PARTIAL RISK GUARANTEES FOR KENYA-UGANDA JOINT RAILWAY CONCESSION

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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

*Kenya*
1.50 bn. net tonne km (freight)
727 m. Passenger km

*Uganda*
0.13 billion net tonne km
No passenger service

Operating Condition
- Poor Management
- Financial bankruptcy (State subsidies)
- Significant disinvestment in recent years (Kenya)
Kenya-Uganda Joint Railway Concession
Important Elements to the Concessioning 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 Management, Operational, Maintenance, and Investment Responsibility:

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$ 1 million 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 |
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 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**

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<tr>
<th>Country</th>
<th>Project</th>
<th>Project Cost</th>
<th>PRG</th>
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| 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                  |