

Box 2: The Role of the Pilot in Supporting Trade Integration: The East Africa Transport and Trade Facilitation Project (EATTF)

The EATTF includes four major components: (a) support to the recently reconstituted East African Community Customs Union; (b) institutional support for transport facilitation in the East African Community (EAC) and Rwanda; (c) investment support for trade facilitation in EAC and Rwanda; and (d) support to Kenya and Uganda for the joint concession of their railway systems. The project was approved by the Bank's Board in January 2006 for an IDA amount of US\$ 199 million. IFC has invested US\$ 32 million to support the railway concession, for which KfW also provided co-financing of US\$ 32 million. Additional support of US\$ 5 million is being provided by AfDB for capacity development of the EAC Secretariat. Over the 25 year life of the project, Bank Group engagement will leverage over US\$ 400 million of additional private financing for railway modernization.

Specifically, the Bank finances the retrenchment of surplus staff of Kenya Railways not taken up by the concessionaire, the relocation of traders from railway lands to create a safe operating zone, a partial risk guarantee to be made available to potential lenders, and a capacity-building component for the new asset authority and safety regulator that will be created. In addition, both the governments and the winning bidder have agreed to work together to actively promote small business linkage opportunities. Sustainability has been an integral part of the transaction design.

This project represents a number of significant achievements for both Kenya and Uganda. In Kenya, this transaction is the first privatization where a concession structure has been used. While concessions have been used previously in Uganda to facilitate investment in infrastructure, this project marks a major step in the development process of the land-locked country. The joint concession, which is also expected to benefit other land-locked neighboring countries through increased efficiency and lower transportation costs (up to 35% by cutting border crossing delays and dwell time at Mombasa port from 17.5 days to 10 days), has set the stage for future regional cooperation in the East African region. One major expected output from the concession is an increased market share for KRC from currently 16% to 30%.

Currently, the international trade routes in East Africa mostly use the Northern and Central transport corridors, which link the ports of Mombasa and Dar-Es-Salaam by road and rail to the landlocked countries. Transport costs are estimated at 35 percent of the value of exports for Uganda and more for the other Great Lakes countries. Some Bank studies found that the costs per ton-km to/from Rwanda to Mombasa through the Northern Corridor are twice the cost per ton-km between Nairobi and Mombasa, showing the large impact of border crossing and trade volumes on logistics costs.

Accordingly, the project will provide considerable support to the growth strategies of EAC member countries through facilitating additional trade within the region and enhancing the competitiveness of exports. Direct growth impacts e.g., quantified for the Ugandan and Kenyan State budgets would consist of (i) a reduction of US\$ 14 million (that will now be redeployed to other strategic objectives) in accrued arrears for Kenyan Railway Corporation (KRC), (ii) a reduction of US\$ 2 million per year in operating costs, (iii) direct investments of US\$ 390 million by the concessionaire (supported by IFC and KfW) over a period of 25 years, and (iv) annual concession fees of US\$ 9.5 million.