

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

Report No.: AB3202

Project Name	Kenya – Nairobi Urban Toll Road PRG
Region	AFRICA
Sector	Roads and highways (100%)
Project ID	P103973
Borrower(s)	GOVERNMENT OF KENYA
Implementing Agency	
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Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD
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1. Key development issues and rationale for Bank involvement

Key Development Issues

1. **Improving Corridor Performance:** Recognizing the importance of a well-performing Northern Corridor (NC) in Kenya, connecting the port of Mombasa with Nairobi, Uganda, Rwanda, Burundi and DRC, the GOK rolled out two IDA-supported projects – the Northern Corridor Transport Improvement Project (NCTIP) and the East African Trade and Transport Facilitation Project (EATTFP). Through the EATTFP, the GOK aims at improving rail transport by concessioning the Kenya–Uganda Railway Lines and harmonizing customs services. Under the NCTIP various interventions are currently underway to remove bottlenecks on the road, at ports and airports and to strengthen general aviation safety and security regulations. The remaining constraints are several urban sections within the Greater Nairobi Area that the GOK is now addressing through the proposed Nairobi Toll-Road Concession.

2. **Urban decongestion:** There has not been any major road infrastructure improvement in the Nairobi area for over two decades and the basic network is still the one designed in the 1970's. The results are massive congestion, soon expected to cause complete gridlock given the anticipated traffic growth. Decongestion of this main artery (NC) that passes through the middle of town and development of new infrastructure surrounding Nairobi is therefore paramount.

3. **Mobilizing private capital:** Public funding is scarce and the GOK is tapping private sector resources for removing the aforementioned urban bottlenecks. Feasibility studies carried out under the NCTIP confirmed the viability of a toll-road concession for a stretch of 77km along the Uhuru Highway, including the construction of a 29km bypass. The GOK pre-qualified three bidders to run the 77 km concession and construct the bypass. One bid has been received and is currently being evaluated. Availing adequate risk mitigation measures is key to catalyze private capital.

4. **Improving Governance:** By competitively procuring PPPs, the GOK is turning away from previous operations which often lacked transparency and accountability. Yet, doing business in Kenya is still considered a high risk, particularly for long-term infrastructure concessions where only limited track record of government performance exists. Hence, the GOK is interested in mitigating perceived government-related risks through provision of a Partial Risk Guarantee (PRG). The government, thereby, will be indicating its willingness to be held accountable for governance issues, through its counter-guarantee to IDA. Two IDA-PRGs are being put into place for the Kenya-Uganda-Railway Concession and the GOK is requesting a similar PRG for the toll-road concession to meet the bidders' request for risk mitigation.

Rationale for Bank involvement

1. Achieving the objectives of the NCTIP and of the EATTFP is closely linked to removing the last remaining bottlenecks on the Northern Corridor. NCTIP is in fact financing some urgently needed rehabilitation along the proposed concession (33 km out of the 77 km along the NC) and it also funded the study of PPP options along the corridor. Supporting this project is crucial to safeguard the Government's investments (supported in part by the IDA Credits) in the NC in the long run and the concession will help put in place a sustainable arrangement to manage these very critical urban sections throughout the next 30 years.

2. The Bank has been very active in the county's transport sector and maintains a close dialogue with all stakeholders. It is therefore well positioned to act as interlocutor between the public and private sector. The Bank has extensive knowledge of PPPs as well as the provision of risk-mitigation instruments within the PPP framework. Two PRGs for the Kenya-Uganda-Railway Concession and one planned PRG for the Tanzania Railway Concession are the most recent examples from the region. The Nairobi Toll-Road Concession is the first of its kind in Sub-Saharan Africa. Hence the Bank's ongoing involvement in the sector and the provision of the PRG should help to provide comfort to investors and encourage the pre-qualified bidders to submit more responsive bids.

3. With the procurement process underway, the Bank's support comes at a crucial time, and is in line with the GOK's ERSC¹. It is also consistent with the NEPAD initiatives, the priorities of Regional Economic Communities like COMESA and the EAC and supplements the efforts of other key donors, particularly the EU, and the Nordic Fund.²

2. Proposed objective(s)

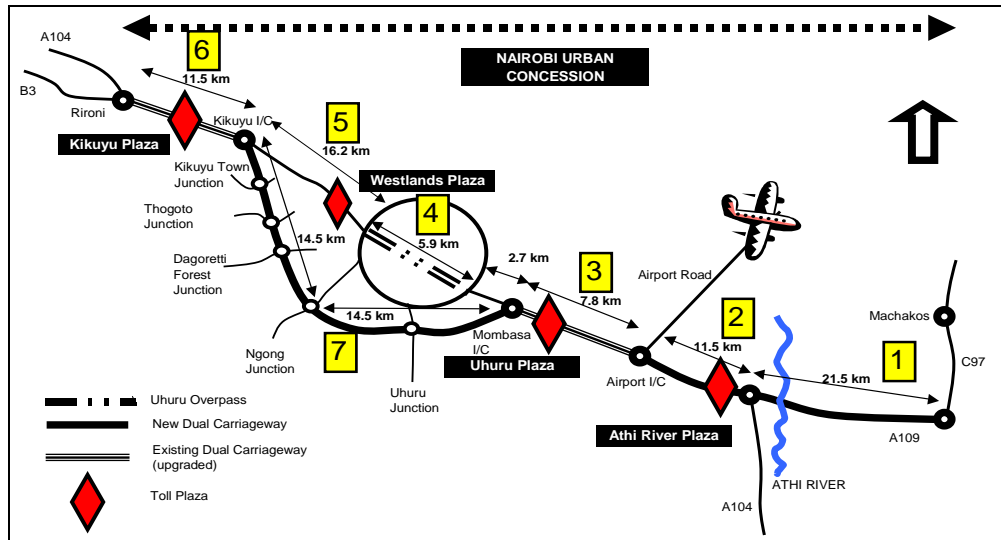
The project development objective is to improve traffic efficiency along the NC through removal of the main remaining bottlenecks by enabling private investment within a toll-road concession along the most congested urban sections of the Uhuru Highway.

¹ Economic Recovery Strategy for Wealth & Employment Creation.

² The EU is supporting the rehabilitation of 225km, worth 95 million Euros; NDF is co-financing the NCTIP with 13 million Euros.

3. Preliminary description

Diagram I: Nairobi Toll Road Concession – Schematic Map of Greater Nairobi, depicting Uhuru Highway along the Northern Corridor (sections 1-5 and 6) and the new Bypass (section 7).



1. The concession consists of 6 road sections along the NC near Nairobi (total of 77km) and a bypass (29km) as alternative to a tolled urban stretch of 25km (Diagram I). Sections 1 & 2 are being rehabilitated/upgraded under the NCTIP for a total cost of USD 56.6 million. Works on both sections comprise the rehabilitation of the existing 2-lane single carriageways, while Section 2 will also be upgraded to a 4-lane dual carriageway.

2. Feasibility Studies were conducted by an internationally recruited Consultant and confirmed the project's commercial viability.³ Given the assumed traffic levels, calculations show that the estimated project costs can be recovered at acceptable toll rates. The immediate road-related investments amount to USD 176 million. Additional costs to be covered by the concessionaire over the entire life of the 30-year concession will comprise future road-related improvements, periodic and routine maintenance, construction costs of toll facilities as well as their operations and maintenance. The Concessionaire will also be required to develop roadside facilities (e.g. parking areas, utilities infrastructure, bus and truck stops, etc.) at key locations. This includes social amenities like off-road booths for sale of local produce and products, bicycle paths, pedestrian sidewalks and other means to enhance safety and benefit road users and

³ BKS of South Africa

roadside communities. All cost⁴ and revenue figures are subject to change and reflect the consultant's analysis and views, which may not be borne out by the actual bid.

3. The draft bidding documents were disseminated and discussed during several pre-bid meetings in order to receive feedback from potential bidders and other stakeholders.

4. An IDA-PRG is being proposed in support of the Concession. PRGs are designed to catalyze private sector participation in infrastructure projects by mitigating political and government-related risks, particularly in countries where a sector is in early stages of reform and the perceived risk of policy reversals and changes to the regulatory framework is high. Given that such risks are perceived to be high in Kenya and the fact that regulatory compliance will be critical to the long term sustainability of the concession, IDA would be best equipped to backstop these risks through the PRG, because of the Bank's leverage with the GOK (explicit counter-guarantee, policy dialogue). The provision of the PRG should, therefore, help in reducing investors' and lenders "risk-premia", thereby leading to more sustainable tariff levels.

5. The nominal amount of the PRG is expected to be USD 40 million, of which only 25% would count towards Kenya's IDA allocation. The exact scope of its coverage will be determined, once the terms have been negotiated with the successful bidder. The indicative term sheet is designed to reflect the Agency's⁵ obligations in the draft concession agreement and would include coverage for i) Agency periodic payment obligations relating to their non-compliance of the pre-agreed toll framework and Material Adverse Government Action (ii) Agency obligations relating to termination payments as a result of Expropriation, Material Adverse Government Action and Political force-majeure events. In addition, IFC and MIGA are expected to be solicited by the concessionaires/bidders after the bidding.

⁴ Initial cost figures were based on prevailing 2004 unit rates for the region and have been adjusted to 2007 prices.

⁵ Here the Ministry of Roads and Public Works

4. Safeguard policies that might apply

The IDA funds provided for this project do not support any physical investments but offer risk-mitigation for the potential concessionaire against government-related risks. Nevertheless, PRGs are subject to safeguard and disclosure policies.

A Resettlement Policy Framework (RPF) was prepared under the related Northern Corridor Transport Improvement Project (NCTIP). The team's Social Safeguards Specialist has examined the adequacy of the existing Framework and it can serve as basis for any potential specific Resettlement Action Plans (RAP) within this project. Any RAPs to be prepared by the Concessionaire will need to follow the guidelines stipulated in the existing RPF. For the bypass, the GOK has declared that the right of way has been acquired. The details in that respect as well as the status of similar preparations in case of the toll plazas are also being studied.

The responsibility to prepare specific Environmental Action Plans will rest with the Concessionaire once all interventions are clearly defined. The EIAs will need to meet the requirements of the National Environmental Management Authority (NEMA) and those of the World Bank. While it is anticipated that the rehabilitation along the existing alignment will trigger less safeguards and will be confined to the period of construction/rehabilitation, the proximity of the proposed bypass to the Nairobi National Park may necessitate more comprehensive measures of mitigation. The Government already commissioned the preparation of an EIA for the bypass, which has been cleared by NEMA and is currently being reviewed by the team's Environmental Safeguards Specialist. The borrower will incorporate any adjustments that the review may deem necessary before the EIA is being disclosed.

5. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	0
INTERNATIONAL DEVELOPMENT ASSOCIATION	40 ⁶
IDA GRANT FOR POOREST COUNTRY	0
Total	40

⁶ With only 25% counting towards Kenya's IDA allocation.

6. Contact point

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