



UFUNGAMANO

-JOINT FORUM OF RELIGIOUS ORGANISATIONS

STANDARD GAUGE RAILWAY



FACTS & IMPLICATIONS

INTRODUCTION

Ufungamano Joint Forum of Religious Organisations (U-JFRO) originally known as Ufungamano Initiative includes the main religious organizations in Kenya.

As a forum of religious organizations U-JFRO has been a key player in the democratization process in Kenya and in the Constitution of Kenya review process since 1999. U-JFRO became the stage from where the clamour for a new constitution intensified as it brought together all the major stakeholders including political parties.

In April 2000, Ufungamano established “A People’s Commission of Kenya” representing a broad spectrum of the Kenyan population to collect and collate views of Kenyans on the desired constitution. Later the Commission merged with the government commission leading to the formation of CKRC. In 2003 the Parliament passed the ‘Anti-Corruption and Economic Crimes Act’ which recognized the Joint Forum of Religious Organisations as a nominating body to the Advisory Board of the Kenya Anti-Corruption Commission.

U-JFRO was registered as a Trust in July 2011. U-JFRO has issued this second civic education bulletin to provide information and knowledge to the public in matters of governance and public expenditure in our country and the Standard Gauge Railway is now one of such concerns.

This bulletin has been prepared with information researched by technical experts and economists; and U-JFRO is grateful for the efforts which have gone into this research.

This research highlights that Kenya cannot afford to borrow over KES 300 billion to finance the construction of the Standard Gauge Railway. Borrowing this amount will increase Kenya's external debt by 30%, push the public wage bill to unsustainable levels and exacerbate poverty in the country.

STANDARD GAUGE RAILWAY: FACTS AND IMPLICATIONS

1. What is a standard gauge railway?

The standard gauge railway refers to a railway where the distance between the inner sides of the rails is 1,435 mm. It is used in Libya, Egypt, China, the United States of America and the United Kingdom and in much of Europe, among other countries and regions.

2. How is it different from what we currently have?

Kenya currently has a metre gauge railway. The distance between the inner sides of the rails is 1,000mm. The metre gauge is currently also in use in Uganda, Ethiopia, the Democratic republic of Congo (DRC) and Argentina among others. Tanzania's TAZARA railway line is a cape

gauge: where the distance between rails is 1,067 mm. This gauge is also used in South Africa, Botswana, Angola, Namibia among other countries.

3. What is the SGR project?

The Standard Gauge Railway Project seeks to build a completely new standard gauge railway with a new right of way that is to connect Mombasa to Malaba (with a branch line to Kisumu); to Kampala, Kigali (with branch line to Kasese); and Juba (with a branch line to Pakwach). In 2012, a bilateral agreement was signed between Kenya and Uganda for the joint development of an SGR. A trilateral agreement was later signed between Kenya, Uganda and Rwanda, for the line to extend to Kigali. In November 2013 President Kenyatta inaugurated the first phase of the project in Kenya i.e. from Mombasa to Nairobi.

4. Why does the government say that we need a totally new standard gauge railway?

The government says that the SGR will lead to the increase of the tonnage of freight carried by rail, operating speeds and efficiency of the railway, which is critical for enhancing development in the region. The proposed standard gauge railway is expected to carry trains with axle loads of up to 25 tonnes per axle; and operate at speeds of 60-80km per hour with a maximum of up to 120km an hour.

Government argument is based on the two per cent gradient ascent from Mombasa to Nairobi; and the obstacle-ridden topography of the area; which, supposedly, means that the current winding railway is restricted in terms of the load the railway can carry and the speeds the trains can operate on. A standard gauge, on a new right of way, is therefore, supposedly necessary to allow more freight to be transported faster on the railway.

Government also argues that the project will transform the economy and contribute towards the creation of employment in the country for construction workers, engineers, artisans, local suppliers and other service providers.

5. How will the SGR be financed?

A financing agreement between Kenya and China was signed on May 11 2014 in Nairobi, Kenya. The agreement, however, has not been made available to the public to date. According to the statements of government officials that appeared before Parliament's Committee on Transport, Public Works and Housing,¹ the government will borrow KES 268 billion from the

1 Kenya National Assembly. "Report of the Departmental Committee on Transport, Public Works and Housing on the Statement sought by Hon. Hezron Awiti, MP on the Tendering and Construction of the Standard Gauge Railway from Mombasa to Malaba" February 2014,

Exim Bank of China. The government also intends to contribute towards the financing of this project through the Railway Development Fund; a levy of 1.5% on the cost of all imports into the country. This fund is to be used to contribute KES 49 billion - 15% to the total cost of the project. The information in the public domain on the agreement signed between Kenya and China, however, indicates that 90 percent of the project will be funded by the Chinese, and Kenya will pay for the remaining 10 percent.

6. Why have concerns been raised about the Standard Gauge Railway Project?

- There are concerns about the technical justification for the Project: It has been shown that it is possible to achieve the same performance parameters envisaged by the SGR by rehabilitating and upgrading the current metre gauge rail to a heavy duty standard at a significantly lower cost than building an SGR². Brazil, for example, refurbished and upgraded its metre gauge railway and now moves freight of up to 100 million tonnes per annum on its metre gauge railway.

It is unlikely that the SGR will be able to move enough freight to justify its cost: The benefits of a standard

2 The World Bank (Africa Transport Unit), "The Economics of Rail Gauge in the East African Community", The World Bank, 2013

gauge rail, as opposed to a metre gauge, can only be achieved with very high traffic levels. The investment in the standard gauge can only be justified if the new infrastructure could attract freight in the order of 20 – 55 million tonnes a year.³ Forecasts for traffic in the region over the medium and long term fall far short of these tonnage figures.⁴ *Another question is what will happen to the existing railway lines to other towns and service lines to industries.*

Chinese appear to think that the Kenya government can guarantee the amount of cargo to be carried by the SGR from the Mombasa Port and thereby help in covering the cost of the railway. However, what they Chinese may not understand is that unlike the Chinese State, the Kenyan State does not have the same command and control power over its economy. Such a guarantee, therefore, would appear difficult to keep.

In addition, Kenya and Uganda have a 25 year concession agreement with Rift Valley Railways which was signed in 2005. In it is the stipulation that no changes can be made on operations of the railway by the governments which would negatively impact RVR's profitability.

3 *Ibid.* p.4

4 CPCS Transcom International Limited, "East African Railways Master Plan Study", 2009, , East African Community, p. 52

- **Concerns have been raised about the process of development and approval of the project:** The feasibility study assessing the practicality and viability of the SGR was undertaken by Chinese Roads and Bridges Company (CRBC) at no cost. This is the very same company that was selected to implement the project. Curiously, the Kenya Railway Corporation (KRC) seemed unaware of this and was instructed to cancel a tender it had issued to a company to carry out the feasibility study for the Project in March 2011.⁵

Concerns have also been raised on the lack of clarity around the cost of the SGR. It remains unclear what the total cost of the project will be, as different figures have been quoted by government: The Principal Secretary in the Ministry of Transport quoted KES 327 billion while the Cabinet Secretary for Treasury has quoted KES 447 billion as the cost of the Project.

- **There are cheaper alternatives that will achieve the same results being targeted by the project:** Building a standard gauge from Mombasa to Nairobi (not reaching Malaba) will cost an estimated KES 327 Billion (KES 315 million per one kilometer of railway). It

5 Alphonse Shiundu, "Public Investments Committee grills railways boss over tenders" The Standard, March 11, 2014. Available at http://www.standardmedia.co.ke/mobile/?articleID=2000106673&story_title=public-investments-committee-grills-railways-boss-over-tenders

has been argued that the current metre gauge, could be refurbished to meet the parameters targeted by the proposed standard gauge railway at an estimated cost of KES 20 billion to Nairobi (KES 42.63 million per kilometer).⁶ This could be paid from the railway levy, without incurring more external debt. The second phase, from Nairobi to Malaba is expected to bring the total cost of the project to the region of KES 1 trillion. This is almost equivalent to an unsustainable 100 per cent of Kenya's current budget.⁷ Kenya can learn from India which simply added a track to its existing meter gauge to enable it operate as a standard gauge railway.

- ***The SGR project is not viable economically:*** The railway will be paid for by taxpayers' money. The government aims to borrow the funds required to implement the first phase of the Project from China. Borrowing KES 268 billion will increase Kenya's external debt by almost a third; its debt to GDP ratio by 9 per cent; and its interest payments on external debt by 50 per cent.⁸

6 "The Economics of Rail Gauge in the East African Community" p.3

7 Michael Wakabi, "Why EA countries chose more costly route for standard gauge railway line,"The East African, September 28, 2013

8 David Ndii, "New railway line is not value for money" The Daily Nation Friday, February 14, 2014

KES 268 billion is more than all 47 counties received in total in 2013/2014 and the annual repayment of the principal amount translates to over KES 600 million per county.⁹ As an illustration, KES 268 billion could go towards the building and equipping of 26800 dispensaries or 8933 health centres in the country¹⁰ instead of funding the unnecessary construction of an SGR.

Given its exorbitant cost, it is highly unlikely that the country can finance the completion of the SGR to proceed beyond Nairobi to the border, which would make it redundant.

- **Government has not followed the law in its plans to finance the project:** "In guaranteeing and borrowing money, the national government shall ensure that its financing needs and payment obligations are met at the lowest possible cost in the market which is consistent with a prudent degree of risk, while ensuring that the overall level of public debt is sustainable."¹¹ The decision to go ahead with the standard gauge railway despite the availability of cheaper options is contrary to the law.

9 *Ibid.*

10 Ministry of Health, "Norms and Standards for Health Service Delivery," 2006, Ministry of Health

11 The Public Financial Management Act, Section 50 (1)

Government needs parliamentary approval to borrow money for the budget and make allocations for loans.¹² It is unclear whether Parliament has made such approvals even as the Parliamentary Committee on Transport and the Public Investments Committee propose the fast tracking of the Project and Government prepares for the finalization and execution of the financing agreements with Exim Bank.

The constitution¹³ further provides that “the burdens and benefits of the use of resources and public borrowing shall be shared equitably between present and future generations.” When incurring national debt, therefore, care must be taken not to burden future generations unnecessarily with paying off debts incurred well before their time. Similarly, the present generation should not be unjustly burdened with paying for a costly investment whose benefits, if any at all, will only be enjoyed by future generations. Government has not demonstrably fulfilled its responsibility to weigh these issues in deciding on how to allocate scarce national resources.

12 *Ibid.*, section 50 (3)

13 Article 201

7. How does borrowing to finance the SGR affect the economy?

Borrowing KES 268 billion for the Project will result in the rise of Kenya's debt to GDP ratio to unsustainable levels; and push the country's external debt to the point where Kenya will be unable to access concessionary loans and development grants for the second phase of the railway and other infrastructure projects such as the The Lamu Port Southern Sudan-Ethiopia Transport (LAPSSET) Corridor project from the international market. This will, in turn translate into increased taxation and significantly exacerbate poverty beyond its current state.

8. What is the Chinese Connection?

China, unlike other traditional development partners, appears willing to give a loan that would push Kenya's foreign debt to unsustainable levels. The CRBC has, for example, despite Kenya not yet having signed the financing agreement with China yet, begun laying the ground-work (in Embakasi Nairobi and Mtito Andei) for the implementation of the Project. Such preparation has allegedly included trespass on private property and harassment of owners in the name of carrying out surveys for the Project.¹⁴ On what basis is this being done and who is facilitating their activities in the country?

14 Li Juguang, "CRBC: We have what it takes to deliver on rail project" The Standard, 29 April 2014, p. 15 http://www.standardmedia.co.ke/?articleID=2000110529&story_title=crbc-we-have-what-it-takes-to-deliver-on-rail-project

9. What does all this mean for the country?

What this means is that investing in the SGR project is an unsustainable and illegitimate use of our scarce resources. It will cripple the country financially and is not justified on technical and economic grounds. It will not deliver results which are better than those which can be gained through cheaper, more appropriate means. The procurement of the project has been marked by opacity; the public has been excluded from knowing about the project. This raises concerns about the true motives behind it. Kenyans are already shouldering the payments of corrupt debts incurred by successive corrupt governments; from which the country got nothing. The government must exercise prudence and seek to ensure that it does not add to this burden.

NOTES

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