By Boyce Sarokin

Kenya has both narrow and standard gauge railways running in parallel between Mombasa and Nairobi. Tanzania is gearing up to build a standard gauge line to Morogoro and beyond while it goes ahead with rehabilitating the existing metre gauge line. The SGR is portrayed as an ambitious regional policy linking the six EAC countries, but without unprecedented cross-border cooperation and financial commitments, it is likely to end up as two costly unfinished initiatives: Luxury passenger trains from Mombasa to Nairobi and Dar to Morogoro and (maybe) Dodoma. As collateral damage, these politically driven projects sound the death knell of the existing railway networks, including moribund branch-lines, which have suffered from decades of neglect and poor management.

> For better or for worse, most cross-border freight will continue to be transported by road thanks to the private fleets of trucks built up during the post-liberalisation years in Kenya, Tanzania and Uganda

For better or for worse, most cross-border freight will continue to be transported by road thanks to the private fleets of trucks built up during the post-liberalisation years in Kenya, Tanzania and Uganda. The political influence of the trucking lobbies will help keep the roads in a reasonable state of repair. In theory, China’s One Belt One Road initiative includes the EAC-wide SGR, but in practice the rollout of the new railway will depend on intra-EAC politics, the availability of Chinese loans, or other funding, such as a sovereign “railway bond.” Going further down this route would be a recipe for disaster.

KENYA: A NEW ‘LUNATIC EXPRESS’?

"In terms of industrialisation and job creation, the impact of the SGR will be massive."[1]

On May 31, President Uhuru Kenyatta inaugurated the *Madaraka Express*, thus fulfilling one of his 2012 election promises ahead of the 2017 election. If as seems likely, he retains the presidency, he will be looking for funds to continue the *Express* to Naivasha and beyond. The government has sold Kenyans the notion that SGR is preferable in all respects to the existing metre gauge. It is modern, faster, safer and capable of carrying greater loads, Kenyans are told. The country's overused and murderous roads will be given a breather as freight and passengers revert *en masse* to rail.

> Implausibly large increases in freight are required to justify the costs involved, particularly if the SGR is to extend beyond Nairobi. At $3.8 billion, the first section of the SGR is considered highly overpriced

More sober analysis suggests that, beyond short-term gains in terms of greater customer convenience, the SGR is likely to be economically and financially unviable. Implausibly large increases in freight are required to justify the costs involved, particularly if the SGR is to extend beyond Nairobi. At $3.8 billion, the first section of the SGR is considered highly overpriced.[2] To continue the line from Nairobi to the Ugandan border would cost an additional $7.2 billion, nearly double the cost of the Mombasa-Nairobi stretch.[3] Speed is not a key issue for freight, which is where the potential profits lie. What matters is cost, predictability and reliability.[4] For the projected freight volumes and axle loads, upgrading the metre gauge would have been quite adequate, some argue, at a fraction of the cost of SGR, and could have been entirely financed through the Railway Development Levy on imports.[5] SGR's purported advantages over other gauges have been over-hyped: Brazil and South Africa move much more freight than the EAC is ever likely to with metre gauge and Cape Gauge respectively. As to being modern, the standard gauge has been around since the 1840s, when the US government declared it as the *standard* to be followed in all future railway construction for interconnectivity purposes.[6]

Currently, 95% of the freight leaving Mombasa goes by road and three-quarters of all freight is destined for Nairobi. Extending the SGR beyond Nairobi is unlikely to be economically viable. Trains cannot compete with trucks for scattered destinations in Kenya and further afield.[7] Last, anything near the cost of the Mombasa to Nairobi line ($5.6 million per kilometre) would be difficult to sell to Kenyans or potential financiers, and a more reasonable construction cost per km would lay bare the rip-off of SGR Part 1.

Qalaa Holdings, the main Rift Valley Railway (RVR) concessionaire, are rightly worried that the SGR will put them out of business. In 2014, RVR received a $70 million loan from a consortium of international financing agencies, as part of their $287 million financing plan for the period 2011-16. Though progress has been slow, RVR has at least increased its freight volumes, from under a million tonnes in 2012 to 1.5 million tonnes in 2014.[8] In April, Kenya Railways Corporation served RVR with a termination notice for failing to pay fees and missing performance targets.[9] Uganda is also terminating its agreement with RVR, who are likely to sue the GoK /GoU for the loss of business occasioned by the opening of the new line.[10]

> By the standards of political corruption in Kenya, the SGR arguably represents considerable progress. Whereas the Goldenberg and Anglo-Leasing scams involved simple looting of the Kenyan Treasury over largely bogus projects, the SGR gives Kenyans a spanking new railway

There is a view that KRC and Uganda Railways Corporation were never happy with the privatisation of the "lunatic express," which was heavily leveraged by donors, and that the SGR will serve to kill it off once and for all. If this happens, there will be no freight service to Kampala until the SGR is extended. Moreover, all the narrow- gauge branch lines that could have been rehabilitated will be closed down once and for all.[11]

By the standards of political corruption in Kenya, the SGR arguably represents considerable progress. Whereas the Goldenberg and Anglo-Leasing scams involved simple looting of the Kenyan Treasury over largely bogus projects, the SGR gives Kenyans a spanking new railway that will whizz them between Mombasa and Nairobi in double quick time with (hopefully) minimum risk to life and limb. No wonder *wananchi* are cheering. Even if the railway is (say) a billion dollars (Ksh100 billion) overpriced, that's still a snip compared with the cost of Goldenberg (an estimated 10% of GNP)! Unfortunately, the cost of running uneconomic services may in the long-run exceed the cost of Goldenberg and Anglo-Leasing combined.

But equally sobering is the fact that just to build the Mombasa to Kampala SGR would cost in the region of a quarter of Kenya's 2015 GDP at present estimates. There must be other priorities.

TANZANIA: PLAYING CATCH-UP?

"The new train is expected to travel at high speed of 160 kilometres per hour…"[12]

President Magufuli's SGR initiative is his flagship infrastructure development project, but finding finance has proven problematic.[13] In January 2014, the SGR process was endorsed enthusiastically by the Davos World Economic Forum, attended by President Jakaya Kikwete. An agreement signed in May 2015 with the China Railway Materials Group proposed a standard gauge line from Dar es Salaam to Mwanza, Kigoma and Msongati in Burundi costing $7.6 billion. China's Exim Bank would fund 10% of the project, which was partly justified as a means of accessing large mineral deposits in Tanzania and Burundi, while Tanzania was tasked to find the balance from private sources. Rothschild, one of the world's largest financial advisory groups, was hired as a contract advisor, and it was hinted that a consortium of private financiers was being assembled. No such consortium emerged, and there has been no more talk of private finance. [14] In February 2016, Minister of Finance Philip Mpango "set the record straight," declaring that "Tanzania cannot afford financing the SGR project using our own funds."[15]

> Why did Tanzania decide that it too wanted to go SGR when the experts warned that it was not a good idea? In a 2009 study, Canadian Pacific Consulting Services concluded that the benefit of replacing metre gauge by standard gauge in East Africa would be 'marginal.'

Consequently, the contract with the Chinese was cancelled over alleged irregularities in the tendering process. Seeking alternative finance, President Magufuli unsuccessfully approached South African President Jacob Zuma for a loan from the BRICS bank, and the World Bank president Dr Jim Yong Kim for an IDA credit.[16] Turkish President Recep Erdogan was also lobbied during an official visit.

In April this year, Magufuli settled for a Phase 1 SGR from Dar to Morogoro (194km) costing Tsh1 trillion ($450 million), to be financed out of the country's development budget. The contract was awarded to a Portuguese-Turkish consortium, said to have been the only bidder.[17] Phase 2 should see the line extended from Morogoro to Dodoma (263km), for an additional Tsh1.5 trillion ($675 million).

Why did Tanzania decide that it too wanted to go SGR when the experts warned that it was not a good idea? In a 2009 study, Canadian Pacific Consulting Services concluded that the benefit of replacing metre gauge by standard gauge in East Africa would be "marginal." The conversion of the rail backbone to standard gauge was considered "cost prohibitive" using "even the most optimistic" traffic and income projections. [18] In a 2013 study, the World Bank concluded that rehabilitating existing lines was the most promising option, with a cost of $0.18 million per km compared with $3.25 million per km for standard gauge, or 18 times more.[19] But earlier feasibility studies claimed the SGR was viable. For example, in 2003, the African Development Fund financed a feasibility study for a standard gauge line from Isaka in Tanzania to Kigali and Bujumbura (1,435km) that declared the project feasible and "attractive to private investors." This and subsequent detailed engineering proposals costing millions of dollars were based on the assumption that the new line would be built from Dar to Isaka (953km)![20]

Like Kenya, Tanzania has a poorly performing railway linking Dar to the rest of the country.[21] In November 2016, Prof Makame Mbarawa, Minister of Works Transport and Communications, told a transport sector meeting of officials and donors that the government planned to both rehabilitate the existing Central Line *and* start the construction of the SGR. On June 2, Reli Assets Holding Company Ltd (Rahco), issued tender documents to rehabilitate the existing railway from Dar es Salaam to Kilosa, a distance of 283km, using funds from the World Bank's $300m Tanzania Intermodal Rail Development Project (TIRP). Launched in 2014, TIRP has had a hard time getting off the ground. It appears that while Rahco was negotiating the rehabilitation project with the World Bank, discussions were also going on with the Chinese for an SGR loan. While rehabilitating the Central Line makes sense, and is long overdue, doing this and launching the SGR concurrently makes no sense at all.[22]

> While rehabilitating Tanzania's Central Line makes sense, and is long overdue, doing this and launching the SGR concurrently makes no sense at all

Tanzania aspires to replace Kenya as the largest economy in the region, and this rivalry spills over into reciprocal trade restrictions and disagreement over the Economic Partnership Agreement with the European Union that hinder rather than promote regional integration. Inter-regional trade is said to be declining.[23] It is to be hoped that the two countries will not get involved in a wasteful beggar-thy-neighbour competition over who can build the swankiest SGR to capture the modest business in the region, especially freight, including that of their landlocked neighbours.

EAC: CO-OPERATION OR COMPETITION?

The completion of the Mombasa-Nairobi section of the SGR does not guarantee that the remainder of the Kenyan portion to Kisumu and then on to the Ugandan border will be financed, let alone the Ugandan and Rwandan sections. Though China's Exim Bank has financed the major part of the construction to date, it appears reluctant to advance further credit without guarantees that Uganda is committed to the project.[24] Both Rwanda and Uganda are weighing up the pros and cons of the Kenyan and Tanzanian SGR options.

The early promoters of the SGR sold the project as a major step towards East African integration and economic development, including stimulating mineral exports from the EAC, DRC and elsewhere. But the above discussion suggests that, far from constituting a co-ordinated strategy to promote EAC economic integration, the two SGRs in progress are competing for much of the modest cross-border freight business. Dar and Mombasa ports compete for transit traffic. When Dar announced in 2016 that it planned to impose VAT on goods in transit, importers switched to

Mombasa.[25] Realising its mistake, the Tanzanian government removed the VAT, and now hopes to attract business back from Mombasa, helped with a $150 million loan from China to upgrade the port's handling capacity.[26]

> The completion of the Mombasa-Nairobi section of the SGR does not guarantee that the remainder of the Kenyan portion to Kisumu and then on to the Ugandan border will be financed

Two-thirds of the cargo arriving in Dar port stays in Tanzania, most of the rest heads for DRC, Zambia, Burundi and Rwanda. Most Mombasa cargo stops at Nairobi, as already pointed out. Thus, given the modest volume of freight destined for landlocked countries, the justification for an EAC-wide SGR cannot be based on facilitating cross-border trade, or its likely increase in volume in the foreseeable future. SGR apologists simply ignore the economics of the huge investments required to capture such little business. If one SGR is less than obviously viable, then two can only be disastrous.

KEEP ON TRUCKING?

One key element rarely discussed in all this is the robustness of road transport throughout the region. Since trade liberalisation, Uganda, Tanzania and Kenya have built up impressive fleets of trucks carrying both fuel and containers, and road haulage has largely replaced rail, reflecting the dynamism of the private trucking sector compared with the inefficiently managed and undercapitalised state railways. Pro-road policies have been lobbied for by business associations with the support of ruling elites, themselves involved in trucking. Passengers have also migrated to privately owned buses.

The question from an EAC transport policy perspective is how state-owned railways can claw back enough trade from the trucking industry to become profitable without state subsidies, the use of force, or additional taxes. In an age where commercial activities are overpoweringly undertaken by the private sector, the move to SGR looks suspiciously like an attempt to replace relatively efficient, competitive private enterprises by state-owned monopolies. Already, importers are getting ready to resist any attempts by the GOK to force traffic onto the SGR.[27] According to one commentator on Tanzania's proposed SGR, President Magufuli will "have to deal with the truck cartels… that have succeeded for over 40 years in keeping the government out of railway construction and maintenance."[28] Though perhaps an exaggeration, the concern is real for all three EAC giants. Arguably more important, aid agencies have poured billions of dollars into road construction and upgrading throughout the region, much of the work undertaken by Chinese contractors.

> Since trade liberalisation, Uganda, Tanzania and Kenya have built up impressive fleets of trucks carrying both fuel and containers, and road haulage has largely replaced rail, reflecting the dynamism of the private trucking sector

To plan implementable Community-wide infrastructure initiatives for the EAC rather than *ad hoc* bits and pieces would require an empowered EAC Secretariat with both technical competence and a delegated political mandate. SGR initiatives to date reveal that neither condition holds.[29] In March 2017, Fred Mbidde, the chair of the East African Legislative Assembly's Committee on Communication, Trade and Investments, complained of "minimal collaboration between the regional projects."[30] So we can expect more of the same: Dar competing with Kenya for transit trade and economic dominance, while the landlocked countries blow hot and cold on which rival to support, if any.

Politics trumps economics, as is often the case

Our presidential ruling elites are not driven to endorse major investment decisions involving private or state capital on the basis of techno-economic arguments. Their decisions are driven by short-term political considerations. When people like Kiriro wa Ngugi,[31] David Ndii[32] and John Githongo[33] blow large holes in the claims of the SGR apologists on technical, fiscal/financial and governance/corruption grounds, they are met with threats, not evidence-based counter-arguments. “No one and nothing will stop us from building the railway…” stormed Deputy President William Ruto in response to critics.[34]

> For the most part, our ruling elites think short-term. Long-term concessional finance for large capital investments is attractive because the current incumbents will be retired by the time the bill arrives for the reckless projects they are committing us to today

For the most part, our ruling elites think short-term. Long-term concessional finance for large capital investments is attractive because the current incumbents will be retired by the time the bill arrives for the reckless projects they are committing us to today.[35] This helps explain why mobilising state power behind the SGR may even appear to undermine the elite’s own business interests in trucking. As long as politics is in control, elites and their supporters are confident that their trucking interests will not be threatened.

WHITE ELEPHANTS IN A CHINA SHOP?

As part of its One Belt One Road initiative, China is busy funding infrastructure, including railways, across Asia, worth up to a trillion dollars. East Africa’s SGRs are perhaps the end of the One Belt line. Beyond this, China is building long-haul and urban railway systems in 35 African countries.[36] Is China overreaching itself? The strict conditions placed on further loans for the Kenya-Uganda line suggest that China is becoming increasingly circumspect in its lending practices, worried perhaps that borrowers will start defaulting on their loans. For Africa, this wouldn’t be the first time. The Africa-wide debt crisis at the end of the last century was the result of decades of borrowing from the World Bank, IMF and other official sources, much of it on uneconomic and unsustainable projects. The debts currently piling up through soft loans from China and other sources are potentially fuelling a second debt crisis that will in turn trigger another round of debt relief. But the Chinese terms for a bail-out are unlikely to be as generous as those of the donors at the end of the last century.[37] Tying debt rescheduling to commodity exports to China, including food, is one imaginable scenario should defaults become an issue.

> East Africa’s enthusiasm for the SGR solution to infrastructural constraints, for which China ultimately bears responsibility, is not going to significantly improve the region’s overall transport system or competitiveness, and at tremendous cost

Without an efficient “intermodal’” transport system in place in the region – including ports, roads, and railways – economic dynamism is seriously compromised. East Africa’s enthusiasm for the SGR solution to infrastructural constraints, for which China ultimately bears responsibility, is not going to significantly improve the region’s overall transport system or competitiveness, and at tremendous cost.

The challenge is how to temper politically motivated, short-term decision-making with a strong dose of economic and financial rationality. In this respect, for the moment, the EAC, and most of its external supporters, are failing badly.

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ENDNOTES

[1] Kenyan Cabinet Secretary for Transport and Infrastructure James Macharia quoted ahead of the opening of the SGR from Mombasa to Nairobi. See: Xinhua 2017. "Kenyans upbeat ahead of new railway launch," *Guardian,* 31 May.

[2] http://www.bbc.com/news/world-africa-40171095.

[3] Allan Olingo 2017. "Through Beijing, East Africa is upgrading its roads, railway and ports," *The EastAfrican*, May 20. Different sources give different cost estimates.

[4] 'Freight traffic operations are much more dependent on price and service delivery (predictability of time of arrival at the destination) than on actual speed between stations. The extra speed capabilities of SGR therefore provide limited advantage over a metre gauge operation.' Africon Ltd 2011. "The East African Trade and Transport Facilitation Project, Part II: Transport Strategy," East African Trade and Transport Facilitation Project, EAC, November, page 61. The estimated cost (EARMP 2009) of upgrading the entire EAC railway network to SGR was between $13 billion and $29 billion.

[5] See Kiriro wa Ngugi at: https://www.youtube.com/watch?v=IgbARMS1pyY.

[6] https://www.youtube.com/watch?v=hMUP_XMi434. The first commercial train, George Stephenson's Rocket (1824), ran on what was to become the US standard gauge. http://www.custom-qr-codes.net/history-steam-locomotive.html

[7] Rail costs need to be 15-20% lower than trucks to compete. Unlike trains, trucks provide door to door services on demand.

[8] http://www.railjournal.com/index.php/freight/rail-freight-traffic-increases-in-kenya.html?channel=000.

At its peak in 1973, the railway transported 4.4 million tonnes.

[9] http://www.businessdailyafrica.com/news/Kenya-to-review-RVR-termination-notice/539546-3884948-xjptjf/index.html.

[10] The concession gave RVR a 25-year monopoly of railway services.

[11] Claims to the contrary by the GOK notwithstanding. See: Allan Olingo 2017. "Kenya to maintain sections of metre gauge rail linking old stations with SGR," *The EastAfrican,* June 10.

[12] Florence Mugarula 2017. 'Far reaching socio-economic benefits of SGR', *Business Standard,* 18

April.

[13] Samuel Kamndaya 2015. 'Sh60tr needed for mega projects', *Citizen,* 3 September.

[14] Brian Cooksey 2016. 'Railway rivalry in the East African Community', GREAT Insights Magazine, Volume 5, Issue 4. July/August 2016 http://search.ecdpm.org/?q=*&fld_posttype=GREAT+insights+magazine&fld_author=Brian+Cooksey

[15] Christopher Majaliwa 2016. 'High costs stymie standard gauge plan', *Daily News*, 6 February.

[16] http://www.theeastafrican.co.ke/business/Tanzania-struggles-to-finance-SGR/2560-3935412-rggugq/index.html

[17] Athuman Mtulya 2017. 'Issue sovereign bond to fund railway project, govt advised', *Citizen*, 30 April.

[18] CPCS 2009 'East Africa Railways Master Plan Study', East African Community Secretariat.

[19] World Bank 2013. 'The Economics of Rail , Gauge in the East African Community, Africa Transport Unit, August.

[20] Craig Mathieson 2016. 'The political economy of regional integration in Africa: the East African Community', ECDPM, January, http://ecdpm.org/peria/eac.

[21] Managed separately, the Chinese-built and heavily indebted TAZARA railway from Dar to Zambia uses the 3ft 6in Cape Gauge. Jointly owned and managed by Tanzania and Zambia, TAZARA had accumulated debts of USD787m in 2016, blamed on 'weaknesses in management'. See: Jaston Binala 2016. 'Plans underway to revamp Tazara railway', *East African*, 14 May.

[22] To prepare the way for the SGR, many legal commercial structures and over 250 houses in Dar es Salaam worth billions of shillings have been summarily demolished without warning or compensation. See Hellen Nachilongo 2017. 'Tears, heartbreak as houses near railway line demolished', *Citizen,* 12 March; Mwassa Jingi 2017. 'Why the latest demolitions in Dar were illegal', *Citizen on Sunday,* 19 March.

[23] James Anyanzwa 2017. 'EA states looking outward for trading patners as local ties sour', *East African*, 1 July.

[24] Frederic Musisi 2017. 'Tanzania Starts Construction of Railway Line Link to Uganda', *Monitor,* 16 April

[25] Abduel Elinaza 2016. 'Dar Port in massive transit cargo traffic volume slump', *Daily News*, 3 April.

[26] https://eblnews.com/…/china-inks-multimillion-dollar-deal-expand-dar-es-salaam-port

[27] 'Cargo transportation should be based on what the importer wants, not what the government wants.' See: Njiraini Muchira 2017. 'Mandatory SGR use causes unease among importers', *East African,* 11 March.

[28] Attilio Tagalile 2015. Blessing and hatred from Chinese aid', *Guardian,* 13 December.

[29] Craig Mathieson 2016, op. cit.

[30] Zephania Ubwani 2017. 'EA states faulted on railway project', *Citizen*, 11 March.

[31] https://www.youtube.com/watch?v=IgbARMS1pyY; https://www.youtube.com/watch?v=rk4lJKgB4RU.

[32] https://www.kenya-today.com/politics/david-ndii-jubilee-spent-sh4-5b-19th-century-old-school-chinese-locomotives.

[33] https://www.standardmedia.co.ke/article/2000218960/eurobond-sgr-heists-to-finance-2017-election-campaigns-claims-githongo.

[34] Quoted in Cooksey op. cit. In Tanzania, neither civil society nor the media has challenged SGR decision-making.

[35] 'The loan … from EXIM Bank of China comprised of a concessional loan of USD 1.6 billion and a commercial loan of USD 1.63 billion. The concessional loan is for 20 years and has a grace period of 7 years and an interest rate of 2% per annum while the commercial loan is for 10 years and grace period of 5 years…' http://bankelele.co.ke/2017/05/funding-the-sgr.html.

[36] According to SMARTRAIL WORLD: 'the most crucial factor in the developing African rail industry is … the influence of China, who despite warnings on their own domestic economy, are continuing to invest huge sums in the continent.' See: Smartrail World 2016. 'Special report: How five major African rail projects are supported by China', 10 November. https://www.smartrailworld.com/five-major-african-projects-supported-by-china.

[37] That is, prepare and implement Poverty Reduction Strategy Papers, underwritten with more aid.

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