SAIIA & Chinese Embassy Joint Seminar on Future on Future-Proofing Africa-China Infrastructure Cooperation

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Kenya's SGR

- Phase one, linking Mombasa to Nairobi (480km), was successfully completed ahead of the August 2017 elections.
- Phase two, connecting the capital to the dry port of Naivasha (120km) and Narok, was finalized in August 2019, following similar parameters.
- The third phase, from Narok to Kisumu, on the shores of Lake Victoria, and on to Malaba on the Ugandan border, is yet to kick off, as loan negotiations stalled in August 2018, casting doubt over the realization of the whole East African master plan.

Environmental Issues

- The most controversial environmental impact of the SGR was the fact that part of its route cut through Nairobi National Park.
- This elicited protests from local and international environmental groups.
- CRBC responded by opting for a less invasive route and adopting a more animal-friendly design.
- The railway has adversely affected wildlife migration patterns.

Socio-economic issues

- China Exim Bank is said to have done comprehensive environmental and social impact assessments in accordance with its 2007 internal guidelines.
- The CRBC followed these protocols before starting the project.
- The Chinese embassy reportedly has kept the project under close scrutiny to ensure compliance.

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- CRBC constructed multiple boreholes to help remote communities access water, and repaired and constructed roads to improve the integration of rural communities with the railway.
- However, the company had less control over the relocation and compensation of local communities.
- Costs of land compensation because of corruption inflated which caused significant controversy causing reputational damage for the contractors.

Governance Issues

- The project construction was awarded to CRBC in exchange for a free feasibility study, in clear violation of the Kenyan Constitution, which requires competitive bidding for public projects.
- President Uhuru Kenyatta has been accused of having bypassed regulatory constraints to fast-track financial negotiations and construction of the railway to coincide with elections.
- To ensure financial sustainability, China Exim Bank insisted on evidence that Treasury could finance its 15% of the project.

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- EXIM Bank also insisted on an agreement between the Kenyan Port Authority and the government to enforce a crackdown on trucking, to ensure the SGR's portion of cargo profits, in order to guarantee profitability.
- This caused pushback from importers, who depend on cheaper trucking to offset the railway development levy imposed by Treasury on the customs value of imported goods to finance its part of the SGR deal.
- The challenges of raising enough revenue to cover the SGR expenses and service the debt became evident upon completion of the first phase.
- The construction of the SGR pushed Kenya's debt to China from $756 million in 2014 to $6.47 billion in 2019.

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- By mid-2020 the SGR had accumulated operating losses estimated at $200 million, rendering it unable to pay Afristar its $28.8 million quarterly operation fee.
- The pandemic-induced economic slump has further eroded Nairobi’s capacity to repay the loan, forcing it to negotiate payment suspensions from China in 2020 and 2021.
- In light of the country’s waning debt sustainability, the EXIM has thus far balked at financing phase three of the SGR.