



East African Community

**THE 2ND EAC HEADS OF STATE RETREAT
ON INFRASTRUCTURE DEVELOPMENT AND FINANCING**

**Kenyatta International Conference Centre
NAIROBI, KENYA**

29TH NOVEMBER, 2012

**DEEPENING EAC INTEGRATION PROCESS THROUGH THE
DEVELOPMENT OF EFFICIENT INFRASTRUCTURE SYSTEMS
TO SUPPORT TRADE AND INDUSTRIALIZATION.**



One People . One Destiny



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REPORT OF THE RETREAT

1.0 Introduction

1.1 Background and Objectives of the 2nd Retreat

Infrastructure development remains a major prime mover for the socio-economic development of the EAC and, therefore, continues to receive the utmost political attention by all Partner States in the EAC Region. In this regard, the 1st Retreat of Heads of States of EAC that was held in Kigali in June 2008 identified development of infrastructure as key to the region's integration and overall socio-economic development. The Retreat identified priority infrastructure projects and actions that were to be undertaken by the Council of Ministers and the Partner States.

The 2nd Retreat was held on 29th November, 2012 to review the implementation status of the directives of the Heads of State since the 1st Retreat and establish a priority list of projects to be promoted by the region for the short and medium term. The Retreat further explored the financing possibilities for these priority projects especially targeting private sector and other hybrid financing strategies.

The 2nd Retreat focussed on the development and financing of projects and programmes under railways, ports and energy, in recognition of the fact that development of these specific sectors had not progressed satisfactorily. In addition, roads that facilitate movement to and from the ports and those that complement the railways were also considered.

“Deepening the EAC Integration Process through Development of Efficient Infrastructure Systems to Support Industrialization and Trade”

1.2 Attendance

The 2nd Retreat was attended by H.E Mwai Kibaki, CGH, President of the Republic of Kenya and Chairperson of the EAC Summit of Heads of State, H.E Yoweri Kaguta Museveni, President of the Republic of Uganda, H.E Dr. Jakaya Mrisho Kikwete, President of the United Republic of Tanzania, H.E Pierre Nkurunziza, President of the Republic of Burundi, The Rt. Hon. Pierre Habumuremyi, Prime Minister of the Republic of Rwanda.

A total of 500 participants drawn from Government institutions, the private sector, the diplomatic corps and development partners attended the Retreat

2.0 Remarks

2.1 Welcoming remarks by Amb. Dr. Richard Sezibera, Secretary General, East African Community

The Secretary General highlighted the main objectives for the 2nd Retreat as being to-

- a) Review the implementation status of the directives of the Heads of State since the 1st Retreat;
- b) Establish and endorse a priority list of infrastructure projects in railways, ports and energy sectors to be promoted by the region for the medium term; and
- c) Explore the financing possibilities for these priority projects especially targeting private sector and other hybrid financing strategies.

He emphasized that there was an undeniable sense of urgency in developing the region's infrastructure in order to address the huge deficit of efficient infrastructure that existed. For example, he noted that the region was producing about 4,000 MW of electricity against a demand of over 38,000 MW for successful industrialization. The share of rail transport to GDP was below 0.5% and East Africa had only 899 km of pipeline wholly located in Kenya. "Against this backdrop, cargo was expected to triple in the next decade, and a substantial portion of this would be heavy cargo, including minerals, oil and gas" he observed.

The Secretary General noted that these challenges offered the region, the Private Sector, development partners and investors, an opportunity for investment with predictable returns. He expressed satisfaction that the East African Development Bank intended to issue an infrastructure bond in 2013 and looked forward to seeing uptake by individual East Africans and institutional investors.

He further noted that despite inordinate challenges, some of which had been spawned by the global financial meltdown, slower than expected economic growths in the region and the increasing average cost of oil, the EAC region had satisfactorily delivered on many of the directives arising from the 1st Retreat held in Kigali in 2008.

Dr. Sezibera thanked the African Development Bank for supporting the organization of the 2nd EAC Heads of State Retreat.

The EAC region is producing about 4,000 MW of electricity against a demand of over 38,000 MW for successful industrialization.

2.2 Remarks by Hon. Shem Begeine, Minister of State for EAC Affairs, Uganda

The Hon. Shem Bageine appreciated the support to the Council of Ministers by the Heads of State and the Development Partners in the development and implementation of infrastructure projects and programmes in the region.

He noted that the 2nd Heads of State Retreat on Infrastructure Development and Financing came at a time when the region was increasingly facing challenges of heightened infrastructure demand amidst low availability of resources for infrastructure investments.

He, therefore, called on potential investors to take advantage of the opportunities for investments in the region and thereby also assist the Partner States plug the resources gap in the development of efficient infrastructure.

He also called on the region to prioritise a mix of large and medium scale infrastructure projects to ensure that while the big foreign investors and companies compete for the large projects, national investors are able to play a part in the delivery of the medium scale infrastructure projects in the region.

Governments urged to partner with other development institutions to provide technical assistance, grants, guarantees, bonds, among others.

He called on the Governments to partner with other development institutions to provide technical assistance, grants, guarantees, bonds and other risk mitigation tools to encourage the private sector to finance infrastructure projects that would otherwise not be considered 'bankable'.

He noted that innovative strategies on resource mobilization for infrastructure investments in the region should be put in place coupled with improvements in the broader policy framework and institutional capacity at all levels to manage those resources effectively, efficiently and transparently.

2.3 Remarks by Mr. Gabriel Negatu, Director- Eastern Africa Regional Resource Center, African Development Bank, Nairobi

Mr. Negatu, on behalf of Dr. Donald Kaberuka, the President African Development bank Group, underscored the Bank's determination to continue its close collaboration with the EAC and to step up support for the latter's regional integration programme. He added that the Retreat was testimony to the determination of the EAC leadership to further integrate the region through the development of regional infrastructure, which would create the requisite enabling environment for agricultural and industrial development, enhanced intra and inter-regional trade as well as for attracting larger volumes of public and private investments.

He outlined the AfDB's achievements in the road transport, ICT and energy sectors in the region, key among them being the Central and Northern Corridor developments, Thika Super Highway, Athi River-Namanga Road, the upcoming North-South Corridor and LAPSSET Corridor, the fibre optic cables laid across East Africa and the submarine cables which have landed, the Bujagali Hydropower Plant, Menengai Geothermal Power Plant, the Lake Kivu Methane-to-Power Project, Nelsap Interconnection, among others. In spite of these achievements, the infrastructure needs of the region were still high and there was need to scale up the development of integrative infrastructure. For instance, it was important to develop the significant and diverse energy potential of the region and the development of ports and maritime transportation infrastructure. These efforts should be complemented with the development of railway infrastructure in order to obtain integrated, efficient and cost-effective multi-modal transport in the EAC region and beyond.

Mr. Negatu assured the Heads of State that in the endeavour to attain these regional integration and development objectives, the AfDB would continue to work closely with the Governments and the EAC Secretariat to mobilize and allocate catalytic resources for the successful and timely implementation of the priority projects adopted by the highest political authorities of the region. It was the Bank's vision that integrative physical infrastructure should be a precursor to and an enabler of deeper economic integration as it allowed countries to benefit from economies of scale, harness regional public goods and overcome the constraints of adverse location. In addition to financing key development projects of the region, the AfDB would also continue to be an adviser and a knowledge broker for the EAC region and the rest of Africa.

***AfDB's achievements
in the road transport
include: Central &
Northern Corridor
developments, Thika
Super Highway, Athi
River-Namanga Road.***



2.4 Keynote address by H.E Mwai Kibaki, CGH, President of the Republic of Kenya

H.E President Kibaki noted that the Retreat was being held to consider progress made and the way forward regarding infrastructure development in the region, in recognition of the fact that lack of adequate infrastructure was one of the biggest barriers to trade, industrialization and economic development of the Community. He further noted that the enhancement of transport efficiency resulted in the reduction of transportation costs and the faster movement of goods and persons. Similarly, increased power production and interconnected power grids facilitated the necessary industrial development of the region through the availability of reliable and cost effective power supply.

He informed the meeting that tremendous progress had been made over the last five years, particularly in the roads subsector, with roads across East Africa having been constructed, rehabilitated and expanded.

In the port subsector, substantial investments mobilization efforts were ongoing for the Dar-es-Salaam and Mombasa Ports in particular to enhance the container handling capacity.

In the aviation and airports subsector, major airport rehabilitation works had been undertaken at the main International airports in the region.

H.E the President emphasized that this progress would not have been achieved without the support of development partners and acknowledged the support extended to the region by the African Development Bank, the World Bank, the Japan International Cooperation Agency, the European Union, China and other bilateral donors.

The President appreciated the choice of sectors for the Retreat and noted that less than five percent of cargo in East Africa was moved by rail and that the current installed power capacity in the region was only about 4,100 megawatts.

Finally, the President called on the meeting to seek innovative financing solutions that would fund the region's massive infrastructure projects and officially opened the Retreat.



3.0 Progress Made and achievements Registered since 1st Heads of State Retreat

3.1 Overview

The Director of Infrastructure, EAC Mr. Philip Wambugu made a presentation on the status of implementation of infrastructure projects since the 1st retreat, which showed that while the development of various aspects of infrastructure in the region remained a challenge, significant progress had been made in all the infrastructure sectors, as summarized below.

3.2 The Transport Sector

3.2.1 The Railways sub-sector:

The following had been achieved:

i) The East African Railways Master Plan was completed in February 2009 as directed. The Master Plan spells out the frameworks and priorities for the development of railways in the region. This facilitated development of a large number of feasibility studies, detailed designs and bankable railway

projects that are identified in the Master Plan. Some of the completed feasibility studies and preliminary designs cover sections of the Dar-es-Salaam-Isaka-Kigali/Keza-Musongati line as well as Kenya-Uganda railway line (Mombasa-Nairobi-Kampala) which had been identified as some of the key priorities for rehabilitation or reconstruction and/or upgrading to standard gauge.

ii) Preliminary designs and site investigations for upgrading to standard gauge were being undertaken along the Tabora - Kigoma line.

Railways Masterplan Completed

iii) The Governments of the United Republic of Tanzania and the Republics of Kenya and Uganda had, in line with the recommendations in the Railways Master Plan, undertaken (Kenya/Uganda under the Concessionaire) investments in rehabilitating the two main railway lines while planning for major upgrading to standard gauge. Reported service improvements arising from these rehabilitations ranged from 20-40%;

iv) A number of important investors' fora had been held on the basis of priorities under the EAC Railways Master Plan, to shore up support for this sector, with a number of investors having shown keen interest once the investment structuring was agreed upon;

v) Feasibility studies and preliminary design studies had been carried out for the Lamu-Isiolo-Nadapa/Nakodok-Juba line as well as the Lamu-Isiolo-Moyale- Addis Ababa line, projects prioritised under the Tripartite IGAD Corridor Program. Ethiopia and S. Sudan had confirmed their commitment to the construction

of the railway links in their countries;

vi) Uganda and Tanzania had entered into an agreement on the development of the Tanga – Arusha – Musoma Railway – New Kampala Port at Bukasa. Resource mobilisation for the feasibility and detailed designs was ongoing.

3.2.2 The Ports sub-sector:

In this sub sector the following had been achieved:

i) Substantial investment mobilization efforts were ongoing for the Dar es Salaam and Mombasa ports in particular to enhance the container handling capacity of the ports and revitalizing

iii) Partner States had developed proposals for new ports for development such as the, Mbegani (Bagamoyo), Mwambani (Tanga), Lamu, New Kampala at Bukasa. Some of the Partner States had already set aside finances to assist in the commencement of the initial phases of development.

iv) Upgrading of existing ports at Bujumbura, Rumonge, Jinja and Port Bell

3.2.3 The Roads sub-sector:

The following had been achieved:

i) All the Partner States had emphasised capacity expansion of the existing roads through rehabilitation,

Upgrading of existing Ports at Bujumbura, Rumonge, Jinja and Port Bell ongoing.

the ports' equipment. Several initiatives were also in place to reduce the port dwell time for freight by addressing the documentation processes, payment procedures and coordination between the ports stakeholders. Both ports were advancing the 24/7 process to relieve the congestion.

ii) The Council had approved the Terms of Reference for a study on the EAC Ports and Maritime Strategy to guide the development of ports, inland waterways and effective maritime legal and regulatory framework to support water transport in the region;

Proposals for New Ports Developed

removal of urban bottlenecks, dualling of narrow and constrained sections among other forms of improvements to facilitate road transport in the region;

ii) In the case of the Central Corridor linking Dar es Salaam port with Rwanda, Burundi, Uganda and DRC, much of the 1,650 KM had been upgraded/rehabilitated with the remaining portions expected to be completed between December, 2013 and December, 2014. Negotia-

240 kM Arusha-Namanga-Athi River Road Complete

tions were ongoing to prepare the upgrading of the Nyakanazi - Kasulu - Kidahwe - Mpanda road as a link for Bujumbura to the Central Corridor via the Mugina/Manyovu border. Feasibility Studies and Detailed Designs for the rehabilitation of the Kayonza - Rusumo - Lusahunga as multinational project had commenced.

iii) On the Northern Corridor, there had been similar impressive progress on the improvement of the road network with most of the road sections rehabilitated, expanded or dualled in the last five years. On the Mombasa – Kampala - Kigali road, most of the sections had been rehabilitated. Works were ongoing on the following sections:- Timboroa – Eldoret and Webuye – Malaba sections, Malaba/ Busia - Bugiri, Jinja Bridge, Jinja - Kampala, Kampala - Mpigi, Mbarara - Katuna/Gatuna - Kigali,. A number of sections of the main Northern Corridor had been completed, including Kampala Northern Bypass (Phase I), Bugiri - Jinja, Masaka - Mbarara, Mpigi - Lukaya, Kabale - Kisoro, dualing of the Mombasa - Miritini (7KM), Athi River – Rironi (56km) and Lanet – Njoro (1.4km).

iv) In addition, the construction of the Eastern and Northern bypasses within Nairobi Area had further reduced traffic congestion around Nairobi. The Southern Bypass was also under construction.

v) Other efforts to reduce time taken to cross the border points, through the one-stop border posts operations were ongoing at Namanga, Busia, Malaba, Rusumo, Gatuna/ Katuna, Mutukula, Kabanga/Kobero, Holili/ Taveta, Horohoro/Lunga Lunga, and Sirari/Isebania under financing from JICA, AfDB, TMEA, and the East Africa Trade and Facilitation Project financed by the World Bank.

vi) Under the Tunduma – Iringa - Dodoma - Namanga - Moyale Corridor, major investments had been made in both Tanzania and Kenya

and going by the current contracts, this Corridor would be completed and fully operational by 2015. Several construction contracts were ongoing along the following sections:- Mafinga - Iringa, Iringa - Dodoma, Dodoma - Mayamaya, Bonga - Babati and Minjingu - Arusha road in Tanzania. Works were expected to commence in 2013 for the Mayamaya - Bonga section, the Arusha Bypass and the Arusha - Tengeru dualling. In Kenya, works were ongoing for Merille - Marsabit and Turbi - Moyale sections.

vii) In addition, preparatory activities including feasibility and detailed design studies were ongoing on several priority roads under the East African Road Network Project.

viii) New Road corridors were proposed or were undergoing development. These were Malindi to Bagamoyo; Lamu Port to South Sudan and Ethiopia; Dar es Salaam - Mtwara – Mbamba Bay (where several road sections are under construction); Kampala - Gulu and Soroti - Lira (completed); Gulu - Nimule - Juba.

3.2.4 The Aviation and Airports sub-sectors:

The following achievements had been made:

i) The Community's aviation safety and security oversight regime had been strengthened through the implementation of the Protocol for the EAC Civil Aviation Safety and Security Oversight Agency and the ongoing institutional strengthening of the Agency headquartered in Entebbe Uganda.

ii) The process of aviation liberalization in the region was ongoing and the Council of Ministers would be considering for adoption, a legal and regulatory framework to oversee the orderly implementation of air transport liberalization in the region in the 1st quarter of 2013.

iii) Major airport rehabilitations



had been or were being undertaken at the main International Airports in the region:- Nairobi, Dar es Saalam, Kigali, Zanzibar, Bujumbura, Entebbe and Kisumu airports. Major investments had been made in passenger terminals, hangars, runway improvements, and air navigation enhancement technologies.

3.3 The Energy Sector

The following achievements were made:

3.3.1 The East African Power Master Plan

The EAC, jointly with the Eastern Africa Power Pool (EAPP) undertook a study to develop a Regional Power Master Plan and Interconnection Code which covered the two Partner States of Rwanda and Burundi which joined the EAC after the East African Power Master Plan had already been developed. In addition, the study updated key planning criteria taking into account the developments in the power sector since March 2005 when the EAPMP was completed. The study also defined the least cost power development plan of generation and transmission projects to cater for the Region's power needs for a 25-year horizon from 2013 to 2038.

3.3.2 Power Generation Projects

i) Commissioning of the 250 MW Bujagali Hydropower plant and the associated 220 kV transmission line.

Commissioning of 250 MW Bujagali Hydropower Plant

ii) Strategic plans to rehabilitate and enhance investments in power generation plants (hydro, geothermal, natural gas, coal, peat, methane gas, solar and wind). Some of the Partner States had established energy funds to scale up investments in power generation plants.

Aviation Liberalization process ongoing

iv) Major airport development, feasibility and detailed design studies had been completed or were ongoing:- Bugesera Airport, Bujumbura Airport, Kilimanjaro International Airport, Entebbe International Airport, upgrading of Kasese Aerodrome, the 2nd Runway and terminal development at the Jomo Kenyatta, construction of Songwe International Airport and the upgrading of the Mwanza and Zanzibar Airports.

v) The process towards the establishment of a single airspace in the EAC region was ongoing with the final studies targeted for completion 1st quarter 2013. This development would lead to efficiencies in the air navigation and facilitation in the region.

vi) The aviation market in the region was growing and several international carriers were targeting operations to the EAC region, thus contributing to capacities for horticultural development and tourism for the region.

vii) Regional aviation capacities had been enhanced through fleet modernization, expansion and increased regional operations.

iii) The Region had seen an increase in power generation with the current Regional capacity standing at about 4 GW which is generated mainly from hydro, geothermal, natural gas as well as thermal from diesel and heavy fuel oil.

3.3.3 Power Transmission Projects

Most of the power interconnection lines between the EAC Partner States were in place. Energy funds to scale up investments in transmission lines associated to power generation plants had been put in place by some of EAC Partner States.

The following are some of the Power Transmission Projects:

500kV Ethiopia - Kenya

i) 220 kV; Kenya – Uganda, Uganda - Rwanda, Rwanda – Burundi, Burundi - Rwanda - DRC and Tanzania - Rwanda – Burundi.

ii) 400 kV Kenya – Uganda, Kenya – Tanzania, Tanzania (Iringa –Dodoma - Singida); (where it will be hooked up to Kenya through Arusha),

iii) 500 kV Ethiopia - Kenya.

iv) Rural trans-border electrification projects, such as 16 MW Kikagati – Murongo HPP, 32 MW Nsongezi HPP, 3.7 MW Ruhwa HPP, and Transmission lines Kobero (Burundi)– Ngara (TZ), Gisuru (Burundi) – Kibondo (TZ), Mugina (Burundi)– Manyovu (TZ), Kanyaru (Burundi)– Butare (Rwanda), Kikagati (Uganda) - Murongo (Tanzania) and

Mutukula (Uganda/Tanzania); Mutukula (Uganda).

3.3.4 Oil Pipeline Projects

i) Oil and gas explorations had been scaled up with important discoveries made in Kenya, Tanzania and Uganda. These discoveries should enhance the resource potentials for the region towards energy self sufficiency.

ii) Discoveries in the region were estimated at about 3 billion barrels of oil in Uganda, over 7 trillion cubic feet of natural gas in Tanzania, over 60 billion cubic meters of methane gas in Lake Kivu in Rwanda, and discoveries of oil and gas in Kenya whose exact quantities were yet to be established. These efforts were paving way for the construction of new refineries, expansion of existing ones as well as construction of crude oil pipelines (Lamu Port - South Sudan project is ongoing).

iii) Feasibility studies for the Eldoret - Kampala - Kigali - Bujumbura oil pipeline; Kampala - Mbarara - Mwanza - Dar es Salaam pipeline; Hoima - Kampala pipeline and the storage facilities at Buloba in Kampala.

Regional oil and gas explorations scaled up with new discoveries in Kenya, Tanzania and Uganda

3.4 Progress made in Infrastructure Financing

3.4.1 Capital Markets Development

i) Rwanda Stock Exchange and capital markets legislation were launched in 2011.

ii) Successful infrastructure bonds issuance by the Government of Kenya through its fiscal agent, Central Bank of Kenya from February 2009 to present.

iii) Public and Private sectors had also been able to issue infrastructure bonds for electricity generation (Kengen Co Ltd), telecoms (Safaricom Kenya Ltd) and housing (Housing Finance Company of Kenya) sectors.

iv) There had been increased cross listings by companies on the securities exchanges of four Partner States.

v) Burundi set up a capital markets desk at its Central Bank from 2008 and officially joined the East African Securities Regulators as a member in 2011.

vi) Kenya issued a 30-year bond in 2011, which was a milestone in East Africa and allows for extending the yield curve and benchmarking by the private sector.

vii) Uganda conducted a study on the possibility of creating an infrastructure bond. The study report was being evaluated before setting up the Uganda Infrastructure Bond.

viii) Modernisation of capital market infrastructure – Tanzania introduced automated trading in both debt (bond) and equity at Dar es Salaam Stock Exchange; Kenya introduced automated bond trading at the Nairobi Securities Exchange; Uganda, Tanzania,



Kenya and Rwanda established robust Central Securities Depository.

ix) Introduction of a Listing Platform for SMEs in 2012 on the national stock exchanges of Tanzania and Kenya.

x) Nairobi Securities Exchange top 25 listed stocks had been included in FTSE Global Country index improving international visibility and liquidity of those stocks.

3.4.2 Greater financial inclusion especially bringing to the fore the unbanked population

i) Technological innovation, e.g mobile money solutions.

ii) In Kenya, M-Pesa mobile money transfer service had given more than 70% of the country's adults in 2011 access to financial services, up from less than 5% in 2006.

iii) In Uganda, the Bank of Uganda had granted several "Letters of No Objection" to mobile network providers

that partner with financial institutions to provide mobile money services.

iv) The Financial Institutions Act, 2004 (Uganda); proposals had been made to the Ministry of Finance, Planning and Economic development to table amendments to enhance regulation and supervision of this product.

v) Reduced transaction costs, bridging geographical strains.

3.4.3 Licensing of deposit-taking microfi- nance institutions and micro-insurance in all Partner States.

Uganda has a law for licensing and supervising MDIs that engage in deposit taking. Non deposit taking institutions are not under BoU but some operate as cooperatives.

3.4.4 Islamic Finance Development in Kenya

i) Licensed Islamic banks.

ii) Licensed Islamic insurance (takaful) providers.

iii) Licensed first ever Islamic Fund Manager.

iv) In Uganda, there are proposals to amend the Financial Institutions Act, 2004 to include proposals on licensing, regulation and supervision of Islamic Banking.

3.4.5 Innovative approach to saving for retirement in Kenya through "Mbao" (US\$0.25 per day) or National Jua Kali Pension scheme which targets "jua kali" (or informal sector workers) artisans.

4.0 Regional Priority projects for the 2nd Heads of State Retreat

After reviewing the developments and challenges in the last five years, the following priority projects and cross cutting matters were considered by the Heads of State.

4.1 Regional Projects in the Transport Sector

4.1.1 Railways sub-sector

i) Rehabilitation of the Central Line; Dar es Salaam-Tabora-Mwanza/Kigoma, Kaliua - Mpanda railway line with a spur to Kasanga

- Crucial for linking Dar-es Salaam port with the landlocked countries of Rwanda, Uganda and Burundi.
- Detailed technical studies ongoing financed by the African Development Bank (Initial study also financed by the United States Trade Development Agency (USTDA)).
- Cost estimate is US\$ 1.425 billion
- Partner States could raise financing through Eurobond or blended financing

ii) Construction of the Uvinza - Musongati railway line

- Expected to connect Musongati in Burundi to the Kigoma-Tabora railway line in Tanzania (via a maritime component) as identified in the EAC railway Master Plan.
- It is recommended that the Partner States utilize the Fund for African Private Sector Assistance through

AfDB for technical assistance with the feasibility study. Other development partners can also be approached for partnership in the initial feasibility and design.

iii) Construction of the standard gauge Dar es Salaam-Isaka - Kigali/Keza-Gitega-Musongati railway line.

- Linking Dar-es-Salaam port to Rwanda and Burundi
- Feasibility studies carried out indicate project economically viable. Detailed technical studies and PPP packaging to be completed by June 2013.
- Estimated cost is US\$ 5.1 billion.
- Partner States can issue a regional infrastructure bond through their Ministries of Finance and Central Banks in addition to PPP packaging, proposals to Sovereign Wealth Funds such as the Norwegian Sovereign Wealth Fund and the Abu Dhabi Investment Authority.

iv) Completion of detailed designs and the construction of the Lamu - Isiolo-Moyale- Addis Ababa Standard Gauge Railway, Lamu-Isiolo-Nadapal/Nakodok-Juba standard gauge railway line, Nairobi-Isiolo-Moyale -Addis Ababa standard gauge railway line under the LAPSSET Corridor Project

- Opening up the LAPSSET corridor linking EAC to Ethiopia and South Sudan through Lamu Port.
- Pre-feasibility studies are complete. Mobilization

of resources for detailed designs is ongoing.

- The Lamu - Isiolo-Moyale- Addis Ababa section is estimated to cost US\$ 3.7 billion while the Lamu-Isiolo-Nadapal/Nakodok section is estimated to cost US\$ 4.4 billion.

- It is recommended that the actual construction of the railway line be funded through public sources and development partners. Public Private Partnership (PPP) participation is recommended for rolling stock.

v) Fast tracking of the joint rehabilitation of the Kenya - Uganda railway: Mombasa – Nairobi - Malaba – Kampala with a branch line to Kisumu & Tororo - Pakwach

- The project is crucial for increasing capacity and efficiency of bulk cargo transportation along the Northern Corridor and adjoining spur from Tororo to Pakwach.

- Feasibility study and preliminary design already undertaken jointly by Kenya Railways Corporation (KRC) and the China Road and Bridge Corporation. Feasibility studies for the Tororo - Pakwach line is complete.

- Cost estimate is US\$ 1.6 billion

- To be a publicly funded and owned by the Partner states who will thus construct the railway

vi) Rehabilitation of the Voi-Taveta Branch to link Kenya and Tanzania railway networks.

- Important line to link Kenya-Uganda railway and Tanzanian railway systems.

- Mobilization of funds for feasibility studies and detailed designs is ongoing from the Indian Trust Fund and the African Development Bank;

- The cost estimate is US\$ 200 million;

- Government to Government financing recommended.

vii) Upgrading to standard gauge of the Mombasa - Nairobi - Malaba-Kampala-Kasese line and construction to standard gauge of the Kasese - Bihanga-Kigali-Bujumbura line and Kasese-Kisangani line.

- These lines are important in linking Rwanda, Burundi and Eastern DRC to Mombasa port through Uganda.

- Feasibility studies for the Kampala - Kasese section were completed in March 2012. A consultant has been procured to carry out preliminary designs for the Malaba - Kampala section. For the Kenyan component, discussions are at an advanced stage with the Chinese Government for design and construction.

- Estimated cost for the construction of a standard gauge line is US\$ 4.0 billion.

- It is recommended that financing be mobilized through development partners such as Arab Bank for Economic Development in Africa (BADEA); South Korea through the Economic Development Cooperation Fund (EDCF) that seeks successful PPP projects.

viii) Upgrading to standard gauge of the Tororo-Pakwach line and construction to standard gauge of the Pakwach-Gulu-Atiak-Nimule-Juba line.

- This project is vital in linking Kenya, Uganda and South Sudan.

- Feasibility studies have been completed on the rehabilitation exercise, while those for the standard gauge are underway.

- The cost estimate is US\$ 2.5 billion

- It is recommended that mobilization of funds target the African Development Fund; World Bank concessional loans under IDA; European Union EDF, Trademark East Africa grants and Government to Government financing.

ix) Upgrading and Construction of the Tanga (Mwambani) – Arusha– Musoma with Spurs to Minjingu and Lake Natron line, linking to New Kampala Port at Bukasa via Lake Victoria,

- This is an important project linking Uganda to Tanzania through Musoma, Arusha and Tanga.

- Feasibility study financing could be sought from the AfDB and the Indian Trust Fund;

- The estimated cost is US\$ 2.1 billion

- Partner States could raise development finance from Government to Government financing or through engaging sovereign wealth funds to invest in the rail project such as the Norwegian Sovereign Wealth Fund.

x) Development of Mtwara - Mbamba Bay railway with spurs to Liganga, Mlimba and Mchuchuma;

- The railway will connect EAC to Malawi and Zambia through Mbamba Bay and linking Mtwara port to Liganga iron ore and Mchuchuma coal fields.
- Feasibility studies are planned for 2013/2014.
- Estimated cost is US\$ 2.5 billion.
- Partner States could raise development finance from Government to Government financing or through engaging sovereign wealth funds to invest in the rail project such as the Norwegian Sovereign Wealth Fund and Diaspora funds.

4.1.2 Ports sub-sector

i) Development of the Lamu Port starting with the first three berths and associated facilities for the Port.

- This is a key project for opening up the new LAPSSSET corridor which consists of a number of projects.
- The construction of the first three berths has commenced.
- Estimated cost is US\$ 400 million
- The construction of the three berths is funded by the Government of Kenya.

ii) Completion of the ongoing expansion and modernization of Mombasa port (2nd Container Terminal and re- development of Berths 12 - 14 into container terminals) and Dongo Kundu Free Port

- Improvement of capacity and efficiency at the port
- The project is already underway. Phase 1 of the dredging involving the port channel has been completed and the development of the second container terminal funded by JIBC has started, as well as the development of berths 12-14.
- The cost estimate is US\$ 800 million.
- The major financing source mainly for operational infrastructure will be a PPP arrangement structured as a concession, either, Build Own Transfer (BOT)/Build Own Operate (BOO) or Build Own Operate and Transfer (BOOT) schemes and divestiture/privatisation where the private sector assumes the entire operation and maintenance, capital investment and commercial risk. The private sector or the relevant state-owned

enterprises such as maritime authority or ports authority, could issue a regional bond.

iii) Modernization of the Dar es Salaam Port including construction of a 2nd modern container terminal (berths 13 and 14), deepening and strengthening of berth 1 - 7 (including Ro-Ro berth), development of Kisarawe Cargo Freight Station

- This is a key project for increasing the capacity and efficiency of the Dar-es-Salaam port and the entire Central Corridor transport network. The project also entails development of port connectivity roads.
- Feasibility studies for construction of the 2nd container terminal have been completed. Feasibility studies on the other components are ongoing.
- Estimated cost is US\$ 1.2 billion.
- The major financing source mainly for operational infrastructure will be a PPP arrangement structured as a concession, either Build Own Transfer (BOT) or Build Own Operate and Transfer (BOOT) schemes and divestiture/privatisation where the private sector assumes the entire operation and maintenance, capital investment and commercial risk.

iv) Development of Maruhubi Hub Port in Zanzibar;

- This port is a strategic hub for East and Central Africa due to its deep waters. It is part of the implementation of Zanzibar's Vision 2020 and Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP).
- Feasibility studies and preliminary designs are complete. A detailed engineering study for the Port is required.
- The estimated cost is US\$ 400 million
- Possible development partners for investments could be Trade mark EA, JICA, World Bank, AfDB and Government to Government.

v) Development of Mwambani port in Tanga, Musoma Port and New Kampala Port at Bukasa.

- The project is intended to provide a multi modal link to the Great Lakes Region and a link between Uganda and the port of Tanga in Tanzania. Components will include the provision of roll on - roll off facilities at Bukasa to link with those in Tanga.
- Feasibility study and detailed engineering design have commenced and are expected to be finalized

before end of 2012.

- Estimated cost is US\$ 825 million.
- Development Partners could be AfDB, Trade-mark EA, or South Korea's Economic Development Cooperation Fund (EDCF) that seeks successful PPP projects.

vi) Implementation of the construction/rehabilitation and expansion programmes for inland ports, including Bujumbura, Rumonge, Rusizi, Karongi, Rubavu, Kigoma, Kisumu, Homa Bay, Port Bell, Mwanza, Itungi, Kasanga, and Jinja.

- To increase capacities and efficiency of the above key inland ports in the region, on lakes Tanganyika, Kivu and Victoria.
- Protection of inland waterways from environmental degradation, siltation and invasive weeds.
- A number of feasibility studies have been carried in some of the above ports.
- The estimated cost is US\$ 1.1 billion

• Utilize public funding through EAC infrastructure Fund, EAC Development Fund or EAC Diaspora Fund

vii) Roll on - Roll off facilities between Dar es Salaam, Zanzibar, Pemba, Tanga and Mombasa

• To increase capacities and efficiency of the linked ports by providing roll on - roll off services.

• Feasibility studies are ongoing for some of the above ports.

• The estimated cost is US\$ 500 million.

• Utilize public funding through EAC infrastructure Fund, EAC Development Fund or EAC Diaspora Fund

viii) Development of the navigability of the Akagera River;

• To link Rwanda, Burundi, Uganda and Tanzania through Lake Victoria

• Pre-feasibility studies have been undertaken

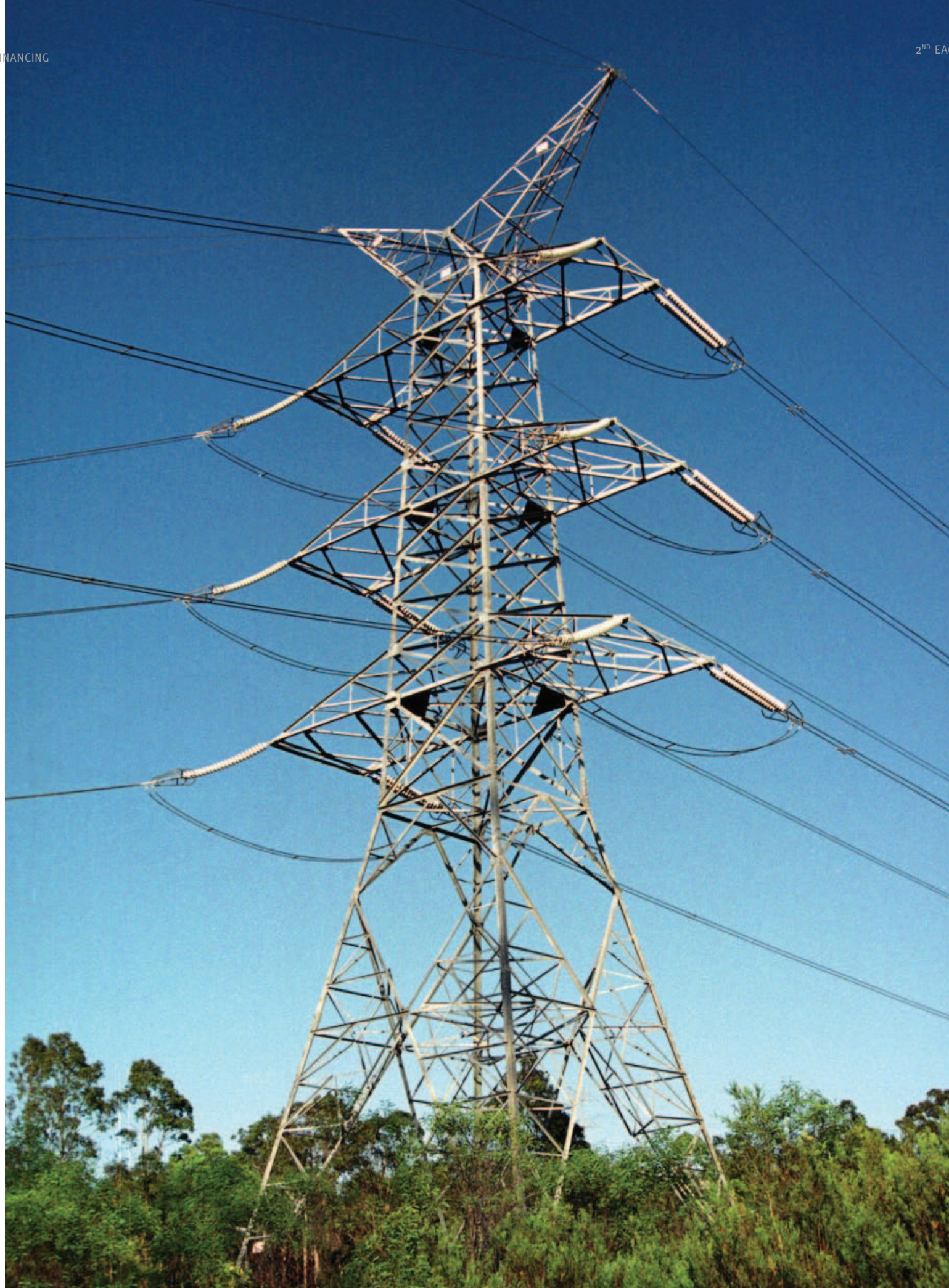
• The estimated cost is US\$ 2.0 billion



4.1.3 Regional Road Projects Supporting Ports Development

a) The following projects have been prioritized as key road infrastructure needed to support the ports operations and enhance the railways efficiency in the region:

- i) Road projects to decongest access to Dar es Salaam Port (Dar es Salaam - Chalinze - Morogoro road capacity upgrading, Tangi Bovu - Banana Bypass, Junction improvements/interchanges in Dar es Salaam city, Southern Bypass (Dar es Salaam Port - Kisarawe - Mlandizi - Bagamoyo (Mbegani Port) and Bunju - Victoria - Pugu road)
- ii) Rehabilitation and construction of Garsen - Lamu - Malindi road
- iii) Rehabilitation and construction of Malindi - Mombasa - Lunga Lunga/Horo Horo & Tanga - Pangani - Bagamoyo road
- iv) Development of Lamu-Isiolo-Nadapal/Nakodok-Juba Road;
- v) Construction of Nyanguge - Musoma - Sirari/Isebania - Kisumu-Webuye-Kitale-Lodwar- Nadapal/Nakodok along Corridor 3 of the East African Road Network.
- vi) Rehabilitation of Ngoma - Bugesera - Nyanza road linking to Dar es Salam-Isaka Kigali Railway;
- vii) Rehabilitation of Ntungamo - Kagitumba - Kayonza - Rusumo - Lusahunga road
- viii) Rehabilitation of Ruhwa-Bujumbura-Rumonge-Mugina road;
- ix) Rehabilitation of Nyakasanza - Kobero - Muyinga - Gitenga - Nyakararo - Jenda - Bujumbura road;
- x) Upgrading from gravel to bitumen the Nyakanazi - Kasulu - Kidahwe - Mpanda road;
- xi) Construction of Cankuzo - Ruyigi - Bujumbura linking to the Nyakanazi - Kasulu - Kidahwe - Mpanda road.
- xii) Dualling of Jinja - Kampala and Kampala - Mpigi Highways as sections of the Northern corridor
- xiii) Construction of the Kampala Southern Bypass



b) It is recommended that the financing of these roads be sought from the World Bank, AfDB, BADEA, EU EDF 13, Bilaterals such as China, United States, and Japan.

4.2 Regional Projects in the Energy Sector

4.2.1 Power Generation Projects

- i) Uganda: Construction of the Karuma Power Plant, 600MW, using own funds.
- ii) Burundi - Rwanda - Tanzania: Construction of Regional Rusumo Falls 80 MW Hydro Power Plant
 - The 80 MW power is to be developed for Burundi, Rwanda and Tanzania;
 - Detailed Feasibility, Final Design, Resettlement Action Plan (RAP) and Local Area development Plan (LADP) studies have been completed.
 - The estimated cost is US\$ 428.2 million
 - The project will be public financed, public owned but private operated. Financial closure is expected by 2013 and estimated project completion time is 2017.
- iii) Rwanda: Geothermal Exploration and drilling in Kinigi, Rubavu and Bugarama for 300 MW
 - The geothermal project consists on drilling three exploratory wells in each site to prove the existence of the resource and thereafter design and construct a 10 MWe power plant in each site. The target is to develop over 310 MWe in collaboration with private sector.
 - Feasibility studies and atlas map are available. Geo-scientific survey has been carried out drilling area was located and additional geophysical measurement to be carried out after procurement of geophysical equipment by the Geothermal Development Unit (GDU)/EWSA.
 - Cost estimate is US\$ 50 million per site for exploration drillings, infrastructure and power plant and the estimated completion time is 2015/2016 for Kinigi and Rubavu; and 2018 for Bugarama.
- iv) Burundi - Rwanda - DRC: Construction of 145MW Rusizi III HPP

- After Rusizi I (29.8MW) and Rusizi II (43.8MW) upstream of the river, Rusizi III HPP will be constructed with an installed capacity of 145 MW;
- Detailed Feasibility Studies are completed, Sithe Global and IPS as EPC Contractor is in negotiation with EGL (CEPGL).
- The cost estimation is US\$ 589 million and estimated completion time is 2017.

v) Burundi – Rwanda – DRC: Construction of 285 MWe Rusizi IV Hydropower Plant

- The prefeasibility study has been completed. The full feasibility study and mobilization of the necessary financing are yet to be undertaken.
- The project cost is estimated at US\$ 1 billion.
- Estimated period of completion is 2022.

vi) Rwanda – DRC: Development of 200 MWe from Methane Gas between Rwanda and DRC

- Methane Gas, a resource shared by Rwanda and DRC, has a potential to produce 700MW. Rwanda and DRC have decided to develop 200 MW together.
- Estimated cost for the 200 MW is US\$ 900 million.

vii) Uganda: 180 MW Isimba HPP and 132 kV Isimba interconnection line project

- Detailed Feasibility study and RAP have been completed. Preliminary engineering designs and Tender Documents expected at the end November 2012.
- The estimated cost is US\$ 600 million.
- The required financing is yet to be sourced and the IPP is proposed as an option. Estimated completion time is 2014-16

viii) Tanzania – Uganda: 16 MW Kikagati - Murongo HPP

The studies have been completed. MoU signed by Uganda and Tanzania on 9th September 2011; negotiating bilateral agreements with the Gov Tanzania ongoing; Proposed as IPP. Shareholders of Tronder and lending institutions will raise the financing. A roadmap for concluding the PPA has been agreed upon. The time frame: 2013 – 2016.

ix) Tanzania – Uganda: 32 MW Nsongezi HPP Feasibility studies in progress; proposed as IPP. Shareholders of Tronder and lending institutions will raise the financing. The project time frame is 2014 – 2016

x) Uganda: 600 MW Ayago HPP and 400 kV Ayago interconnection line

- Feasibility study and engineering designs are in progress.
- Estimated cost is around US\$ 2.1 billion and the project time frame is 2014 – 2020.

• The Project will be a PPP.

xi) Tanzania: 53 MW Kakono Hydropower Plant;

xii) Tanzania:

- 240MW Kinyerezi II Gas fired Power Plant; 300 MW Kinyerezi IV gas fired Power Plant; and 300 MW Kinyerezi III Gas fired Power Project.

These are Gas Fired Power Plants located at Kinyerezi where the Gas Pipeline ends. The cheap power generated will be used regionally through the Inter-connectors between Tanzania and Kenya, Rwanda, Burundi and Uganda. Further the power will be supplied to other counties interconnected with the above mentioned through their respective Grids.

There is need to update the feasibility studies.

- 200 MW Kiwira Coal fired Power Plant; 400 MW Mchuchuma Coal Fired Power Plant

Coal Fired Power Plant utilizing our vast coal reserves. The cheap generated Power will be fed to the National Grid and be transmitted to other EAC Partner States through Interconnectors between Tanzania and Kenya, Uganda, Rwanda and Burundi.

For the Kiwira projects, Feasibility study financed by JICA, IPP Procurement of Developer to commence in 2012/2013. For Mchuchuma, feasibility studies are in place.

4.2.2 Power Transmission Lines

Kenya – Tanzania: Kisumu-Mwanza 220 kV transmission line (part of Lake Victoria Transmission Ring). Feasibility Study planned for next financial year, Financing not confirmed. Estimated Project Cost USD 120 Million; Time Frame: 2016

i) Rwanda: Construction of a 220kV link between

Kigoma- Bugesera (60km).

ii) Burundi – Rwanda – DRC: Transmission Lines Associated with Rusumo Falls Power Plant:

- Burundi: Construction of 108.3 KM 220kV Rusumo-Gitega Transmission Line

- Feasibility study including final RAP has been completed and draft tender document for the power lines. The cost estimated at US\$ 33 million; Time Frame: 2015

- Rwanda: Construction of 114.7 km 220 kV Rusumo – Bugesera - Kigali Transmission Line and associated substations; Feasibility study including final RAP completed (Apr12) and draft tender document for the power lines; cost estimated US\$ 30.25 million; Time Frame: 2015

- Tanzania: Construction of 148.9 km 220 kV Rusumo – Nyakanazi; Feasibility study including final RAP completed (Apr12) and draft tender document for the power lines; cost estimated US\$ 26.8 million;

iii) Transmission Lines Associated to Rusizi III and IV:

- DRC – Burundi: 220 kV Kamanyola (DRC)-Bujumbura (BDI), 125 km;

- DRC – Burundi: 110 kV RusiziIII-Bujumbura (BDI)-Kiliba (DRC);

- DRC – Burundi: 110 kV Bendera-Kalemi-Fizi-Uvira-Kiliba-Kamanyola-Bujumbura.

- DRC – Rwanda: 220kV Kamanyola (Rusizi III) - Kibuye Transmission Line (142 KM);

iv) 110 kV Gitega (Burundi)-Kigoma (Tanzania); 110 kV TL Negotiations will be conducted between REGIDESO (BI) and TANESCO (TZ)

v) 220 kV Kigoma (Rwanda) - Huye-Ngozi-Gitega; RW: 62 km and BU: 81 km. Feasibility and detailed studies have been completed.

vi) Uganda – DRC: 220 kV: Nkenda-Mpwonde-Bunia-Beni (70km) line; 70 km, Final Inception reports for the both ESIA and Feasibility study were submitted and detailed studies are on-going; Time Frame: 2014 -2016

vii) Uganda - South Sudan: 400 kV Karuma (Uganda) - Nimule - Juba (South Sudan) (190 KM) line;

viii) Uganda: 400 kV Karuma - Kawanda transmission line, 260 km. Estimated cost is US\$ 270 million. Feasibility

studies are completed.

ix) Tanzania: 400 kV Iringa – Mbeya, 292 KM (Is a continuation of the transmission backbone and Zambia-Tanzania-Kenya (ZTK) transmission line). The feasibility study completed in October, 2012. Expected time frame: 2017.

x) Tanzania: 132 kV TL Reinforcement of Ubungo – Ras Kiromoni Transmission Line (Dedicated Transmission Line to connect Zanzibar to National Grid through the 2nd marine cable which is on completion stage);

xi) Tanzania – Kenya: 400 kV Singida – Arusha – Nairobi (Isinya) (Kenya: 93.1 KM, Tanzania: 414.4 KM); Detailed feasibility study has been completed in June 2012. Implementation will take estimate 24 months since contract signing; Total cost: US\$ 239,923,203 Tanzania: US\$ 190,768,203 US\$, Kenya: US\$ 49,155 US\$. Studies were financed by Government of Norway for US\$ 3.4 million Recommended: PPP. the challenge is that no funds are committed yet. Time frame: 2012 – 2015

xii) Tanzania: 220 kV Nyakanazi – Geita – Bulyankulu (To connect Endpoint of Rusumo 220 kV TL with Tanzania Grid end point);

xiii) Tanzania: 400 kV Mbeya – Tunduma, 100km (ZTK);

xiv) Uganda – Tanzania: 220 kV Masaka – Mwanza, (UG: 85km, TZ: 250 km)

- Feasibility study completed; Total cost: US\$ 372 million; (TZ: US\$ 326 million, UG: US\$ 46 million). A “PPP” arrangement is recommended. Time Frame: 2013 - 2017

4.2.3 Cross Border Electrification Lines:

i) Kobero (Burundi)-Ngara (Tanzania); Ngara (TZ) has supply and may be used to electrify Kobero (BI). The two towns are 40 km apart. Cross-border electrification will develop rural electrification in the two sides and the cross-border one post of Kobero.

ii) Gisuru (Burundi)-Kibondo (Tanzania); Gisuru has grid power that may be used to supply Kibondo. Diesel generators with a capacity of 3 MW have been installed at Kibondo.

iii) Mugina (Burundi)-Manyovu (Tanzania); There are plans to electrify Mugina from Mabanda after which Manyovu can be electrified.

iv) Kanyaru (Burundi)-Butare (Rwanda): Butare (RW) has supply and may be used to electrify Kanyaru (BI).

v) Kikagati (Uganda) - Murongo (Tanzania); Kikagati (Uganda) has power supply and may be used to electrify Murongo (Tanzania) even before the construction of the Kikagati/Murongo Power Station.

vi) Mutukula (Uganda/Tanzania); Mutukula (Uganda) has power supply and may be used to electrify Mutukula (Tanzania).

4.2.4 Oil and Gas Pipelines

i) Kenya – South Sudan: Development of the Lamu-Isiolo-Juba crude oil pipeline. Feasibility studies are ongoing. Time Frame: 2017.

ii) Kenya – Ethiopia: Development of the Lamu-Isiolo Ethiopia oil product pipeline. Time Frame: 2017.

iii) Kenya: Upgrading of the Mombasa-Eldoret Oil pipeline to increase capacity and efficiency.

iv) Kenya – Uganda – Rwanda – Burundi: Construction of Eldoret – Kampala – Kigali - Bujumbura with a spur from Mbarara to Mwanza - Isaka - Dar es Salaam oil pipeline. Pre-feasibility report available for Kigali – Bujumbura section. Feasibility study for Kigali – Bujumbura section was funded by AfDB but its implementation is awaiting approval of funding for the section between Kampala and Kigali. The Eldoret-Kampala product pipeline project is being repackaged to include reserve flow concept to cater for developments in the Albertine region where oil and gas discoveries have been made. This project is to be developed under PPP arrangements with two Governments (Kenya and Uganda) being parties. Re-packaged

project to be tendered and implement RAP. Estimated total cost: US\$ 720 million.

v) Uganda has carried out studies for both crude pipelines from the oil fields to the proposed Refinery and products pipeline and related infrastructure from the Refinery to the market. Plans are underway to start engaging the key stakeholders in taking forward their implementation.

vi) The United Republic of Tanzania: is developing a Natural Gas master plan for the sustainability local gas needs and surplus for export. Substantial financing is required in order to drill additional and/or multiple appraisal wells in the deep waters where discoveries have been made and also putting in place the necessary infrastructure (processing plants, pipeline etc.). In a bid to meet the growing demand for natural gas, a new natural gas pipeline is to be constructed from Mtwara to Dar es Salaam. A feasibility study has been done.

4.2.5 Refineries

The Government of Uganda undertook a feasibility study for a refinery development in 2011. This study made conclusions / recommendations in regard to its capacity (60,000 barrels of oil per day expandable to 120,000 barrels per day) to meet a growing regional market, Refinery configuration (Hydrocracker/Coker), the refinery location and financing options (Public Private Partnership with the Private being 60% and the Public share 40%). The Government of Uganda has extended the East African Community Partner States to participate in the public share of the investment. The commissioning of the 60,000 barrels per day refinery is expected to be during the first half of 2017.

5.0 Challenges

The following were the challenges identified as possible impediments to the development of infrastructure in the region:

- i)** Inadequate regional capacities (human, financial and technical) to coordinate and develop a sustained pipeline of infrastructure projects.
- ii)** Weak or underdeveloped capital and financial markets in the region, with operations that are not harmonized.
- iii)** High cost of doing business as documented by several studies by financial institutions and the private sector.
- iv)** Low governance indices in matters like corruption and business environment among others.
- v)** Heavy reliance on scarce public financing, with low private sector participation in the development of major infrastructure projects in the region.
- vi)** Laws and policies that are not harmonized to enable regional investments in infrastructure – procurement, construction, standards among others.
- vii)** Huge backlog in infrastructure investments that delays the realization of the full and immediate impacts of the current infrastructure investments.
- viii)** Lack of an EAC investment strategy incorporating well packaged infrastructure projects, proposed investment and ownership structures, timelines, risks, and government contributions and guarantees.
- ix)** Perception of risks (financial, security, political etc.) in the region
- x)** Lack of a well structured regional fund to finance regional projects
- xi)** Environmental sustainability requirements
- xii)** Vandalism of infrastructure facilities.
- xiii)** Specific challenges under the Power sub-sector include:
 - low access to electricity particularly in the rural areas
 - Inadequate power generation leading to extensive load shedding prevailing in some of the countries in the region
 - Reducing system losses along transmission and distribution lines
 - Huge oil imports from outside the region meant for power generation, eating into the foreign reserves
 - High end-user power tariffs

6.0 Key Messages for the 2nd EAC Heads of State Retreat

The Heads of State considered the following key messages:

1 There was a clear need for the endorsement of the prioritised projects during the Retreat in order to give them a high level political ownership and commitment to their implementation.

2 There was need to embrace strong infrastructure partnerships with neighbouring countries for the development of regional infrastructure, exploitation and interconnection of power and energy resources between EAC and the neighbouring countries.

3 There was need to direct the Council to carry out high level promotions and engagements with key partners for mobilization of the required financing and investments to undertake the implementation of prioritized regional projects to support effective industrialization and trade facilitation in the region and report progress at the Extra Ordinary Summit in April 2013.

4 There was need to direct the Council to embrace and develop regional policy and legal frameworks that will allow for financial blending including the participation of the regional and international private sector investments in infrastructure development; and strengthen partnerships with Direct Foreign Investors by making use of the current expressed interests by a number of development partners and private investors to the EAC Region.

5 There was need to direct the Council to put in place policies, legal and regulatory frameworks that will induce reduction of the gestation period of projects, from conception to implementation in order to hasten the development of a pipeline of well packaged infrastructure projects for investments and engagement with development partners and investors.

6 There was need to direct Partner States and Council to establish necessary technical, financial and transaction capacities required for assembling bankable projects and run them through the procurement and implementation processes within targeted timeframes; and

7 There was need to direct the Council to develop a time-bound investment strategy with clear financing options for the priority projects with effective monitoring and evaluation mechanisms to ensure that projects are coordinated and managed effectively.

7.0 Plenary Discussions

Remarks by HE. Yoweri Kaguta Museveni – President of the Republic of Uganda

H.E. addressed the following issues:

i) The matter of corruption as an Non Tariff Barrier in procurement and commended African Development Bank for bringing it up for discussions;

ii) Suggested that for Electricity, concessional loans were the best, citing Bujagali. He noted that electricity tariffs were still high in Uganda because the funds used for Bujagali were expensive. He called for cheaper loans to finance electricity generation to lower the costs to the consumers.

iii) Noted that Uganda required US\$13b to develop most of the targeted infrastructure and observed that with the estimated oil revenues Uganda can finance these strategic projects within 5 years.

iv) He underscored the need to protect the environment as the region develops its infrastructure projects noting that climate change and environmental degradation were serious issues that must be addressed at a regional level.

v) Recommended for approval the priority list of projects with the proposed amendments

Remarks by HE. Pierre Nkurunziza – President of the Republic of Burundi

H.E. addressed the following issues:

i) The matter of skills development in the region as a key strategic move to anchor the development of infrastructure. He noted that the skills required to support the development of the priority infrastructure should be addressed for the whole region.

ii) He agreed with President Kikwete on the need to have the retreats every two years.

iii) He agreed on the choice of the focus on railways, energy and ports.

iv) He agreed with the priority projects with amendments.

Remarks by HE. Dr. Jakaya Mrisho Kikwete – President of the United Republic of Tanzania

H.E. addressed the following issues:

i) He appreciated the work done towards prioritization of the EAC Infrastructure projects and commended the African development Bank for the support;

ii) Noted that there was a clear need to address the question of the choice of the Railways gauge for EAC Railways observing that Southern Africa was dominated by the cape gauge while EAC had already a decision to move to standard gauge. He advised that if EAC is to interface and enjoy seamless railways transport with the neighboring states and regions, this issue should be solved

iii) He agreed that the issue of blending of financing for infrastructure projects should be fast tracked as Government revenues alone were not sufficient to deliver the targeted infrastructure.

iv) He proposed that the Summit Retreats on Infrastructure Development and Financing be held every two years and not as proposed in five years.

iv) He seconded the proposal for the approval of the priority list of projects with the proposed amendments.

Remarks by the Rt. Hon. Pierre Habumuremyi – Prime Minister of the Republic of Rwanda

The Rt. Hon. Prime Minister addressed the following issues:

i) The need to ensure that the capacities available in the navigable waters of EAC are exploited;

ii) The need to fast track the development of railways in the region to support industrialization; and

iii) He agreed with their Excellencies on the need to have the retreats every two years.

8.0 Remarks by China and The European Union

8.1 Remarks by Mr. Lin Zhiyong, Chief Representative of the Economic and Commercial Representation of China in Tanzania

The Chief Representative informed the meeting that the Chinese government attached great importance to the economic cooperation with all the EAC partner states. During the past year, the First Joint Committee on Economy, Investment, Trade and Technical Cooperation between China and EAC was held and the first Director General Level Working Group Meeting with EAC Secretariat. By the end of August 2012, Chinese investment in EAC had exceeded 1.5 billion USD, covering wide areas including agriculture, infrastructure, telecommunication, energy and, mining and.

Mr. Lin recalled that the Chinese government had been supporting African inter-connective infrastructure construction since the 1960s, when China decided to support Tanzania and Zambia in constructing the TAZARA line, although China was also poor at that time, with GDP per capita only 100 USD and total foreign exchange reserve only 166 million USD. To revitalize the aged railway, China, Tanzania and Zambia are working together to conduct feasibility study on rehabilitation and expansion of the line.

He reported that in recent years, China had actively supported the inter-connective infrastructure projects of Africa, and had for example helped Tanzania to build her National ICT Infrastructure Backbone by providing 170 million USD concessional loan to the Tanzania government. China was considering providing another preferential loan up to 400 million USD for the third phase of Tanzania ICT infrastructure project, namely Last Mile Broadband Connectivity.

He noted that in July 2012, the 5th Ministerial Conference of FOCAC declared plans on China-Africa cooperation in the coming 3 years, including the provision of US\$ 20 Billion preferential loan to support sustainable development in Africa and confirmed that China would promote the China-EAC economic cooperation and support the Director General Level Working Group Consultation Mechanism.

8.2 Remarks by Amb. Roberto Ridolfi, Head of Delegation of the European Union to the Republic of Uganda

Amb. Ridolfi noted that despite infrastructure development being a key priority in every year's budget of nearly all the Partner States, the EAC was still characterized by large and longstanding infrastructure deficiencies particularly in Transport and Energy. There was, therefore, a need to prioritise financing of infrastructure, strengthening policy and regulatory frameworks, development of private-public-partnership (PPP) schemes and in particular the blending grants from development partners with loans from the banking sector. The approach for the future should be to move away from infrastructures project's financing directly with grant money and to generate instead a much bigger impact trying to use as much as possible the grant funds available as a way to leverage the total investments in the region.

He advised that the use of grants in blending mechanisms provides financial leverage through a mobilising effect and broader risk-sharing and the results have so far been quite impressive considering the limited resources invested. For example, the EU-Africa Infrastructure Trust Fund has committed almost Euro 300 million in grants, which have generated more than 10 times more in total investments, i.e. close to Euro 4 billion since its inception in late 2007.

He noted that past experiences had shown that investments for roads were not sufficient to reduce transport prices if structural reforms were not addressed. These included the elimination of trade and non trade barriers, axle load control and absence of follow up on maintenance to avoid rapid deterioration of roads. The EU had accordingly been gradually shifting from project to sector approach and particular attention was being given to policy and reforms support, institutional capacity building and infrastructure maintenance with emphasis on promotion of infrastructure investments by combining EU grants with loans (blending), support to transport sector reforms and good governance and support to preparation of studies. The EAC joint and coordinated approach to infrastructure development for national and cross-boundary projects was, therefore, timely and relevant in EAC's development process. The EU fully supported this regional approach to infrastructure financing.

9.0 Conclusions

The Heads of State:

- i** Adopted the priority regional projects in this report for implementation.
- ii** Institutionalized the Retreat on Infrastructure Development and Finance to be held once in every two years.
- iii** Directed the Council of Ministers to:
 - a)** develop a detailed 10 year Investment Strategy and Plan for the priority projects;
 - b)** present detailed reports on the implementation of the priority projects to the Summit on a biennial basis;
 - c)** develop a cooperation framework, on the basis of the Tripartite MoU, with neighbouring states to anchor the development of regional infrastructure involving these Partner States and EAC;
 - d)** Fast track the development of a legal and regulatory framework to enhance public private partnerships in the development of regional infrastructure and their financing options.



EAST AFRICAN COMMUNITY

COMMUNIQUÉ OF THE 2ND EAC HEADS OF STATE RETREAT ON INFRASTRUCTURE DEVELOPMENT AND FINANCING

***Retreat Theme: “Deepening the EAC Integration Process through
Development of Efficient Infrastructure Systems to Support
Industrialization and Trade”***

**KENYATTA INTERNATIONAL CONFERENCE CENTRE,
NAIROBI, KENYA**

29TH NOVEMBER, 2012

**EAC SECRETARIAT
NAIROBI, KENYA
NOVEMBER, 2012**

2ND EAC HEADS OF STATE RETREAT ON INFRASTRUCTURE DEVELOPMENT AND FINANCING

JOINT COMMUNIQUÉ

1. THE EAST AFRICAN COMMUNITY HEADS OF STATE, THEIR EXCELLENCIES PRESIDENT MWAI KIBAKI OF THE REPUBLIC OF KENYA, PRESIDENT YOWERI KAGUTA MUSEVENI OF THE REPUBLIC OF UGANDA, PRESIDENT DR. JAKAYA MRISHO KIKWETE OF THE UNITED REPUBLIC OF TANZANIA, PRESIDENT PIERRE NKURUNZIZA OF THE REPUBLIC OF BURUNDI AND PRESIDENT PAUL KAGAME, OF THE REPUBLIC OF RWANDA, ATTENDED THE 2ND EAC HEADS OF STATE RETREAT ON INFRASTRUCTURE DEVELOPMENT AND FINANCING AT THE KENYATTA INTERNATIONAL CONFERENCE CENTRE, NAIROBI, KENYA ON 29TH NOVEMBER, 2012. THE HEADS OF STATE HELD THE RETREAT IN A WARM AND CORDIAL ATMOSPHERE UNDER THE CHAIRMANSHIP OF HIS EXCELLENCY PRESIDENT MWAI KIBAKI OF THE REPUBLIC OF KENYA.

2. THE 2ND HEADS OF STATE RETREAT ON INFRASTRUCTURE DEVELOPMENT AND FINANCING WAS ATTENDED BY SEVERAL HIGH RANKING PARTICIPANTS INCLUDING REPRESENTATIVES OF COOPERATING AND DEVELOPMENT PARTNERS, INVESTORS, HONOURABLE MINISTERS, MEMBERS OF PARLIAMENT, AMBASSADORS AND HIGH COMMISSIONERS AND REPRESENTATIVES OF REGIONAL ECONOMIC COMMUNITIES AMONG OTHERS.

3. THE HEADS OF STATE RECEIVED AN ADDRESS DELIVERED ON BEHALF OF THE PRESIDENT OF THE AFRICAN DEVELOPMENT BANK, DR. DONALD KABERUKA AND A COMPREHENSIVE PRESENTATION ON THE PROGRESS MADE ON THE IMPLEMENTATION OF THE INFRASTRUCTURE PROJECTS IN TRANSPORT (ESPECIALLY IN RAILWAYS AND PORTS) AND ENERGY; AND THE PROPOSED PRIORITIES FOR THE MEDIUM TERM.

4. THE HEADS OF STATE DELIBERATED ON THE PRESENTATIONS AND:

A) APPRECIATED THE PARTICIPATION AND THE DEPTH OF THE DELIBERATIONS DURING THE 2ND HEADS OF STATE RETREAT ON INFRASTRUCTURE DEVELOPMENT AND FINANCING.

B) AMENDED AND ENDORSED THE PRIORITIZED PROJECTS FROM THE RETREAT AND DIRECTED THE COUNCIL TO MAINSTREAM THEM IN THE EAC PARTNER STATES' INFRASTRUCTURE PRIORITY PROJECTS FOR IMPLEMENTATION.

C) EMBRACED THE NEED FOR STRONG INFRASTRUCTURE PARTNERSHIPS WITH NEIGHBOURING COUNTRIES FOR THE DEVELOPMENT OF REGIONAL INFRASTRUCTURE, EXPLOITATION AND INTERCONNECTION OF POWER AND ENERGY RESOURCES BETWEEN EAC PARTNER STATES AND THE NEIGHBOURING STATES.

D) DIRECTED THE COUNCIL TO CARRY OUT HIGH LEVEL PROMOTIONS AND ENGAGEMENTS WITH KEY PARTNERS FOR MOBILIZATION OF THE REQUIRED FINANCING AND INVESTMENTS TO UNDERTAKE THE IMPLEMENTATION OF THE PRIORITISED REGIONAL PROJECTS TO SUPPORT EFFECTIVE INDUSTRIALIZATION AND TRADE FACILITATION IN THE REGION AND REPORT PROGRESS AT THE NEXT SUMMIT.

E) DIRECTED THE COUNCIL TO DEVELOP REGIONAL POLICY AND LEGAL FRAMEWORKS THAT WILL ALLOW FOR FINANCIAL BLENDING INCLUDING THE PARTICIPATION OF THE REGIONAL AND INTERNATIONAL PRIVATE SECTOR INVESTORS IN INFRASTRUCTURE DEVELOPMENT AND STRENGTHEN PARTNERSHIPS WITH DOMESTIC AND FOREIGN INVESTORS BY MAKING USE OF THE CURRENTLY EXPRESSED INTERESTS BY A NUMBER OF DEVELOPMENT PARTNERS AND PRIVATE INVESTORS IN THE EAC REGION.

F) CALLED ON THE DONOR COMMUNITY TO SCALE UP CONTRIBUTIONS TO THE AFRICAN DEVELOPMENT FUND'S 13TH REPLENISHMENT AND TO THE NEPAD INFRASTRUCTURE PROJECT PREPARATION FACILITY. IN TURN, THESE FACILITIES ARE CALLED UPON TO MAKE CRITICAL CONTRIBUTIONS TO FINANCE THE PREPARATION AND IMPLEMENTATION OF THE EAC PRIORITY PROJECTS AND TO MOBILIZE ADDITIONAL CO-FINANCING.

G) DIRECTED THE COUNCIL TO PUT IN PLACE POLICIES, LEGAL AND REGULATORY FRAMEWORKS THAT WILL INDUCE A REDUCTION OF THE GESTATION PERIOD OF PROJECTS, FROM CONCEPTION TO IMPLEMENTATION, IN ORDER TO HASTEN THE DEVELOPMENT OF WELL PACKAGED INFRASTRUCTURE PROJECTS FOR INVESTMENTS AND ENGAGEMENT WITH DEVELOPMENT PARTNERS AND INVESTORS.

H) DIRECTED THE COUNCIL TO ESTABLISH THE TECHNICAL, FINANCIAL AND TRANSACTION CAPACITIES REQUIRED FOR ASSEMBLING AND IMPLEMENTING BANKABLE PROJECTS AT NATIONAL AND REGIONAL LEVELS.

I) DIRECTED THE COUNCIL TO DEVELOP AN INVESTMENT STRATEGY WITH CLEAR FINANCING OPTIONS AND TIMEFRAMES FOR THE PRIORITY PROJECTS WITH EFFECTIVE MONITORING AND EVALUATION MECHANISMS TO ENSURE THAT PROJECTS ARE IMPLEMENTED AND MANAGED EFFECTIVELY.

J) DIRECTED THE COUNCIL TO SUBMIT PROGRESS REPORTS ON THE IMPLEMENTATION OF THE INFRASTRUCTURE PRIORITY PROJECTS ADOPTED BY THE RETREAT, ON A BIENNIAL BASIS.

K) DIRECTED THE COUNCIL TO DEVELOP A FRAMEWORK OF COOPERATION WITH STATES NEIGHBOURING THE EAC PARTNER STATES TO ANCHOR THE DEVELOPMENT OF INTER-REGIONAL INFRASTRUCTURE.

L) APPROVED THE PROPOSAL THAT THE HEADS OF STATE RETREAT ON INFRASTRUCTURE DEVELOPMENT AND FINANCING BE INSTITUTIONALIZED AND BE HELD ONCE EVERY TWO YEARS.

5. THEIR EXCELLENCIES, PRESIDENT YOWERI KAGUTA MUSEVENI OF THE REPUBLIC OF UGANDA, PRESIDENT DR. JAKAYA MRISHO KIKWETE OF THE UNITED REPUBLIC OF TANZANIA, PRESIDENT PIERRE NKURUNZIZA OF THE REPUBLIC OF BURUNDI AND PRESIDENT PAUL KAGAME, OF THE REPUBLIC OF RWANDA, THANKED THEIR HOST, PRESIDENT MWAI KIBAKI OF THE REPUBLIC OF KENYA, FOR THE WARM AND CORDIAL HOSPITALITY EXTENDED TO THEM AND THEIR RESPECTIVE DELEGATIONS DURING THEIR STAY IN NAIROBI AND THE EXCELLENT FACILITATION OF THE RETREAT.

DONE AT NAIROBI, THIS 29TH DAY OF NOVEMBER, 2012

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H.E. MWAI KIBAKI, CGH
 PRESIDENT OF
 THE REPUBLIC OF KENYA

.....
H.E. YOWERI KAGUTA MUSEVENI
 PRESIDENT OF
 THE REPUBLIC OF UGANDA

.....
H.E. DR. JAKAYA MRISHO KIKWETE
 PRESIDENT OF THE UNITED REPUBLIC
 OF TANZANIA

.....
H.E. PAUL KAGAME
 PRESIDENT OF
 THE REPUBLIC OF RWANDA

.....
H.E. PIERRE NKURUNZIZA
 PRESIDENT OF
 THE REPUBLIC OF BURUNDI



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