



# From Game Changer to Railway to Nowhere: The Rise and Fall of Lunatic Line 2.0

By David Ndi



Two weeks ago, Uhuru Kenyatta commissioned the 120-kilometre Nairobi-Naivasha extension of the new railway line commonly referred to as Phase 2A. Phase 1, which runs from Mombasa to Nairobi, was completed and launched with great fanfare in 2017. Not so this time round. On the day of the launch, a local daily headlined its story thus: “Uhuru to launch expensive SGR [Standard Gauge Railway] train to ‘nowhere.’” The “nowhere” caught on, with one international media house carrying the headline, “The railroad to nowhere China built has opened in Kenya” and another, “Kenya struggles to manage debt for railway to nowhere.”

The “nowhere” refers to Duka Moja (literally meaning “one shop”), a sleepy trading centre on the Maai Mahiu-Narok road where the railway line comes to an abrupt end. Duka Moja lies about 20 kilometres beyond the last train station at Suswa, a slightly busier cattle market about five kilometres down the highway turn-off at Maai Mahiu. There is little to take commuters there, unless one is a cattle trader. Naivasha town, which would be the destination for commuters, is a good 30 kilometres by road from the train station at Suswa but only an hour and a half’s drive from Nairobi. There being no station at Duka Moja means that the stretch will lie unused until “Phase 2B” is built—if it ever is.

The entire Phase 2A extension is an economic puzzle. The bulk of the cargo that comes through the

port of Mombasa is either destined for Nairobi, or is in transit to Uganda and beyond. In 2018, the port handled 21.8 million metric tonnes of dry cargo of which 9.6 million tonnes—44 per cent—was transit cargo. This suggests only two logical destinations for rail freight: Nairobi and Malaba. After offloading in Nairobi, the only other logical line for rail freight is one that serves transit cargo, terminating at Kisumu or Malaba as the case may be.

In October 2018, we were informed that the financing agreement for Phase 2B, the 250-kilometre stretch from Naivasha to Kisumu, would be signed at the margins of the China-Africa Summit (FOCAC). Upon his return, Cabinet Secretary for Transport James Macharia informed the country that the Chinese authorities had asked for a feasibility study “of the whole project”. He was quick to add that he was confident that they would be able to produce one in no time, since they now had data from the Mombasa-Nairobi line which had by then been in operation for close to a year. There are two observations to be made here. Firstly, it is the Chinese who have been running the railway, and it is they, and not the government, who have the data on its operations. Secondly, CS Macharia implies that no feasibility study had been undertaken. This is not quite true. There exists a feasibility study for the Mombasa-Nairobi line carried out by the contractor, China Road and Bridge Company. The economic evaluation—which takes up 17 pages of the 143-page document—is the shoddiest thing of its kind that I have seen.

In April this year, the Kenyan delegation left for Beijing amid much fanfare, again anticipating that they would sign the financing of Phase 2B at the margins of the Belt and Road Initiative (BRI) Summit. This time China dropped the bombshell; the project would not be financed. The government had not been paying attention. A couple of weeks prior, China’s Ministry of Finance had released a document titled *Debt Sustainability Framework for Participating Countries of the Belt and Road Initiative*. It was posted on their website, and was the theme of China’s Finance Minister’s speech at that BRI summit. The long and short of it was that the era of chequebook diplomacy was over. China was bringing sovereign risk assessment on board. More interestingly, China had not formulated its own framework, stating in the document that it was adopting the *IMF/World Bank Debt Sustainability Framework for Low Income Countries*. Evidently, the administration had missed that memo.

Once the financing fell through, a hastily conceived “Plan B” proposing to revamp the old meter gauge line and integrate it with the new railway was unveiled. The initial announcement indicated that the revamped line would terminate in Kisumu at a cost of Sh40 billion (\$400 million). Within days, this plan was abandoned in favour of another routing terminating at Malaba on the Kenya-Uganda border. It was to be a public-private partnership (PPP) project costing Sh20 billion (\$200 million). The latest on these “Plan Bs” is that the Chinese contractor’s quotation far exceeds the government’s preliminary estimates.

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From the outset, the public has been led to believe that the SGR train has a freight capacity of more than 22 million metric tonnes. This column has challenged the operational feasibility of carrying this much freight on a single-track railway line, particularly one that is also used by passenger trains. A paper prepared for the Kenya Railways Board by the Kenya Institute for Public Policy Research and Analysis (KIPPRA), a government policy think-tank, puts the actual operational capacity at 9.75 million metric tonnes. These cargo capacity numbers imply that the railway is capable of carrying

only transit or domestic cargo but not both (in 2018 the port handled 9.6 million tonnes of transit cargo).

If the extension to Naivasha is to be of any use, it stands to reason that the railway should prioritise transit cargo. And if transit cargo can utilise all of the railway's capacity, why then is the government hell-bent on forcing Nairobi-bound freight onto the railway? In order for it to comply with the terms of financing entered into with the lender, the Exim Bank of China, is the readily apparent reason. The loan is secured with an agreement referred to as "take or pay" which obliges Kenya Ports Authority (KPA) to deliver to the railway enough freight to service the debt, failing which KPA will cover the revenue deficit from its own sources.

According to a schedule attached to the agreement, the freight required to service the loans averages 5 million tonnes a year, equivalent to five trains a day between 2020 and 2029 when repayment of the first two loans for the Mombasa-Nairobi section will be completed. The freight comes down to two million tonnes a year thereafter, equivalent to two trains a day until 2034, the completion date for the second loan. A third loan, which financed Phase 2A, does not feature in the agreement as it had not been negotiated, but it is possible that the agreement was revised to factor it in.

Whatever the case, the contract is moot; the revenue streams are calculated at a tariff of \$0.12 (Sh12) per km/tonne, which works out to \$870 (Sh87,000) per 20-foot container of up to 15 tonnes from Mombasa to Nairobi, compared to the \$500 that the railway is currently charging which translates to a rate of \$0.069 per km/tonne. Even at this cost the railway cannot compete with trucking because of additional handling charges and "last mile" transport from the railway depot to the owners' premises which, according to a government report, increase rail freight costs to US\$1,420 (Ksh.142,000) compared to a total trucking cost of \$850 (Sh85,000). If we use the current rate of \$500 to calculate the freight required to pay the loan, KPA needs to deliver 10.4 million tonnes a year, which is more than the 9.75 million tonnes operational capacity given in the KIPPRA report.

On the ground, things are different. According to data published by the Kenya National Bureau of Statistics, the railway earned Sh4 billion from 2.9 million tonnes of freight last year, a rate of Sh2.91 per km/tonne. In the first two months of this year, it earned Sh959 million from 662,000 tonnes, a slight improvement in revenue yield to Sh2.99 per km/ton. Either way, the actual revenue per km/tonne is still just a quarter of the rate used to calculate the loan repayments. As this column has maintained from the outset, there was never a likelihood that the railway was going to pay its way. The debt was always going to be paid by the taxpayer. It is difficult to fathom why the government and the Chinese lender bothered with this shoddy securitisation charade for debt that has an implicit sovereign guarantee anyway.

Meanwhile, back on the ranch, the "railway to nowhere" epithet seems to have stung Uhuru Kenyatta: "Let me tell you. Mai Mahiu... Suswa is not nowhere. This is Kenya. And let me tell you. Whether you like it or not, once I am done with my work and go home, after 20 years when I come back here, Maai Mahiu and Suswa will be more developed than Nairobi."

Kenyatta was alluding to the plans to set up industrial parks in that locality, some of which we are told will take advantage of the proximity to the geothermal power and steam resources in the region. This is another one of the administration's misguided "if we build they will come" schemes. Before any further comment, it is worth remarking that Konza Technocity—which is also smack on the railway line—remains a field of dreams. The viability of locations for industrial parks is determined by their proximity to big markets, or raw materials, or labour. It is far from evident that Suswa offers any of these advantages. If we think about export processing for overseas markets, the most cost-

effective location is at the coast. It does not make sense to transport raw materials hundreds of kilometres inland and the finished goods back to the port. This is one of the reasons why Athi River has struggled as an Export Processing Zone.

But even were Suswa a most inviting location for industrial parks, the Sh150 billion price tag is exorbitant. The first three berths of the Lamu Port—one of which has been completed—carry a price tag of \$480 million. The cost of Phase 2A is enough to build another three (which would put Lamu port's capacity on a par with Mombasa), plus a highway connecting Lamu to the interior; and you could throw in an airport together with all the housing and social amenities Lamu needs to become a viable port and industrial city.

There is reason to suspect that Mr. Kenyatta reacted in one of his uninhibited moments. The land at Suswa on which the railway terminates is part of an expansive holding—over 70,000 acres—known as Kedong Ranch. Owned by a company of the same name, Kedong Ranch Ltd, the land was expropriated from the Maasai community in the colonial era. Like many other holdings, it was not restituted to the community but instead became available for purchase under Jomo Kenyatta's willing buyer-willing seller policy. In 1963, Prime Minister Jomo Kenyatta had given an undertaking to the Lancaster House constitutional conference that "tribal land" would be "entrenched in the tribal authority" and it would not be possible for anyone to "take away land belonging to another tribe." He reneged on this undertaking.

In the Kedong case, the principal beneficiary was Muhotetu Farmers Company, a land-buying entity from Nyeri (Muhotetu is an acronym for "Muhoya" and "Tetu", both localities in Nyeri County), which until recently owned 40.66 per cent of Kedong Ranch Ltd, according to documents filed in one of several court cases involving the company. Other shareholders include Family Circle Investments—with 6.83 per cent—Jackson Angaine and Jeremiah Nyaga. Angaine and Nyaga were respectively Minister for Lands and Settlement and Minister for Education in Jomo Kenyatta's first post-independence government. It would have been very unusual in those days for people like Angaine and Nyaga to partake of such largesse without there being a share for the Kenyatta family.

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Two years ago, Muhotetu Farmers Company's shareholding was acquired by a company going by the name of Newell Holdings Ltd. for Sh2.1 billion in a transaction that some shareholders have challenged in court as highly irregular. They claim that the company did not hold a general meeting to approve the deal, and that shareholders were not offered the right of first refusal (pre-emptive rights) as required by law. Suspicion is heightened by the claim by some shareholders that they were credited with the proceeds of the sale well before the date of the transaction. The import of this is that Muhotetu Farmers Company shareholders will have been excluded from compensation for the railway line terminating on the land, and from benefitting from the appreciation of value that may accrue from the proposed industrial parks—if they ever take off. We need not go to the trouble of sleuthing to establish who the owners and/or beneficial interests of Newell Holdings are as we can confidently surmise that they are powerful people within the government.

Not too long ago we saw Uhuru Kenyatta personally propositioning the leaders of Uganda and South Sudan with land grants in Suswa to build dry docks for their countries. If it looks like a duck, swims like a duck, and quacks like a duck, what else could it be but a duck?

As we say in Gĩkũyũ, *ona ìkĩhĩa mwene nĩ otaga* (if a burning house cannot be salvaged, the owner might as well enjoy the warmth of the fire).

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