wages and earnings, a common finding from the interviews was that workers in the automotive industry generally receive greater compensation compared to most other occupations. The COTU representative interviewed noted that wages in the automotive industry are sometimes two to four times higher than the minimum wage, depending on the organisation. In general, permanent and fixed term employed workers enjoy the same wages after the CBA has been negotiated. The most pertinent benefits for permanent employees are those that deal with pension schemes, which are not extended to fixed-term employees.

Other than pension, one issue that remains a key sticking point is that of severance payment. The KVM shop floor representation has a deep and vested interest in this issue, with a special concern for the employees under piece worker arrangement who are not entitled to severance pay when they leave employment.

It also makes sense to look at the issue of wage differentials across different grades.

A key narrative emerging from the interviews with union representatives is the need for training on the basics of occupational health and safety.

According to the CBA ending 2014,[53] the average monthly salary, including housing, for employees in the manufacturing department ranged from 32,000 to 54,000 Kenyan Shillings (Ksh), or USD 296 to 501. For those in the Manual and Artisan departments, the monthly earnings ranged from Ksh 32,000 to 43,200 (USD 296 to 430). The other employee categories are clerical, with monthly earnings ranging from Ksh 35,400 to 56,400 (USD 328 to 523); and security, with monthly earnings ranging from Ksh 29,400 to 31,800 (USD 273 to 295).

3.3.2.4 Health and safety

In keeping with the Occupational Safety and Health (OSH) Act, 2007, an explicit occupational health and safety management system – comprising of a health and safety policy and a health and safety committee (HSC) – is required if an establishment has more than 20 employees in order to ensure the health, safety and welfare of all personnel. The health and safety policy is overseen by the Directorate of OSH under the Ministry of Health. Individual unions have also to some extent been able to develop their own HSP, overseen by the health and safety committee. The committee extends across the entire company, and includes both union and management. The chair and secretary consist of personnel from the human resources office and an individual qualified as clinical officer respectively. The study findings indicate high levels of OSH management practice, along with emergency planning, including alarm system installation in the event that an emergency occurs. A significant issue here concerns creating ongoing awareness of safe working practices. A key narrative emerging from the interviews with union representatives is the need for training on the basics of occupational health and safety. According to the COTU representative interviewed, it is crucial to build the capacity of the trade unions, in national, branch and shop level, on occupational health and safety. This would be a much more efficient way of ensuring adherence to health and safety policies and other related measures.

3.3.2.5 Training

New workers receive induction training concerning the environment, the tools to be used and the company policy as part of job orientation. Workers also receive task specific training to assemble particular vehicles. This is provided by instructors sent from abroad. When it comes to the assignment of tasks, in some cases workers are assigned to work based on their profession, but more generally the workers are flexible to perform different duties as assigned.

According to the interviewed AVA representative, this is based on the fact that vehicle manufacturing work highly relies on 'on-the-job training' and workers are not employed on the basis of specific training.

[53] **The figures** are likely to be slightly higher on account of pay adjustments with subsequent CBAs. Note that the pay increase from the preceding CBA was 10 percent for 2013

3.3.3 The role of trade unions

One of the key findings from this research that is generating attention and interest is the observation that shop floor union leaders have relatively informed knowledge regarding investment plans. Despite the awareness of the investment plans and products, the union is not adequately informed to increase their bargaining level with management.

This is highlighted in the following comment: *"Most information is with management, either we believe them one hundred percent, or if you are sharp enough, you can only challenge some areas, and that will be the only opportunity for the union to get some information. We need to move with the management when we hear such projects are in the pipeline to get information."* (Isuzu East Africa representative).

In more general terms, the union plays a valuable role in strengthening the health and safety practices of the workplace by working together with management. Aside from health and safety issues, the union remains of key importance as a bargaining agent on issues affecting its members. In the context of representing employee interests and concerns, the KVM shop floor in particular has been negotiating with management on several aspects of piece rate employees, and on possible conversion from piece rate to permanent employment.

While ongoing feedback suggests that management is beginning to take steps to get to a solution, they are not in agreement with regards to issues around payment of salaries, house allowance and overtime. They have agreed to the rest of the terms, including maternity.

3.3.4 Moving forward

The current findings show that the quality of jobs in the automotive industry varies somewhat by employer. Precarious work manifests its distinctiveness in piece rate work arrangements characterised by lower wages, and without severance entitlements. This factor also determines in a great way the level of workers' involvement as well as the way workers engage in the union.

When the key informants were asked to comment on how the union could intervene, and where, responses pointed to the following four aspects:

1. **Improvement of bargaining and negotiating ability** of the union representation to enhance their representation of members;
2. **Improvement on how workers issues are represented** at ministry level and at Employment and Labour Relations Court so that the union shop floor representations are more able to resolve grievances;
3. **Education and training** on aspects of health and safety, capacity of negotiators and paralegal training for people that go to court;
4. **Addressing extension** of coverage health care and providence fund schemes to all workers.

RIGHT:
Members of MANWU campaigns to demand a better living wage.

[54] **Labour Resource** and Research Institute (2015) The Cost of Basic Needs in Namibia's Low Income Households.

3.4 Namibia

The automotive industry is the 3rd highest contributor towards employment in Namibia, after Agriculture (24.9%) and accommodation and food services (11.4%).

Table 8 (below) gives a snapshot of figures of employment, mean wages and union density according to national data on wholesale and retail trade. There are more males employed in the industry and they earn more than their female counterparts. Looking at the wages, these are not sufficient when compared to the standards of living in the country.

The Labour Resource and Research Institute (LaRRI) conducted a study on the Basic Needs Basket concept[54] on low income households and concluded that a family of about six people will require, at the least, for food and non-food items, N$10,661.91, and this was in 2015.

Factoring in the concept of decent wages versus cost of living especially in Windhoek, there is a huge gap in the automotive industry on paying workers, and this needs to be further reviewed.

Table 8 Statistics on wholesale and retail trade in Namibia

	Females	Males	Totals + %
# of Employed persons	38,969 (10.7%)	41,882 (11.6%)	80,852 (11.1%)
Mean wages	N$ 3,338	N$ 4,623	N$ 4,019
Informal employment			38,952 (48.2%)
Union density	2,912	2,895	5,802 (7.2%)

Source: Namibia Statistics Agency, Labour Force Survey (2018)

The main custodian of the industrial relations, development and decent work agenda is the Ministry of Labour, Industrial Relations and Employment Creation. The ministry supports the concept of decent jobs and has a Decent Work Country Programme which outlines the objectives of the programme.

According to the Ministry, any work that does not meet the International Labour Organisation (ILO) standard definitions of "decent work", is not "decent work".

There are substantial employment discrepancies when it comes to fulfilment of what decent work entails. The poor and vulnerable are paid low wages that are "unable to pull them out of poverty, hence not meeting decent living requirements".[55] There is currently no wage progression system in the country. Decent work includes issues on Occupational Health and Safety (OSH). The Ministry of Labour indicated that many workplaces (formal) have general OSH Policies in place. They seem to be effective because there are no or low occupational accidents and incidents in this sector.

However, this does not change that every area of labour and employment needs improvement, especially on OSH related training and awareness. This is critical in the wake of COVID-19 pandemic.[56]

Currently, there are a number of gaps to fill when it comes to decent work. Looking at the automotive industry these gaps are as follows (from interviews);

- The need to have decent salaries[57] which allow workers to have a decent life;
- Eradication of racial biases when it comes to positions, payment and conditions of work;
- Workers are not covered in terms of social protection;
- Unorganised workers without union representation either lack or have no bargaining power;
- Some workers considered poor and vulnerable are left at the mercy of employers and state law enforcement agencies who may not adequately protect them;
- Most workers are unaware of their rights or simply fear to exercise them.

3.4.1 Trade unions in the sector and main challenges

Trade union representation is active in the automotive sector. Although there is representation it is quite low with 5,808 members out of an estimated 80,852 employed workers.[58] There is only one active union, the Metal and Allied Workers Union (MANWU), which has a total of 398[59] members on record. The unionised workers are across different retail companies operating in the country. The union is active in engaging in collective agreements with the various companies.

However, there is no employers association for the industry. It is voluntary for the employers to form an association, and there is no law that requires them to do so. Due to this it is hard for unions to collectively engage the sector employers on the conditions of work. The Namibia Employers Federation (NEF) is the only federation representing employers. The federation has employers from the automotive sector as a part of the federation. It is through the federation

[55] **Ministry of Labour** interview extract

[56] **Ministry of Labour** interview extract

[57] **The average** salary in the industry is N$4,019 but the union indicated that from their members the lowest paid in the auto sector is N$1,500, which is lower than the minimum wage for domestic workers N$1600.

[58] **The figures** are based on the whole industry and not disaggregated

[59] **Actual figures** for the automotive industry out of approximately 2900 employed in auto work as the union indicated

that trade unions engage with some of the employers at tripartite level.

Another challenge is the presence of anti-union sentiments that are displayed by some employers and employees. This makes it difficult for the union to organise workers in those entities and at times processes last longer to get into a bargaining agreement. The unions have to face such issues in the industry and require employers and employees to be sensitised to the role of the unions and debunk stereotypes or anti-union opinions. These issues could be one of the reasons for low representation by unions in the industry. The trade union currently organising in the sector has a union density of 7.2%[60] (5,808 members) from a pool of 80,852 workers.

Trade unions are not consulted nor involved in new investments discussions. The conversations around new investments according to the union are mainly conducted at a government level and they only deal with the aftermath. The consultations only come to the union offices once the investment logistics are concluded. This leaves very little room if any for the unions to voice their opinions and give input. The effect of this is that at policy level the unions' voice is absent and hence measures are put in place that will affect workers and citizens at large.

Furthermore, it is of great importance that the Ministry of Trade and Labour deliberate on investment matters as the investments translate into issues of labour and industrial relations. That way the custodians of investment and labour are on the same page when it comes to benefits for the state as a whole and citizens who provide the labour force.

Decent work extends towards wages and salaries. The union has been in constant negotiations with employers to pay decent salaries. Imbalance of wages and working conditions due to discrepancies between employers (which is a race challenge) has become quite prominent. According to the NSA data as of 2018 the mean average wage in Wholesale and Retail Trade is N$4,019 (USD 238.90).[61] This amount is the mean wage in the Wholesale and Retail Trade industry, and some workers get as little as N$1,500 (USD 89.50) in the automotive sector yet they are in the same position as someone else getting much more in a different company.

The Ministry of Labour[62] confirmed that there is no minimum wage in the sector. Wages are determined through a collective bargaining system where union exists, and where it does not exist, wages are offered by the employers on a "take it or leave it" basis. In this case it is where the union faces difficulties and not having universal agreements but specific to the company, which contributes to working conditions discrepancies in the sector.

With no central bargaining system in the sector, each company has its own collective agreement, which leads to discrepancies in employment.

Imbalance of wages and working conditions due to discrepancies between employers has become quite prominent.

3.4.2 Building capacity for union members

Trade unions play a crucial role in capacity building. MANWU has been conducting a number of trainings for their members, especially on the Labour Law. The law sets out employment standards and regulations, which have been the basis for trade union engagement with employers. However, when it comes to other acts/policies that are industry related, the union requires training in order to build its own capacity and that of the members.

According to the Employer's Federation this is where a strong and solid tripartite engagement is needed to better relationships and enhance social dialogue.

[60] **NSA Labour Force** Survey 2018

[61] **This amount** is based on 2018 data and if the exchange rate of 2018 is used the amount would be USD 279,80 which would be slightly higher than it is now with the US dollar fluctuating

[62] **Ministry of Labour** Interview

ABOVE:
Waves breaking on the Namibian coast at Sandwich Harbour near Walvis Bay in Namibia.

Photo by Sergi Ferrete on Unsplash

3.4.3 Recommendations

- **A legislation review** is needed to make sure that new investments cater for new manufacturing plants that uphold the state standards of investment, business and employment.
- **Namibia** should improve the education system in order to change the mindset of graduates (good quality education) and promote more vocational training.
- **Decent jobs** have to be present in all segments of the sector (from manufacturing throughout the supply chain to the dealership).
- **Any new investment** should be legally obligated to create decent work by making a deliberate undertaking to provide decent work as a key component of business imperative and modelling.
- **Training and retraining** are key components of this sector. Without that, workers may not keep up with new technology and skills needed to manufacture, service, sale or just repair different types and models of vehicles that enter the market rapidly.
- **Advocacy** for the workers (unions) to gain more knowledge on the auto sector at policy level.
- **Improved consultations** between the government, employers and trade unions in order to realise the importance of engagement when considering new investors.
- **Unions** need to be capacitated and equipped to deal with policy reviews and changes, legislations, and new investments in order to promote social dialogue and engagement

ABOVE:
Two rickshaws drive down a street in Ikeja, Nigeria.

Photo by Godwin Olatunde on Unsplash

3.5 Nigeria

3.5.1 The challenge of decent work in the automotive sector

Our discussion on decent work in the automotive sector in Nigeria will seek to highlight the changes and transformation that have occurred in the automotive sector from independence to the onset of crisis in the SAP era in the 1980s and the current situation in the Industry.

Organising deficit and weakened workers' power is the lot of trade unions particularly in the automotive sector at the wake of SAP implementation with privatisation and deregulation including labour market deregulation. Rising unemployment comes with the privatisation of the assembly plants post-SAP, with a mass of workers being retrenched.[63] Also, the bulk of the vehicle assembly plants including the privatised ones are currently without a union. However, there are few exceptions, for example Boulos Enterprises, a big diversified conglomerate who recently took on the Suzuki franchise in Nigeria and has an assembly plant within its expansive industrial location. Here, the union leveraged on the existing union management relationship to launch their own auto branch.

The newly licensed plants are not unionised. For example, Stallion group occupies the expansive privatised old VW plant and it utilises the space to assemble about 5 brands including Ashok Leyland, Hyundai, Nissan and Volkswagen. The Bajaj Tricycle is also assembled in the premises. Stallion has successfully resisted unionisation over the last decade.

The trade unions' numerical strength was decimated in the period that follows the implementation of SAP. SEWUN is a merger of four industrial unions; iron and steel, metal, automobile and precision. In 1996, at the time of the merger, the numerical strength of SEWUN was over 15,000 members. At the moment, SEWUN has a membership estimated to be 10,000, with the automobile and precision sector representing about 2,000 of that.

Similarly, AUTOBATE has suffered serious setbacks concerning organising. The union has lost membership due to mass retrenchments at each economic turn; the AUTOBATE membership is estimated to be around 1,200. In the last 5 years the union

[63] **In the early 1980s,** Nigeria had over 500 national assets. Most of these were sold to big corporations and only 37 of them exist to date. Many of these were forced to shut down, or downsized. In 1988 the unemployment rate in the country was 5%, in the first quarter of 2020 this reached 27.1%.

9 million

A workforce of 9 million direct workers is required to build 60 million vehicles, including all the parts that go into them.

61,000

Nigeria, with a production capacity of over 408,000 units per year, would require at least 61,000 direct workers.

has managed to unionise a new workplace. Efforts at winning more workplaces are being thwarted by the union bursting management.

According to the World Association of Car Manufacturers, or rather the Organisation Internationale des Constructeurs d'Automobiles (OICA), about 73.4 million cars and 23.84 million trucks were produced in the world in 2017 alone. OICA equally confirmed that a workforce of 9 million direct workers is required to build 60 million vehicles including all the parts that go into them. Going by the data provided by the association, Nigeria, with a production capacity of over 408,000 units per year, would require at least 61,000 direct workers.

Meanwhile the size of the indirect workforce in the automotive sector is 5 times that of the direct workers. That means, in the case of Nigeria, a total of at least 360,000 jobs will be created in the sector if the country meets its full production capacity. The Director General of NADDC in a statement in March 2020 estimated the total number of direct and indirect workers in the sector to be 50,000.

The unions consider current direct employment in the sector to be about 30,000 and this is being further decimated by the crisis of COVID-19. On the other hand, the combined strength of the two unions (AUTOBATE and SEWUN Auto Sector) is just above 3,000. This represents just about 10 percent of workers in the sector.

There is very little to no working relationship between the two unions in the sector. Whilst SEWUN (auto sector) organises junior category staff, AUTOBATE organises the senior staff in the auto sector. Yet there is no clear-cut framework for collective action or a common strategy for organising.

The two unions are separately part of the bargaining council in the auto sector. Even though the sector has a collective bargaining mechanism where the two unions are involved, plant dialogue is weak and not as robust as expected. The two unions need to build power to expand influence at plant levels.

Discussions with the two unions revealed huge organising gaps and the need for capacity building. The two unions belonged to two trade union centres and needed to leverage on that for visibility and policy engagement and campaigns for decent work in the sector.

3.5.2 Automotive sector, structural adjustment programme and employment conditions

Between the 1970s and the 1980s, employment conditions in the automobile and ancillary firms in Nigeria compared favourably to other segments of the economy, with full compliance with Nigeria's labour laws and ILO standards. There was widespread unionisation in all the firms. All the big firms were organised and union density was more than 80 percent of the workforce of the big automobile assembly plants. The big automobile assembly plants like PAN, Kaduna (5,000) ANAMMCO, Enugu (4,000), VW, Lagos (5,000), LEYLAND (2,000), FIAT (1,000+) and STEYR (1,000+) were fully unionised (union estimates). The ancillary firms such as Dunlop Tyres, Michelin Tyres, Machine Tools and Steel Rolling Mills were also organised into other unions, providing opportunity for broader union power and collective action along the value chain of automobile manufacturing. The auto sector was a sector with vibrant workers and a strong union presence. The union thrived on strong structural power, able to disrupt production to put pressure and achieve reasonable results from its demands.

The financial crisis in the 1980s caused a severe economic downturn, including an enormous decline in real wages (as inflation was rising) both in the public and private sectors. As the crisis persisted the companies resulted in frequent redundancies and ultimately closures – such that by the middle of the 1990s most of the auto-plants were shut down. This crisis and the sudden closures resulted in prolonged industrial disputes in the big firms.

This also led to a major decline in union membership and a near total collapse of the unions in the auto and allied industries. Such developments necessitated a merger of the four unions (the metal, steel and engineering, auto and precision sectors) to form the Steel and Engineering Workers' Union of Nigeria (SEWUN) in 1996. AUTOBATE, which represents the senior staff categories of employees, from supervisor to managerial cadre, also struggled for survival as membership was reduced to a few hundred members. The resurgence in the auto sector since 2014 had given birth to new optimism and a determination to reposition the union. The Union recently recruited a young and vibrant General Secretary, Sola Olorunfemi, and a new union organiser – both with student union activism backgrounds.

3.5.3 Impact of labour market deregulation in the automotive sector

"Many [automobile assembly companies] have registered recruitment firms to be subsidiaries to their companies, in an attempt to cut workers' wages and other work remunerations that would have incurred more cost.

Labour market deregulation, which includes labour casualisation, leasing, workers outsourcing and contract staffing, is an element of neoliberalism that subjects workers to precarious conditions. Labour casualisation, outsourcing or contract staffing is made formal and supported by legislation in the labour act.

The dichotomy between full time staff, contract staff and outsourced and casual workers is wide. Although full time staff enjoy the fair semblance of regular employment – letter of contract, confirmation of appointment after 3 months or a maximum of 6 months, leave and leave allowance, and 8 hours of work with added hours recorded as overtime – they are denied the benefits of social dialogue and industrial justice through a participatory grievance process, as no workers are allowed to form a union.

Conditions are much worse for casual, contract and outsourced staff. They are often employed without a letter of appointment or have pay structures that fall short of industry standards. They have longer hours of work, often without it being counted as overtime. The prospect of promotion and career progression is often very tight as there is no union to push these demands.

Companies in the automotive sector now engage in serious anti-labour practices. Findings revealed that the automobile assembly companies do not just engage workers through a recruitment agency. Many of them have registered recruitment firms to be subsidiaries to their companies, in an attempt to cut workers' wages and other work remunerations that would have incurred more cost.

About 70 percent of direct workers in the automotive sector are currently employed by method of casualisation, outsourcing or contract staffing. For instance, in Stallion Motors, it was established that assemblage of tricycles relied largely on casual and contract workers. All security staff of the company are outsourced staff with conditions even poorer than those who work in the plants (interview, Stallion Motors).

The COVID-19 crisis and ensuing economic recession has compounded the precarious situation in the sector. The crisis of foreign exchange, currency devaluation and dollar scarcity has weakened demand, resulting in poor sales, declined production and about a 50 percent reduction in workforce. One of the management staff interviewed hinted of a partial divestment into agro-ventures.

3.5.4 Privatisation, new investments and growing precarious work

Experiences around the world show that new investments do not necessarily translate into decent jobs, but that jobs are secured and workers' rights guaranteed only when workers can exercise the rights to freedom of association and collective bargaining in line with the ILO conventions 87 and 98.

In the emerging context of new investments in the automotive sector, trade unions in the automotive sector must be strategically re-positioned to benefit in terms of new membership. The current situation is that SEWUN and AUTOBATE are not significantly present in the privatised and new auto-plants.

Currently, there is no union presence in ANAMMCO, STEYR, VW and PAN. These plants were once powerful centres of union activism before privatisation. Similarly, most of the new vehicle assembly plants (INNOSON, KIA MOTORS, DANGOTE TRUCKS, ELIZADE ETC) are not unionised. For example, Stallion Group occupies the expansive privatised old VW plant and it utilises the space to assemble about 5 brands including Ashok Leyland, Hyundai, Nissan, and Volkswagen. Bajaj Tricycle is also assembled in the premises. Stallion Management has successfully resisted unionisation over the last decade. Similarly, the union had struggled to organise the plant and had even taken the management to the national industrial court, all to no avail.

Our findings show that just about a third of the workforce in the old Volkswagen Plant run by Stallion group are regarded as staff members with all the legal benefits of employees – a letter of employment stating the nature, terms and conditions of employment, confirmation and compliance with relevant provisions of the employment laws in relation to hours of work, wages, allowances, leave and leave allowance, medicals through Health Management Organisations, etc (interview, Stallion Motors).

The remaining two thirds of the employees are mostly contract and outsourced staff with consolidated pay structures and prolonged working hours. All categories of workers have no form of representation as trade unions are not allowed in the assembly plants. Previous efforts to organise and form local unions were frustrated by the management. Similar conditions prevail in most of the new auto plants in utter disregard for section 40 of the 1999 Constitution of the Federal Republic of Nigeria and sections 9 (a) and 9(b) of the Labour Act cap 198 Laws of the Federation 1990 which conferred on Nigerian workers the right to associate and join the union.

To underscore the dangers of the absence of the union in the workplace, our interview with a labour officer in charge of the transport sector reveals that there are constant disputes apprehended by the Ministry of Labour around unfair termination, poor conditions of service, non-payment of retirement benefits and denial of the rights to form union (interview, Federal Ministry of Labour and Employment).

ABOVE:
Action against precarious work by our Nigerian affiliates, led by oil and gas union NUPENG.

3.5.5 Current challenges

It is apparent that current working conditions in the auto industry fall far short of the standards experienced in the sector at its peak in the 1980s (with stable, regular employment and vibrant union representation). Our engagements with the unions suggest the need to review internal challenges confronting the union, and to recruit and build capacity of new organisers who would take forward the union struggles in the emerging automotive sector. This project of union revitalisation is imbued with obvious challenges.

The first challenge relates to how to expand membership recruitment by re-energising union organising efforts. Organising needs to spread across all the emerging plants in the sector and cover all categories of workers – junior staff, senior staff and contract and outsourced workers. This calls for synergy between the organising work of AUTOBATE, SEWUN (auto and precision sub-sector) and the mother union (SEWUN) with the support of NLC and TUC, the two labour centres with which SEWUN and AUTOBATE affiliate respectively.

Trade unions need to adapt to changing employment relationships and ensure union coverage for all categories of workers. Luckily, the NLC and TUC are involved in the ongoing process of Labour law review pushing for seamless recruitment of contract and outsourced workers across all sectors of the economy. In the interim, the NLC and the TUC had, in conjunction with affiliates in the oil and gas sector (NUPENG and PENGASSAN) and affiliates in the banking and financial services sector (NUBIFIE and ASSBIFI), mounted pressure on the Federal Ministry of Labour and Employment to develop a policy guideline for the recruitment of contract and outsourced workers in the oil and gas and the banking and financial services sectors. The unions must also push in this direction for such a policy guideline for the auto-sector because contract and outsourced employment are the dominant forms of employ-

ment in the auto sector. The unions in the auto sector must work and build synergy with the trade union centres to launch a nationwide organising campaign that will align labour rights with investment in the auto sector.

The second challenge is to build the capacity of the leadership of the unions at all levels, national, zonal, state and enterprise levels. It is imperative to build a new crop of union organisers with the right ideological orientation and with the requisite skills and capacity for recruitment, representation and campaigns in order to promote and advance the rights of workers in the auto sector.

Finally, the union must play an active role in policy development processes through lobbying, campaigns and policy advocacy. This requires specific skills and capacity development for officers of AUTOBATE and SEWUN to ensure that the unions become important stakeholders in the policy processes and implementation.

3.5.6 Recommendations

Nigeria has a huge market for vehicles and component parts with over 200 million people; the largest market in Africa. Yet there is a deficit in terms of available vehicles per person. Similarly, Nigeria is home to raw materials that could feed different tiers of the automotive supply chain but there are problems of policy inconsistencies and weak implementation.

It is in the light of the huge potential the country holds in the automotive sector and the numerous challenges confronting sustainable development and decent work in the sector that the following recommendations are being made.

- There should be massive industrialisation driven by public intervention in important sectors such as petrochemicals and textiles. There should be massive state investment in linked sectors and automotive sub-sectors – a lesson should be drawn from the boom period of the automotive industry.
- All the trade unions in the automotive sector should have a joint organising team to synergise their efforts in confronting union bursting management. SEWUN and AUTOBATE must tap more into the solidarity support of IndustriALL and the trade union centres for organising campaigns
- There is a need to build the capacity of the leadership of the unions at all levels: national, zonal, state and on the factory floor. It is imperative to build a new crop of union organisers with the workers' ideological orientation, the requisite skills and capacity for recruitment, representation and campaigns to promote and advance the rights of workers in the auto sector.
- Huge tariffs should be placed on importation of fully assembled vehicles even by the licensed assembly plants to reduce the domination of imported vehicles in Nigeria auto markets.
- Workers are important stakeholders in the automotive industry, it is thus important to expand the National Automotive Design and Development Council (NADDC) to include representatives of the workers. Also, the unions must play an active role in policy development processes through lobbying, campaigns and policy advocacy. This requires specific skills and capacity development for officers of AUTOBATE and SEWUN to ensure that the unions become important stakeholders in the policy processes and implementation.
- The processes of finalising the automotive bill should be accelerated and the president assent secured to get investors' confidence.

3.6 Rwanda

The investors or employers need to understand the importance of trade unions and welcome them to work together as this could contribute to the sustainable development of any productive sector.

In Rwanda, in the private sector, there are some labour issues such as unfair salaries and unfair dismissals or contract terminations, often due to alleged economic or technological reasons. Workers' safety issues have been raised by various labour unions, one of them being COTRAF, which received 12 cases of issues related to the construction sector in 2018. By now the safety complaints are much lower (Bishumba, 2020).

The new labour law (2018) has also fixed the previous issues of compensation for employees who get injured at work while not insured with social security. Article 19 provides for compensation of employees who had occupational accidents or diseases, entitling the employees to compensation equivalent to the social benefits they would have received from a social security body in Rwanda if their employer had contributed for them, including medical and related expenses (Mifotra, 2018).

In an interview with COTRAF, it was mentioned that there was still an issue of lack of information, which they say continues to impede employees in many ways. COTRAF also raised the issue of doing business in Rwanda, where generally only the employer is facilitated and the employees tend to be forgotten. COTRAF also raised an issue of financial means to provide proper capacity to the trade unions. Social dialogue between employer and employees is still lacking in Rwanda. The investors or employers need to understand the importance of trade unions and welcome them to work together as this could contribute to the sustainable development of any productive sector. The current mechanism of contract or job negotiations in the informal automotive sector is still not having a proper line because employers are still the one to fix the salary and the contract period, without a clear negotiation or discussions.

As COTRAF reports, "*the dialogue or communication between employee and employer is still an issue because there is a lack of respect from the employer side and the mindset of the employee that says that the boss is always right and you don't have the right to discuss with him regarding your rights at work. This issue always causes many problems including losses in any sector, because if the employee is not happy with his remuneration and his rights, he will not perform well at work and this will drive the company to the loss.*" (COTRAF, 2020).

According to the new labour law of 30/8/2018, the employer should:

1. **provide** some main duties;
2. **provide** an employment contract and its copy;
3. **provide** the agreed work at the time and place as agreed upon;
4. **supervise** to ensure that the work is done in suitable working conditions, as far as security and health in the workplace are concerned;
5. **pay** the agreed salary, on time;
6. **avoid** whatever can hamper the company's life and safety, its employees and the environment;
7. **affiliate** and contribute for an employee to the social security organ in Rwanda;
8. **discuss** with the employees or their representatives on matters relating to work;
9. **provide** employees with professional training and continue upgrading their capacity;
10. **provide** an employee with working equipment;
11. **notify** the labour inspector in case of a work-related accident or death of an employee (Mifotra, 2018).

ABOVE:
An employee of an automobile factory paints car body elements.

The workers who were not unionised often experienced challenges surrounding their rights and most did not know what to look for in contracts, or did not understand how to calculate or check their RSSB contributions (COTRAF, 2020).

They need more information about dispute settlement procedures, information on contract termination, information on working hours and 48 percent on minimum wage, more information about the rules of overtime pay, and information on unionisation.

The labour law accepts the validity of unwritten employment contracts on the condition that they do not exceed 90 days. Some employers continue to hire the services of employees for longer periods without written contracts, leaving them vulnerable (COTRAF, 2020).

If labour disputes arise in such cases, labour inspectors face difficulties in handling complaints from these employees without contracts. Such employees still encounter major difficulties in presenting credible evidence to support their complaints (Musoni, 2020).

According to the new Labour Law of 30/8/2018, article 102 on the amicable settlement of individual labour disputes, the employees' representatives amicably settle individual labour disputes between employers and employees. If employees' representatives fail to settle the disputes amicably, the concerned party refers the matter to the labour inspector of the area where the enterprise is located. If the Labour Inspector of the area where an enterprise is located fails to settle the dispute due to the nature of the case or a conflict of interests, they refer the dispute to the Labour Inspector at the national level, stating grounds to refer such a dispute. If the amicable settlement fails before a labour inspector of the area where an enterprise is located or before the Labour Inspector at the national level, the case is referred to the competent court. However, the court can decide not to receive the case after determining that steps for amicable settlement provided for in this article have not been followed (Mifotra, 2018).

The ministry seeks to address matters of employees particularly in the informal sector. The new labour law defines informal sector employees as an employee working for an enterprise or an individual for an employment that is not registered in the register of companies or with a public authority. Previously, the labour law was limited to matters prevailing in the informal sector covering only such issues like social

security, trade union organisations, and health and safety at the workplace.

However, the new labour law is broadly covering such aspects as the minimum wage where it says that an order of the minister in charge of labour determines minimum wage, but this ministerial order is not yet in place. The minimum wage recognised by law based on each category of occupation, the right to leave, and protection against workplace discrimination. However, it does not set the minimum wage, only stating that this will be catered for under a subsequent order of the minister in charge of labour (Mifotra, 2018).

Currently no national minimum wage has been fixed yet, but Rwanda's minimum wage rates range from RWF 500 to 1,000 per day (USD 0.51 to 1.03) in the tea industry, RWF 1,500 to 5,000 a day (USD 1.54 to 5.14) in the construction industry and RWF 5,000 to 15,000 a day (USD 1.54 to 15.43) in the auto industry (Minimum-wage.org, 2020).

3.6.1 Background on current trade unions and their role in Rwanda

In Rwanda there are three active union federations with the aim of improving the rights of workers and safety of the working environment. These are: CESTRAR (Rwanda Workers' Trade Union Confederation), COTRAF (The Congress of Labour and Fraternity in Rwanda) and COSILY (Conseil National des Organisations Syndicales au Rwanda) (LMIS, 2018).

CESTRAR (Rwanda Workers' Trade Union Confederation) is the oldest and biggest National Centre in Rwanda with 16 affiliated Rwandan trade unions, with a progressive membership of more than 165,000 workers in different sectors. It is working on unionising the workers in the automotive sector (FES, 2020).

COTRAF-RWANDA is an inter-professional federation bringing together unions from agriculture, farming and construction sectors, industry, banks, hotels, various services, private and public, education and others. COTRAF currently fulfills its mission of defending and promoting workers' rights and interests through three services to its affiliates and to Rwandan workers in general on a regular basis.

COTRAF provides affiliates the following benefits: defending the collective interests of workers; quality services (specialised COTRAF staff checks with workers whether their rights are respected in terms of working time, wages, hygiene, health and safety at work); legal assistance (provided that you have been affiliated for six months); and information through periodicals, brochures, and the internet (COTRAF, interview, 2020).

Generally unions participate in some socio-economic development policies and laws, more specifically the employment and industrial relations. They also indirectly provide through their communication channels some information about the potentials and issues in each sector. But directly, they are not consulted for specific investment promotion. Their role in current investment is passive but their daily activities (labour relations, decent work, minimum wage, labour disputes and conflict management) influence future investment decisions (Kobina, 2020).

Some interviewed industry representatives like REM declared they are willing to work together with the trade unions once they are in place because they will help them better control the workplace and provide professional and quality work, which will help them to grow their investments in the automotive sector (Kabanda, 2020).

3.6.2 Auto-workers: current situation and reasons not to be unionised

The automotive sector in Rwanda is at its infant stage which makes workers in the assembling and manufacturing of vehicles sector hard to reach by the trade unions. The workers in the automotive sector are being managed by the industry itself, in terms of providing internal training and providing them contracts.

In the future, trade unions in the auto sector will be needed and this will strongly help the workers to have decent and sustainable jobs, also the investors will be facilitated to hire qualified and organised workers who care about their work and provide quality work. The interviewed policy makers also mentioned that the trade unions are needed in the automotive sector as it is a key and growing sector.

This way, the government or other support institutions will be able to easily provide training or any other support, since unionisation will make workers more accessible and their rights can be well monitored and respected, to eventually guarantee decent and sustainable jobs (Kobina, 2020).

At present, the main reason for workers not to be unionised is general to all informal sector workers where the businesses are rarely registered on a national level - sometimes they don't pay taxes and don't have formal arrangements for their employees. In Rwanda there are some informal types of business such as those selling vehicle spare parts, small automobile repair shops and workshops and those selling food.

Everywhere in the world, it is a problem to unionise workers in the informal sector because many are self-employed, have no employer and many are not registered anywhere in the labour inspector office. Therefore, it is not easy to organise them. For these reasons, some totally lack awareness about unions. Even in some registered automotive companies, the lack of information about unions can be a reason why some are not unionised. They need to be approached and unionised as for other formal workers (Musoni, 2020). CESTRAR is having discussions with some organised companies such as VW Rwanda on how their workers can join the union.

As mentioned above, the challenge is in the informal sectors where it is difficult to discuss with their cooperatives, and it is not easy as many workers are working on their own without any control or any organisation. Another challenge lies in the financial limitations to continue the campaign of sensitisation and keep giving training so that workers can understand the interest of being unionised (Musoni, 2020).

Criteria for workers to join the union are the same as per the provision of Rwandan Labour Law No. 66/2018 of 30/8/2018, art. 10, art. 40, al. 4: it is a fundamental right of any worker to join a union of their choice. Many times, unions can internally set conditions like membership fees, but generally, a worker willingly adheres to the union of their sector (Mifotra, 2018).

ABOVE:
A mechanic in the Volkswagen assembly facility in Kigali, Rwanda.

3.6.3 Building capacity and challenges

Normally, it is the responsibility of the employer to train their workers to maintain the quality of service provided to clients. But the government has a formal education system – human capacity development programmes and vocational training programmes through which workers are trained. Trade unions also train workers for their labour rights and industrial relations, which help them improve their working environment and competitiveness in the labour market. The financial constraint is a big barrier to union plans to mobilise and provide training to as many workers as possible in that sector.

For formal sector workers, there are not many problems in terms of social security, but in the informal sector, it is very problematic as many workers are somehow self-employed, or work for non-registered employers who rarely respect their basic rights (COTRAF, 2020).

The rights in bargaining are formally safeguarded for workers in Rwanda, especially in the private sector as per the Labour Law (No 66/2018 of 30/8/2018 Art. 91-98) (Mifotra, 2018). There are some challenges in practice but as unions are more and more incapacitated in terms of training and finances, more collective bargaining agreements are formally concluded. Still, the mindset of employers needs to change (COTRAF, 2020).

FES Rwanda supports trade unions on capacity building, but it doesn't get to go into their internal structures and organisation processes. Trade unions identify gaps and FES Rwanda supports their ideas to bridge those gaps. An example is the new labour

law – with this we provide means to gain training on labour law for their members (Muhire, 2020).

The Rwanda Polytechnic through its IPRC provides the mechanical engineering with the objective of the undergraduate programme in Mechanical Engineering which is to prepare graduates so that, within three years of graduation, they will have successfully established themselves in professional careers and/or obtained a graduate degree, and will have begun to generate new knowledge or exercise leadership in their positions to the benefit of society. The programme in Automobile Technology is aimed at providing technicians with knowledge and skills. Graduates of the programme should be able to: check out new cars before delivery and make sure that all systems are functioning and in proper adjustment; be responsible for doing the normal check-up offered to the buyer after a certain mileage has been reached and be called on to do minor repairs and adjustments, services, dismantling, checks, repairs, reassemble engines, transmissions, transaxles and differentials, and more. (Kigali, 2019).

3.6.4 Recommendations

- **The government of Rwanda** should put more effort into the automotive sector to facilitate the investors so that the sector can grow at a good rate.
- **The government of Rwanda** through RDB should consult and consider the trade unions in the investment plans.
- **The government of Rwanda** through RDB should work on formalising all sectors and avoid the creation of new informal sectors.
- **The government of Rwanda** through RDB should encourage the new investors to respect trade union rights.
- **The government of Rwanda** through MINEDUC (Ministry of Education) should initiate the basic knowledge about labour law programmes in schools.
- **MIFOTRA** should take an assignment together with PSF (Private Sector Federation) of supporting the trade unions in Rwanda.
- **The government of Rwanda** through RDB should encourage the companies in the automotive sector to have organised workers and respect their right and to be open to the trade unions.
- **The government of Rwanda** through MIFOTRA (Ministry of Public Services and Labour) should support the trade unions in capacity building and in awareness of the workers' rights so that decent and sustainable jobs can be improved.
- **FES Rwanda** should have a deep discussion with COTRAF and CESTRAR to learn about the challenges and how those challenges can be tackled especially in providing capacity building to the workers in the automotive sector and other sectors.
- **The trade unions** should be able to access the investors and show them the importance of working with the trade unions.
- **The trade unions** should contribute to growing awareness amongst both workers and investors on what they do and how they can help both sides to develop the industry sustainably.

3.7 South Africa

3.7.1 Decent jobs and the role of trade unions

This section unpacks trade union organisation, the state of collective bargaining and employment conditions in the South African auto industry. The purpose is to indicate whether employment in the auto industry is decent and the extent to which such decent employment practices are coupled with strong trade union organisation.

The four pillars of the ILO Decent Work Agenda (employment creation, social protection, rights at work, and social dialogue) will serve as the basis to compare employment in the auto and component industries with decent employment practices. These four decent work pillars are broadly covered under the sub-headings below.

3.7.2 Employment in the auto assembly and auto component sectors

Average monthly employment by vehicle manufacturers totals 30 250 and the component sector employs a further 80 000 employees.[64] The table below provides a breakdown of employment at the seven OEMs.

In the absence of COVID-19, employment in the auto assembly industry would have, if all went well, expectantly increased in the foreseeable future as a direct result of the investments announced by some OEMs. This would have been further supported by the SAAM's ambitious target of growing the South African vehicle production to 1% of total global output, which would have resulted in a doubling of total employment in the auto value chain. COVID-19 makes all of this uncertain.

In terms of the component industry, of the 80,000 employees, 63% are employed in workplaces with more than 250 employees, 19% in workplaces with between 151 to 250 employees, and 17% in workplaces with between 1 to 150 employees.[65] The bigger workplaces are generally first tier suppliers given their greater market share. As with auto assembly employment, the prospect of sustainable employment growth in the component industry was anticipated, but is in doubt because of the pandemic.

Table 9 SA employment by OEM

Original Equipment Manufacturer	Total employees
BMW	4,000
Ford	3,700
Isuzu	976
Mercedes-Benz	3,668
Nissan	2,501
Toyota	8,539
Volkswagen	4,748
Total	**28,132**

Source: WhoOwnsWhom / Eikon / MarketLine.

[64] **NAACAM,** Automotive Export Manual 2020.

[65] **Interview NAACAM** representative.

ABOVE:
Workers struggle against precarious work.

3.7.3 Employment categories in the auto and component industries

An important measure of decent work is the employment status of workers. Decent work is compromised by the trend towards non-standard/atypical work facilitated by outsourcing and the use of labour brokers. This appears to have been minimised in the auto and component industries (interviews). The NAAMSA interviewee noted that the auto industry requires a skilled and dedicated workforce to meet its operating demands. It is for that reason that employment in the auto assembly industry is generally on a permanent full-time basis.[66]

In the case of component suppliers, the NAACAM interviewee indicated that, to their knowledge, 89% of jobs are of a permanent nature, 8% are fixed term and 3% are outsourced. The interviewee further pointed out that outsourced labour is on a steady decline. This is to reduce the high cost of the training of the constant stream of new entrants to the industry.[67]

These interviewees therefore indicated that the employment status of a very large majority of workers in the auto and component industries is permanent and full-time at either an assembler or a tier one or two component supplier. Further, the industry reports to the Motor Industry Development Plan (MIDP) on labour utilisation, including the use of labour broking, outsourcing, etc. Such reports reveal an official decrease in non-standard employment practices and attest to the benefits of long-term, secure employment for the industry. The impact of the COVID-19 pandemic may change the tide towards non-standard employment practices as employers could seek to squeeze labour cost as a result of losses over the lockdown period.

[66] **Interview with NAAMSA** representative.

[67] **Interview with NAACAM** representative.

ABOVE: Workers struggle against precarious work.

3.7.4 Trade union organisation, collective bargaining and social dialogue in the auto and component industries

The National Union of Metalworkers of South Africa (NUMSA), one of the largest trade unions in South Africa with a reported membership of 350,000, is currently the sole trade union negotiating with vehicle manufacturers at the auto National Bargaining Forum (NBF).[68] Negotiations take place centrally and the vehicle manufacturers are represented by the Automobile Manufacturers Employers' Organisation (AMEO).

The NBF was established in 1990 following prolonged action by NUMSA to set up a central bargaining forum. While the NBF is not a bargaining council established in terms of the Labour Relations Act (LRA), collective agreements reached are binding on the entire industry because all the OEMs are members.[69] Aside from regulating industry wages, the NBF collective agreement covers various other employment conditions (see table below for a selection of employment conditions). The current wage collective agreement runs until 2022.

The negotiation of wages and employment conditions in the components sector takes place in MIBCO, a bargaining council established in terms of the LRA. NUMSA is the majority trade union at MIBCO with a reported membership of 150,000, although there is a smaller trade union, the Motor Industry Staff Association (MISA) which organises mainly in the auto dealerships sector. The employers' organisations at MIBCO are the Retail Motor Industry Organisation (RMI) and the Fuel Retailers' Association of South Africa.[70] The MIBCO agreement covers a variety of sectors, which are accommodated as 'Chapters' in the collective agreement, with component manufacturers falling under Chapter III. The current MIBCO wage collective agreement runs until 2022 but is as yet unsigned.

Over and above the collective bargaining role of NUMSA, the union actively participates in shaping the policy framework of the auto and component industries (e.g. shaping the policy framework of the SAAM and MIDP) and plays a key role in skills development (e.g. the Automotive Supply Chain Competitiveness Initiative – ASCCI). The union's contribution to the development of the auto and component sector is recognised with the NAACAM interviewee commenting that "*we have probably one of the most sophisticated relationships with our trade unions and in other sectors that is not the case.*"[71]

[68] **We could not** obtain NUMSA's membership data in the auto assembly industry. It is the only representative trade union in that industry, i.e. no other trade union meets the required threshold to negotiate at the NBF.

[69] **Godfrey S,** Maree J, Du Toit D and Theron J Collective Bargaining in South Africa: Past, Present - and Future? (Juta, 2010).

[70] **In a recent** arbitration NUMSA successfully challenged the MIBCO status of another employers' association, the National Employers' Association of South Africa (NEASA). The arbitrator ruled that NEASA is not a party to MIBCO as it failed to meet the membership criteria.

[71] **Interview with NAACAM** representative.

[73] **Personal interview** with NUMSA official.

[74] **Interview NAACAM** representative.

3.7.5 Minimum wages and employment conditions

Employment conditions in the auto assembly and component industries are generally more favourable than other private sector central collective bargaining fora. This is measured by the wide range of employment conditions applicable in both industries as well as the levels at which wages and conditions are set. The NBF has one of the highest minimum wages in the private sector when compared to other private bargaining council collective agreements and provides for a medical aid scheme and housing allowance – employment conditions not commonly associated with private sector bargaining councils. In the case of component manufacturers, the employment conditions of workers covered by the relevant chapter of the MIBCO agreement (Chapter III) are generally more favourable than other workers falling under MIBCO. Inasmuch as bargaining councils set minimum wages in a particular industry, our NUMSA informant indicated that wages at component manufacturers are much higher than the MIBCO minimum wage rates.[72]

Additionally, the NBF and MIBCO collective agreements run until 2022. This provides labour peace to employers and guaranteed wage adjustments to workers for the period of the wage agreements. This is an important consideration given the uncertainty of the COVID-19 pandemic on the South African economy.

Monitoring compliance with the terms of wage agreements is generally left to bargaining council agents or the parties to the collective agreement. The OEMs furthermore insist that their tier one suppliers are compliant with the terms of the applicable collective agreements. This is done to ensure that there would be no disruptions in the supply of products due to, for example, strike action. To monitor compliance, the OEMs conduct annual audits and should non-compliance be uncovered, this can lead to termination of the contract to supply the OEM. To ensure consistency in the supply chain, the first-tier suppliers in turn audit their (tier two) suppliers.[73] These checks and balances are another example of the vertical integration of the auto and component industry's operating regime.

In the table below we set out the minimum wage rates and some employment conditions negotiated at the NBF and MIBCO. These are not the full employment conditions within the respective industries but the only employment conditions we managed to obtain from NUMSA.

Table 10 Employment conditions negotiated at the NBF and MIBCO

Industry minimum wage	R79.52 ($4.63) per hour.
Annual bonus	8.33% of basic pay.
Transport allowance	R2,675.00 (USD 156) per annum equates to R222.92 (USD 13) per month.
Medical aid scheme	An industry framework agreement is currently being developed.
Housing allowance	Once-off payment of R5 000 (USD 291) for first-time homeowners; a monthly subsidy of R500 (USD 29) for qualifying employees.
Family responsibility leave	3 days paid leave per annum as per the BCEA and 3 days per occurrence in the event of death of the employee's immediate family members.

Source: Authors (from interviews)

3.7.6 Key recommendations

Below we make recommendations which NUMSA, or alternatively IndustriALL, could consider in moving forward.

1. **The NUMSA interview** established that the union is consulted at policy level (with government and industry stakeholders at, for example, the MIDP and ASCCI). Investment decisions are however decided at the overseas headquarters of the respective OEMs where NUMSA have no direct representation. In the case of German car manufacturers (e.g. Volkswagen), investment decisions are taken in consultation with the Works Council comprising worker representatives from all the global operations of a company. Thus, in the case of Volkswagen, NUMSA members are part of the Works Council and, by extension, part of the investment decision. This places NUMSA at an advantageous position to influence the sustainability of new investments and the kind of jobs to be created.

   Informed by the above, **NUMSA could play a leading role** to advise its sister unions in the rest of Africa on new investment decisions, key policy instruments affecting the auto and component industries, collective bargaining strategies, skills development and more.

2. **NUMSA** has a strong presence at individual OEMs and is the only trade union bargaining with AMEO at the NBF. NUMSA could use their collective bargaining strength to **enter into a Regional Framework Agreement (RFA)** at either individual OEM level or at the NBF to 'safeguard' certain fundamental rights to be applied when an OEM decides to expand their operations into the rest of Africa. Such an RFA could include a floor of basic rights like freedom of association, the right to collective bargaining, prohibition of discrimination, forced labour and child labour. Where possible, an RFA could include specific rights such as full-time employment and social security provisions.

3. **Regional OEM union networks** should be developed under the umbrella of IndustriALL. Such a structure would bring together worker representatives of individual OEMs operating across the region. For example, a selected number of Volkswagen representatives from all the African countries VW operates in would constitute a network. Individual country representatives will report on operations in their country and develop organising and collective bargaining strategies vis-à-vis the OEM.

   Such a network of individual OEM shop stewards could take place once a year and include presentations on the global performance of the OEM; investment decisions, etc. The network meeting could also include a training component. A regional network structure of this nature currently exists under UNI Africa, involving the three major SA food retailers: Shoprite, Massmart and Pick n Pay.

4. Conclusions and **recommendations**

Building capacity, embracing challenges, supporting decent jobs: what unions can do

A decent job is one that epitomises appropriate labour standards, particularly the fundamental rights conventions and the declaration on rights at work.

In 2005, the ILO unveiled the decent work agenda as a vehicle to promote opportunities for men and women to obtain decent and productive work in conditions of freedom, equity, security and human dignity. The concept of decent work relates to and advances the ILO declaration of fundamental principles and Rights at Work adopted at the 86th session of the ILO in 1998.

The attainment of the decent work goal rests on four pillars: promote and realise standards and fundamental principles and rights at work; create greater opportunities for women and men to secure decent employment and income; enhance the coverage and effectiveness of social protection for all; and strengthen tripartism and social dialogue.

Decent work is not an abstract concept; it is practically about how the world of work is configured to fulfil the expectations for decent wages, standard working hours and working arrangements, a balance between work and family life and general conditions of work. Decent work emphasises that jobs must provide security, dignity, respect for freedom of choice and opportunities for social dialogue and collective bargaining. In the view of the ILO, a decent job is one that epitomises appropriate labour standards, particularly the fundamental rights conventions and the declaration on rights at work.

In order to assess what existing trade unions can do, at country and regional level, to ensure that new investments in the respective auto industries will translate in the creation of decent jobs, this project started from a collective reflection on what is *not* decent. Throughout this process, clear weaknesses and challenges emerged. These ranged from the large scale of *vulnerable employment* in Ghana, to the absence of *sectoral bargaining* and *minimum wage* agreements in Ethiopia, Namibia and Rwanda, to the persistence of a *piece rating system* in Kenya, to the high percentage of *outsourced, casual and contract workers* in Nigeria, to *gender and race* biases in the treatment and remuneration of Namibian workers, to the frequent anti-union behaviours in Nigeria, Namibia and Rwanda.

Identifying the gaps to fill allowed us to draw specific recommendations. The suggestions pertaining to the individual country contexts will be found in the single country reports. Here, we try to put together some points for a collective way forward. Issues common to different labour markets, industrial sectors and union organisations, and that could be tackled also at regional level. Indeed, a serious and coordinated effort by partner unions in the automotive sector would allow for a stronger capacity-building process and more targeted strategies to promote more and decent jobs.

Overall, these are some broad points that emerged from our discussions and country comparisons:

1. **The need for trade unions** to be properly consulted in investment decisions and involved in industrial policy planning. In this regard, the participation of the SA NUMSA in both the SAAM and the previous ASCCI initiative represents a positive example to possibly follow. A strong proposal also comes from SA, and concerns the need for higher participation of local unions in the decision-making process or discussion fora of the respective OEMs headquarters. Once involved, the unions should more strongly advocate for localisation, local supply chain development, and in direction of all those segments with a higher potential for employment creation;
2. **A joint effort** should be made to re-energise and strengthen union organising where this is weak or where union density is low: beyond OEMs and along the supply chain, in newly formed companies where union presence is obstructed (ex. Nigeria) or where anti-union sentiments persist (ex. Namibia, Rwanda);
3. **More support** is needed to develop structures for social dialogue where this is weak or absent (ex. Ethiopia, Rwanda);
4. **More support** would be needed to expand the collective bargaining coverage in the contexts where plant/firm level bargaining is imposed or dominant (eg. Ethiopia, Namibia);
5. **Stronger political strategies** should be implemented to secure Minimum Wage Agreements where these do not exist, or where they have been promised but never enacted (eg. Rwanda, Namibia);
6. **More capacity-building initiatives** should be organised, involving both workers and union leaders, on issues such as collective bargaining, skills development, labour laws, etc.
7. **Stronger and more effective strategies** are needed to counter processes of casualisation, informalisation, outsourcing and against the increasing employment of workers on short-term contracts (see Kenya's piece-rating system, Nigeria, Rwanda). In this regard, unions need to acknowledge that such processes also affect a traditionally protected sector like the automotive, weakened by years of privatisations and deregulations, and that a-typical, precarious and unprotected forms of work are on the rise. In particular, keeping a vigilant eye on the impact of the COVID-19 crisis will be crucial;
8. **As far as the COVID-19 crisis** is concerned, unions will have to make sure that all supposedly temporary suspensions of workers and union rights are lifted (eg. Ethiopia);
9. T**he harmonisation** of OSH policies at sectoral level would be needed in several of the contexts analysed, especially in light of the experienced pandemic;
10. **The possible creation** of Regional Framework Agreements and Regional OEM Union Networks, per company but across countries, to strengthen the international dialogue and develop common strategies. A positive example is what was already created by UNI Africa involving the three major SA food retailers, Shoprite, Massmart and Pick n Pay. This could happen within the existing IndustriALL umbrella (see South Africa's proposal).

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Appendix 1:
List of interviews

Ghana

Association of Ghana Industries (AGI)

Ghana Ministry of Trade and Industry

Industrial and Commercial Workers Union (ICU)

Ethiopia

President, FC, T&PIWTU

CETU, Legal Advisor CETU

Union leader, AMICHE

HR, AMICHE

Union chairperson, BAI

MIS, BAI

President, FC, M, C, W&RIWTU

Union leader, Niyala Motors

Union leader, Li-FAN

Li-Fan motors representative, Li-FAN

Union leader, Res engineering

Local car dealers

Kenya

Deputy County Labour Officer, Ministry of Labour

General Manager, Kenya Motor Industry Association

Public-Private Dialogue Assistant, Kenya Private Sector Alliance

Chief Shop Steward, Isuzu East Africa

Nairobi Branch Secretary, Kenya Engineering Workers Union

Assistant Secretary General, Amalgamated Union of Kenya Metal Workers

Industrial Relations Officer, Central Organization of Trade Union

Chief Shop Steward, Associated Vehicle Assemblers

Chief Shop Steward, Kenya Vehicle Manufacturers

Namibia

Ministry of Industrialisation, Trade and SME Development (MITSMED)

Ministry of Labour, Industrial Relations and Employment Creation (MLIREC)

Metal and Allied Workers Union (MANWU)

Namibia Employers Federation (NEF)

Namibian Competition Commission

Nigeria

Automobile Boatyard Transport Equipment and Allied Senior Staff Association (AUTOBATE)

Steel and Engineering Workers Union of Nigeria (SEWUN)

National Automotive Design and Development Council (NADDC)

Federal Ministry of Industry, Trade and Investment (FMITI)

Federal Ministry of Labour and Employment (FML&E)

Rwanda

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RDB, Manufacturing investment Sector Lead, 28 August 2020

REM, CEO, 28 August 2020

CESTRAR, Deputy General, 14 August 2020

Ampersand, CEO, 03 September 2020

Safi, CEO, 03 September 2020

COTRAF, General Secretary, 15 September 2020

South Africa

National Union of Metalworkers of South Africa (NUMSA), 26 August 2020.

National Association of Automobile Manufacturers of South Africa (NAAMSA), 01 September 2020.

National Association of Automotive Component & Allied Manufacturers (NAACAM), 02 September 2020.

Industry expert, 03 September 2020.

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