

**PROJECT INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

Report No.: AB1177

<b>Project Name</b>	EAC - Transport Facilitation Project
<b>Region</b>	AFRICA
<b>Sector</b>	General transportation sector (100%)
<b>Project ID</b>	P079734
<b>Borrower(s)</b>	
<b>Implementing Agencies</b>	<p><b>East African Community</b> SECRETARY GENERAL East African Community Arusha International Conference Centre (AICC) Building Kilimanjaro Wing, 5th Floor P.O. Box 1096 Arusha, TANZANIA Tel: +255 27 2504253/4/6/7/8 E-mail: <a href="mailto:eac@eachq.org">eac@eachq.org</a></p> <p><b>Transit Transport Co-ordination Authority of the Northern Corridor</b> Permanent Secretariat Mama Ngina Drive P O Box 95341 Mombasa, Kenya Phone: 254 (0)41 314643 Telefax: 254 (0)41 311572 Email: <a href="mailto:ttca@africaonline.co.ke">ttca@africaonline.co.ke</a></p> <p><b>Ministry of Transport – Kenya</b> Transcom House, Ngong Road P.O. Box 52692, Nairobi Tel. 245-729200</p>
<b>Environment Category</b>	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
<b>Safeguard Classification</b>	<input type="checkbox"/> S <sub>1</sub> <input checked="" type="checkbox"/> S <sub>2</sub> <input type="checkbox"/> S <sub>3</sub> <input type="checkbox"/> S <sub>F</sub> <input type="checkbox"/> TBD (to be determined)
<b>Date PID Prepared</b>	August 23, 2004
<b>Estimated Date of Appraisal Authorization</b>	March 15, 2005
<b>Estimated Date of Board Approval</b>	July 7, 2005

**1. Key development issues and rationale for Bank involvement**

## **Background**

1. The East African Community (EAC) is the regional intergovernmental organization of the Republics of Kenya, Uganda and Tanzania. The EAC aims at widening and deepening regional trade and cooperation among the member states and, consequently, to improve the international competitiveness of the region. In March 2004, the EAC member states signed a Customs Union (CU) Protocol to speed up regional trade integration and closer regional cooperation. In order to implement the CU, the EAC needs to establish a joint customs administration, linking the newly established Customs Department at the EAC Secretariat in Arusha with the Revenue Authorities in the partner states. For this new development to have a real impact in terms of increasing regional trade flows, the transport corridors through Kenya and Uganda (the Northern Corridor) and Tanzania and Rwanda (the Central Corridor) as well as road and rail links between Kenya and Tanzania need to become more efficient. The Northern Corridor already has an established legal framework (which comprises Kenya, Uganda, Rwanda, Burundi and DRC) and an operational authority, the Northern Corridor Transit Transport Coordination Authority (NCTTCA).

## **Key Development Issues**

2. Transport costs in East Africa are very high, and are recognized as a major cause for the limited regional trade and low competitiveness. Transport costs are estimated at about 35% of the value of exports for Uganda and much more for the other Great Lakes countries, a situation that compares only to Central Asia in terms of the cost of being landlocked. Time to deliver goods in Uganda from Mombasa or Dar-es-salaam approaches one week at best, but can reach several weeks, even without considering the dwell time in the ports. The excessive transport cost and transit delays are mainly caused by inadequate infrastructure, poor management of the railway systems, complicated bureaucratic procedures, and insufficient corridor coordination mechanisms.

3. The performance of the railways in both the Northern and Central transport corridors has been particularly poor for many years. As a result, the railways have lost considerable traffic to roads which has led not only to a further steep increase in overall transport costs, but also to deterioration of roads, increased congestion and pollution, higher budgetary needs for road maintenance, and general deterioration in the quality of service. The trend could be reversed and tremendous benefits to the economy achieved, if the railways were to provide efficient, customer-oriented services. After considerable debate and analysis, it is now agreed that long-term concession of the railways is the only effective way to ensure efficient operations and substantially reduce transport costs. The process to concession the railways is underway in all the three EAC countries, though in different stages of progress. IDA and EU operations already support the process in Tanzania and Uganda and similar support needs to be provided for Kenya. In fact, the support for the Kenya operation is the most critical of all as: (a) both states have agreed on a joint concession; and (b) the potential for the shift of traffic from road to rail and consequent benefit to the Kenyan and regional economy would be the highest in the case of a joint concession.

4. The rationale for the World Bank's involvement in the proposed project is two-fold: (i) the Bank already supports EAC and its member states, (ii) the establishment of an effective CU would require significant TA and investment support in regional infrastructure and facilitation improvement along regional corridors. Relative to the rest of the donor community, the Bank is well equipped to undertake this region-wide trade and transport facilitation support because there is considerable experience gained in similar projects in other regions like the Trade and Transport Facilitation Project in Eastern Europe (TTFSE) that comprises eight countries, and previous regional railway concession projects (Cote d'Ivoire-Burkina, Senegal, Mali). The EAC Secretariat and the countries are also eager to receive such support through the proposed project.

5. Over the past three years, the Bank has intensified its dialogue with the EAC after the three Governments put it as a high priority. Our dialogue now encompasses all sectors that are key for regional integration and cooperation: the regional trade agenda, Lake Victoria, and key infrastructure services. The Country Teams recognize the potential of regional approaches to spur regional trade, export development, and sustainable growth in the region. The CASs for Kenya, Tanzania and Uganda (adopted or under preparation) include a jointly determined regional program with a focus on regional trade integration, and infrastructure cooperation.

6. The Bank has also developed a strong relationship with NCTTCA, EAC and other Regional Economic Communities in the region through the Sub-Saharan Africa Transport Policy Program (SSATP), which is an international partnership among countries, regional organizations, and public and private sector organizations and provides consulting and advisory services for the transport sector. Under that program, the Bank is already supporting studies relevant to the Northern and Central Corridors, including updating of the Northern Corridor Treaty, implementation of pilot corridor observatory and monitoring systems, and a comprehensive review and assessment of corridor efficiency in Eastern and Southern Africa.

7. At the country level, the Bank has been active in road infrastructure in all countries in the region, notably to enhance the regional transport network, through the Northern Corridor Transport Improvement Project in Kenya; the Central Corridor Project in Tanzania; and the successive road development programs in Uganda. The Bank also supports trade activities in all three countries through various Public and Private Sector reform projects. This project is therefore intended to complement the country level programs with regional level interventions.

## **2. Proposed objective**

8. The project's development objectives are to: (a) assist the EAC to implement its Customs Union Protocol; (ii) enhance regional trade through increasing efficiency in cross-border operations; and (iii) facilitate and support the development of an efficient regional railway system through its concession to the private sector.

## **3. Preliminary description**

### **Project Scope**

9. The proposed project is conceived as a multi-sector program to facilitate further trade integration in the region by addressing institutional, legal, and infrastructure constraints.

Specifically, it will support EAC trade integration by (i) providing technical assistance and equipment to implement the joint customs administration, (ii) providing technical assistance, financial support, and equipment to improve efficiency at the main border posts, ports, and regional road and railway corridors, with a specific focus on the integration of railways through support to the joint concession of the Kenya-Uganda Railways and its interconnections with the Tanzanian network.

10. The project is expected to comprise the following components:

- (a) EAC Customs Union Implementation: Provide training, technical assistance and equipment to implement a modern customs interconnection system and common data base linking the customs departments in the member states to the EAC Customs directory in Arusha;
- (b) Institutional support for transport facilitation: Strengthen the NCTTCA, and support to establish an appropriate management mechanism for the Central Transport Corridor connecting Dar-es-salaam with the Great Lakes countries;
- (c) Investment support for transport facilitation: Upgrade Corridor efficiency by (i) financing a regional electronic cargo tracking system from the ports of Mombasa and Dar es Salaam throughout the EAC, (ii) reviewing and updating the axle load control policy and (iii) improving Port Security and Port Facilitation in Mombasa and Dar es Salaam; (iv) financing the establishment of five joint border posts at main cross-border points within the region (Malaba, Busia, and three others to be determined);
- (d) Support to railway concessioning: Facilitate the joint concession of the Kenya and Uganda Railways, and its linkage to the Tanzanian network, which includes financing the implementation of staff reduction plans with, among others, studies for the refinement of the plans, financing of severance packages and social mitigation plans in Kenya, implementation of resettlement Action Plan in Kenya, technical support to the proposed Kenya railways Asset Authority, and possibly the provision of a Partial Risk Guarantee (PRG).

11. The total expected project cost, excluding the PRG, is about US\$67.4 million (details in Table below). The detailed distribution of the shares of the respective beneficiary countries would be specified during project preparation. The PRG, if included, would amount to about \$35 million (\$25 million for Kenya and \$10 million for Uganda, the amounts to be confirmed by the two Governments).

12. The following table sums up the proposed project components:

Component	Type of support	Cost	Implementing agency	Co financing possible
Component 1: support to implement the EAC CU				
1.1 Strengthening of the EAC Secretariat to monitor the CU through a customs systems interconnection, and a common database	TA and equipment (hard and software)	US\$1m US\$3m	EAC	EU, WB IDF Grant

1.2 Supporting national Customs Departments for the implementation of EAC CU	TA, Capacity Building	US\$0.4m	Revenue Authorities, EAC	
Component 2: Institutional support for transport facilitation				
Institutional set up of corridors, regulations harmonization and enforcement, transit regime.	TA	US\$2m	EAC, corridor Authorities	SSATP Program
Component 3: Investment support for transport facilitation				
3.1 Improvement of information systems among stakeholders (corridor monitoring, cargo tracking systems, load control and goods security, communications)	TA and equipment	US\$5m	Corridor and Revenue Authorities	UNECA, France (ongoing studies)
3.2 Gateways safety and Security Compliance (Ports)	TA, Equipment	US\$ 4m	Countries/ Ports	EU or EIB (Lake Victoria)
3.3 Border crossing improvements (Joint Border Posts)	Investment	US\$10m	Countries	EU
Component 4: Support to the Concession of the Railways				
4.1 retrenchment cost in Kenya	Retrenchment,	US\$ 28 m	KRC, URC	EU (Ugandan Part), PSD Project (transaction advisor)
4.2 technical assistance and border improvement investment	TA, Civil works	US\$ 6 m	KRC, URC	
4.3 Implementation of Resettlement Action Plan	Civil works, compensation	US\$5 m	KRC	
4.4 Institutional support to Kenya Asset Holding Authority	TA, Office equipment	US\$1 m	KRC	
4.5 Transport-related studies	Consultants	U\$2 m	KRC	
4.6 Partial Risk Guarantee	PRG	US\$35m	KRC, URC, private concessionaire	

### Proposed lending instrument

13. The lending instrument would be a Specific Investment Loan for the country-based actions and two PRGs for the railway concession. IDA funding would come to two thirds from the IDA13 Pilot Envelope envisaged for regional projects in FY04-FY05. Individual country allocations would cover one third of the project cost attributable to the individual country. This funding method for regional projects has still to be approved by the Board. The PRGs would be counted at 25% of the PRG nominal amount in the IDA country allocation of the respective country. This project would qualify as “regional project” under the criteria set forth by the Board for the Regional IDA Allocation.

### Partnerships and co-financing with other international agencies

14. Participation of other Development Partners in the preparation of the project is already taking place. Through their EAC Trade Hub, the USAID is financing the feasibility studies for the cargo tracking system and joint border posts in East Africa. IFC is playing a critical advisory

role in the railway concession. With Bank support, the EAC Secretariat is developing a prioritized needs assessment for CU implementation, and will present the program to Development Partners during FY05. The EU has supported the preparation of the CU Protocol with a number of studies addressing key issues, while other bilateral donors have indicated that they will continue to support the EAC CU implementation and further regional integration; the AfDB has indicated that they are planning to develop a program to support the Transport Corridors in the EAC.

## **1. Potential risks and mitigation**

*[Guideline: Refer to section 5 of the PCN. Which safeguard policies might apply to the project and in what ways? What actions might be needed during project preparation to assess safeguard issues and prepare to mitigate them?]*

15. Environment and social impacts of the proposed project will only result from its investment and railway components:

First, physical investments, which will consist of the improvement or construction of joint border posts as well as the improvement of railway infrastructures at borders, may lead to some involuntary resettlements. This risk is however limited since the investments are restricted to border areas, which are already developed thanks to international trade.

16. Second, the concessioning of the Railways will raise the issue of responsibility allocation between Government and the Concessionaire with regard to measures for addressing social, health and environmental issues as well as issues of retrenchment. The accountabilities for the past, ongoing and future deteriorations will be fully articulated in the concession agreements to be signed between the Government and the selected concessionaire. The proposed project will ensure that mitigation actions aimed at lessening the negative impacts of railway rehabilitation and operations are highlighted in the concession agreements.

17. Lastly, there are safety issues linked to the existence of encroachments near the railway tracks. To improve the safety of the railway operations in the areas of encroachment, the Government and the Concessionaire would implement an interim Safety Plan, which among others would include operations at reduced speed, frequent whistling by the approaching trains, display of caution sign boards, better arrangements for the collection of rubbish, and construction of pathways to prevent people from walking on tracks. Eventually, however, to enable normal operations to be resumed under fully safe conditions, the encroachments need to be vacated and the people settled somewhere else. The Government of Kenya, with assistance from IFC, their transaction advisers, is in the process of preparing a Resettlement Action Plan (RAP) for the whole railway network.

18. The proposed environmental category is therefore B. The category will be reviewed based on the actual scope of the project. The Bank's Policies on Environmental Assessment (OP/BP 4.01) and Involuntary Resettlement (OP/BP 4.12) are triggered. The Bank's policy on Cultural Property (OP/BP 4.11) may also apply if project preparation identifies some impacts on old historic railway buildings.

19. An environmental and social assessment for the civil works pertaining to the improvement or construction of border posts will be carried out during project preparation and;

appropriate mitigation measures will be defined including strengthening of capacity to implement environmental and social management plans. A review of existing Resettlement Policy Frameworks in the EAC countries will be prepared for the unlikely event that civil works require resettlement of population occupying the sites where joint border posts will be constructed. Depending on the results of the review, Resettlement Action Plans for the areas where relocation and/or compensation are obvious will be prepared. EA and review of applicable RFPs will be available by December 2004.

20. The railway concession will require specific attention as part of the project preparation. An environmental assessment of the railways was completed in 2002 by COWI. The EA report is being reviewed by AFTS1. On the basis of the review, the PCN review meeting will decide whether the studies are acceptable and whether the environmental safeguard measures recommended in the report are adequate to liquidate the accumulated environmental problems or whether a supplemental environmental audit is necessary, especially to determine past and future environmental liabilities.

21. Retrenchment issues will be addressed with special attention during project preparation. The social analysis and mitigation measures proposed by an on-going social due diligence study are being reviewed and, if required, more detailed social plans and economic analysis will be prepared by December 2004.

22. To deal with issues linked to the existence of encroachments near the tracks (for safety purposes as well as service efficiency), a specific RAP will be prepared for the railway concession by December 2004.

#### 4. Safeguard policies that might apply

*[Guideline: Refer to section 5 of the PCN. Which safeguard policies might apply to the project and in what ways? What actions might be needed during project preparation to assess safeguard issues and prepare to mitigate them?]*

Applicable?	Safeguard Policy If Applicable, How Might It Apply?
[Y]	<b><u>Environmental Assessment (OP/BP 4.01)</u></b> Civil works are likely to have an impact on the bio-physical environment as well as resettlements of populations. The concessioning of the Railways will raise the issue of responsibility allocation between Government and the Concessionaire with regard to measures for addressing environmental issues.
[ TBD]	<b><u>Natural Habitats (OP/BP 4.04)</u></b>
[ N]	<b><u>Pest Management (OP 4.09)</u></b> The policy will not be triggered. Pesticides will not be used to clear the ROW of weeds.
[Y]	<b><u>Involuntary Resettlement (OP/BP 4.12)</u></b> The construction of joint border posts may require some resettlements of the population occupying the sites. The encroachments near the tracks will need to be vacated for safety purposes as well as service efficiency of the future railway

	concession.
[ N ]	<a href="#">Indigenous Peoples (OD 4.20)</a>
[TBD ]	<a href="#">Forests (OP/BP 4.36)</a>
[N ]	<a href="#">Safety of Dams (OP/BP 4.37)</a>
[ TBD]	<a href="#">Cultural Property (draft OP 4.11 - OPN 11.03)</a> Some cultural sites such as old historic railway buildings could be affected by resettlements or civil works. This will be determined during project preparation.
[ N ]	<a href="#">Projects in Disputed Areas (OP/BP/GP 7.60)*</a>
[ N ]	<a href="#">Projects on International Waterways (OP/BP/GP 7.50)</a>

## 5. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	5
INTERNATIONAL DEVELOPMENT ASSOCIATION	62.4
Total	67.4

## 6. Contact point

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\* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas



