

PARTIAL RISK GUARANTEES FOR KENYA-UGANDA JOINT RAILWAY CONCESSION

Transport Forum
March 31, 2006



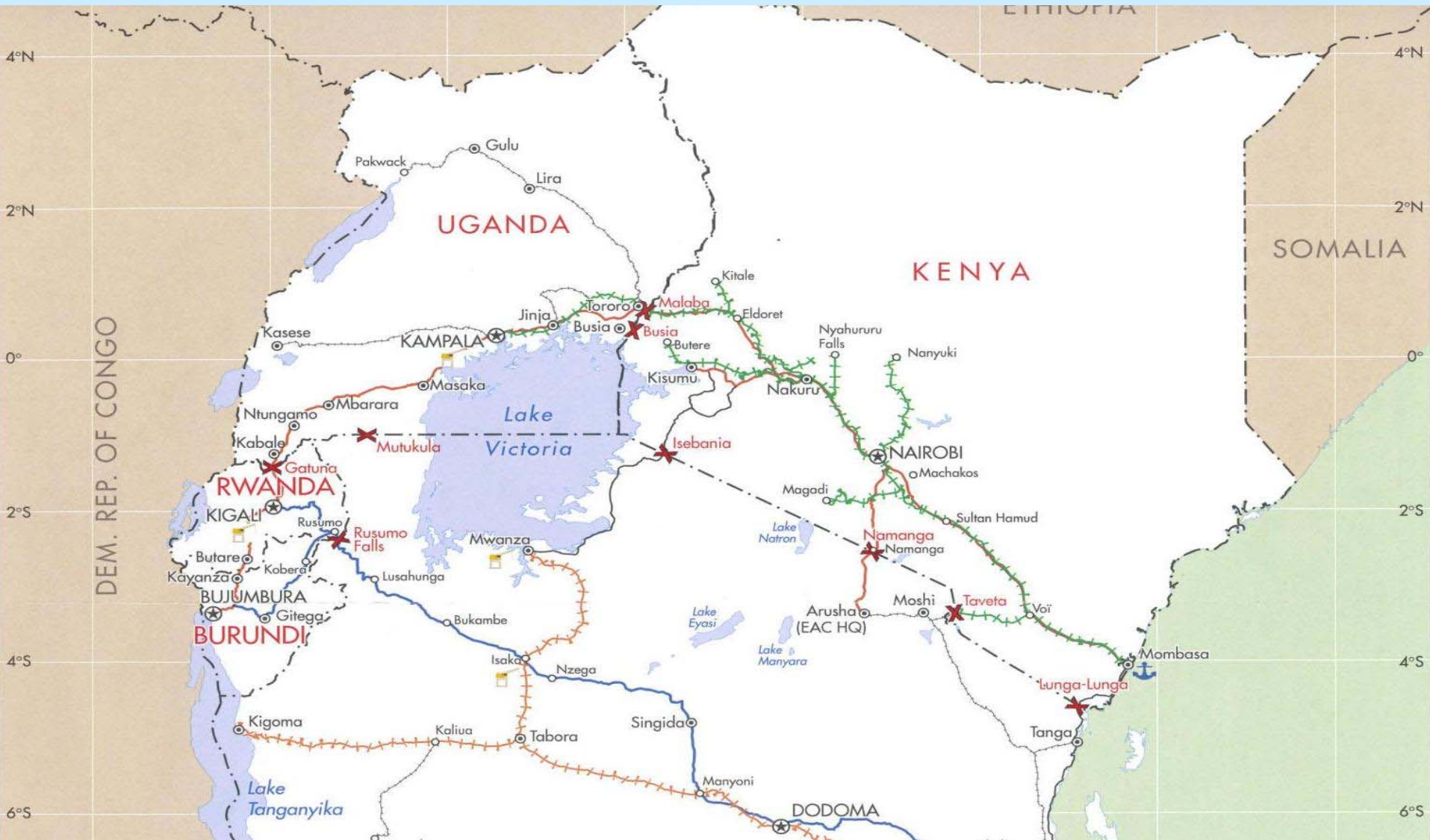
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PROJECT FINANCE AND GUARANTEES (PFG)
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Kenya-Uganda Joint Railway Concession Overview

- A component of East Africa Trade and Transport Facilitation Project
- First two Partial Risk Guarantees (PRGs) for a Transport Project
- First PRG for Kenya and second PRG for Uganda
- PRGs complemented by IDA Credits of approx. US\$ 121 million for Kenya (including US\$ 70 million for the rail component) and approx. US\$ 26 million for Uganda (including US\$ 4 million for the rail component)
- Board approval for the Project and the PRGs - January 23, 2006
- Close coordination with the Region and IFC

Kenya-Uganda Joint Railway Concession



Kenya-Uganda Joint Railway Concession

Current Status of the Railways

(the 'lunatic railways')

Network	2,350 Kilometer (1,460 miles) Linking Mombasa to Kampala
Current Tonnage	<u>Kenya</u> 1.50 bn. net tonne km (freight) 727 m. Passenger km <u>Uganda</u> 0.13 billion net tonne km No passenger service
Operating Condition	<ul style="list-style-type: none">- Poor Management- Financial bankruptcy (State subsidies)- Significant disinvestment in recent years (Kenya)

Kenya-Uganda Joint Railway Concession

Important Elements to the Concessioneing Process

- Upstream advice on the structure and viability of the concession (IFC advisor to GoK and CANARAIL adviser to GoU)
- Legal advice for both Governments on Contractual Documentation and Enforceability
- IDA credit of US\$ 45 million for Staff Retrenchment Plan and for pension liabilities in Kenya (GoU funding for limited Staff Retrenchment in Uganda)
- PRG term sheets in the bid documents to enhance bid responsiveness

Kenya-Uganda Joint Railway Concession

Concession Features

Conceding Authorities: KRC and URC

Concession Objective: To grant exclusive rights for the provision of freight service (Passenger services for the first five years in Kenya only) leading to:

- *more efficient operation*
- *critical investments*
- *reduction of fiscal burden*
- *concession fees*

Concession Term: 25 years

Conceded Assets: Rail Infrastructure, Locomotives, Rolling Stock and Ancillary facilities

Kenya-Uganda Joint Railway Concession

Concession Features

Minimum Investment: US\$ 5 million p.a. (Kenya) & US\$ 1 million p.a. (Uganda) for the first 5 years

Minimum Traffic: Increase in freight volumes of a minimum of 75% by year 5 and a minimum of 60% of GDP growth thereafter

Kenya-Uganda Joint Railway Concession

Concessionaire Obligations

- Concessionaire: Rift Valley Railways Holdings (to set up a subsidiary in each country)
- Concessionaire Responsibility: Management, Operational, Maintenance, and Investment obligations
- Proposed Investments for Concession Term :
- US\$ 390 million (Kenya)
 - US\$ 60 million (Uganda)
- Concession Fees:
- One-off Entry fee of US\$ 3 million (Kenya), US\$ 1 million (Uganda)
 - Annual Concession fee as a percentage of gross revenues 11%
 - Passenger Service fee (Kenya) US\$ 1million p.a.
- Concession Commencement and Financial Closure: June 2006

Kenya-Uganda Joint Railway Concession

PRG Terms

Amount:	Up to US\$ 45 million (Kenya) and up to US\$ 15 million (Uganda)
Term:	Up to 27 years
PRG Support:	For a deferred payment loan from the concessionaire to the Governments for Termination amounts plus accrued interest
PRG Guaranteed Events :	To provide support for Government and KRC/URC payment obligations in the event of early Termination or Expiry of either Concession
Special Feature:	The option for the investor to allow the Guarantee to fall away

Kenya-Uganda Joint Railway Concession

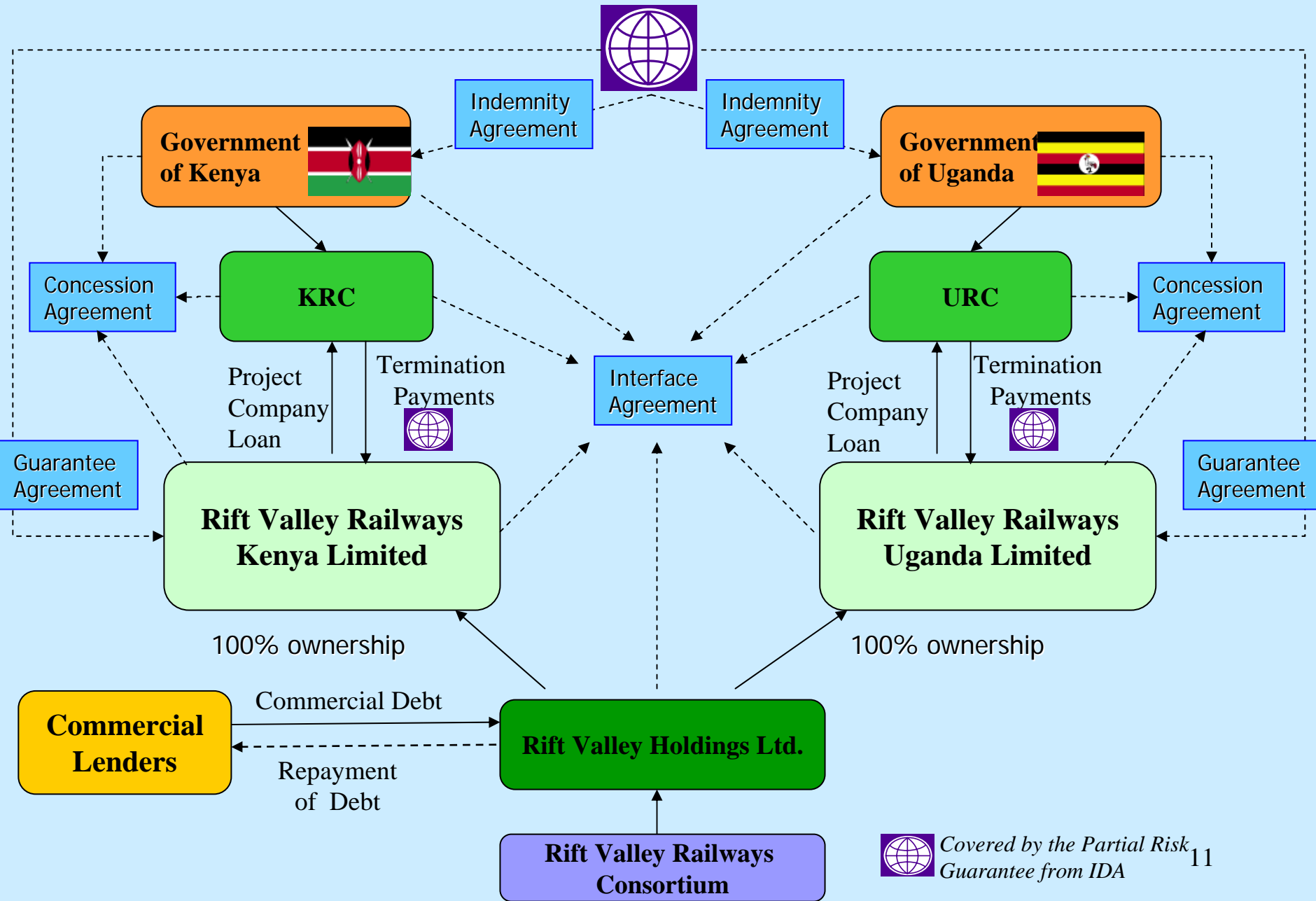
PRG Risk Coverage

1. Liquidated Damages:
 - Expropriation of the Conceded Assets
 - Changes in Laws
 - Breach of Exclusivity Provisions

2. Political Force Majeure Events:
 - War
 - Civil Strife
 - Terrorism
 - General Strike

3. Conceded Assets payment obligation of KRC/URC resulting from:
 - Early Termination
 - Expiry

Kenya-Uganda Joint Railways Concession



Kenya-Uganda Joint Railway Concession

Benefits of the PRGs

- Early PRG involvement complemented the role of IFC as Transaction Advisers leading to a more bankable concession structure
- Offer of the PRGs facilitated a more competitive process and the receipt of two very attractive bids
- PRGs critical to catalyzing equity and debt support through political risk mitigation
- PRGs for US\$ 60 million expected to leverage over US\$ 500 million in ongoing investments in the two rail systems during the 25 year concession term
- Through the PRG the investor is being made more accountable for environmental compliance and 'corrupt practice' safeguards
- Coordination with the two Governments and *'honest broker'* role

Kenya-Uganda Joint Railway Concession

Current IDA – PRG Pipeline of Transport Projects

Country	Project	Project Cost	PRG
Uganda-Kenya	Railways Joint Concession	US\$ 400 million	Kenya - US\$ 45 million Uganda – US\$ 15 million
Tanzania	Tanzania Railways Corporation Concession	US\$ 150 million	US\$ 40 million
Ethiopia/Djibouti	CDE Railway Concession	US\$ 180 million	US\$ 24 million
Kenya	Nairobi Urban Toll Road Concession	TBD	TBD
Senegal	Dakar-Thies Toll Road	TBD	TBD