Country and Sector Background

1. The main objective of the Government in the transport sector is to spur private sector led economic growth through reducing the cost of doing business in Kenya and increasing its competitiveness in the domestic, regional and international markets. However, the sector is constrained by lack of adequate funds; institutional inefficiencies; weaknesses in the policy, legal and regulatory environment; poor safety and security standards at the airports and Mombasa port; and inadequate institutional capacity and specialized skills. As a result, the transport costs and travel times are high and reliability is low.

2. To address these issues, the Government has taken a number of steps, such as: (i) establishment of a Road Maintenance Fund fed by a fuel levy that generates about $200 million annually, which would be adequate to maintain a core network of strategic roads that are in maintainable condition; (ii) setting up of the Kenya Roads Board with representation from road users, Government agencies and other stakeholders to oversee the allocation and utilization of the Road Fund; (iii) improvement of rural roads and labor based construction and maintenance strategy (Roads 2000 Strategy); (iv) decentralization of the flow of funds and decision making that has enabled funds for road maintenance to reach every district of the country; (v) significant improvement in axle load control; (vi) enactment of the Kenya Roads Act (2007) which, among others, establishes three autonomous road authorities, namely the Kenya National Highways Authority, Kenya Rural Roads Authority, and Kenya Urban Roads Authority (KURA); (vii) operational improvements at the Port of Mombasa; (viii) enactment of the Civil Aviation Act of 2002 leading to the establishment of the autonomous Kenya Civil Aviation Authority (KCAA); and (ix) initiation of public-private partnerships including the concessioning of Grain Bulk Cargo handling at Mombasa Port, Cargo handling in Jomo Kenyatta International Airport (JKIA) and the privatization of Kenya Airways. The Government has also concessioned the Kenya Railways (jointly with the Uganda railways), adopted a uniform East African regulatory framework for civil aviation; revised the Procurement Law (to enhance competition, fairness, and transparency); and given Kenya Airports Authority (KAA) and Kenya Civic Aviation Authority (KCAA) the
full financial autonomy and allowed them to retain the revenue generated from their operations which was previously remitted to the Government’s general revenue kitty.

Objectives

3. The revised project development objectives are to: (i) increase efficiency of road transport along the Northern Corridor to facilitate trade and regional integration (58% weight); (ii) enhance aviation safety and security to meet international standards (30% weight); (iii) promote private sector participation in the management, financing and maintenance of road assets (10% weight); and (iv) restore the vital public infrastructure services that were disrupted during the post-election (December 2007) crisis (2% weight).

Rationale for Bank Involvement

4. The funds available under the Northern Corridor Transport Improvement Project IDA Credit for road construction works are adequate for only 4 of the 7 major road sub-projects to be financed by IDA. At the time of appraisal in early 2004, the funds were expected to cover all 7 sub-projects with IDA financing 75% of the expenditure. Nordic Development Fund (NDF) is co-financing the eighth one (Maji ya Chumvi – Miritini road section) which has recently been substantially completed. The three that remain to be funded are: (i) a pilot long term Output and Performance based Road Contract (OPRC); (ii) one major road sub-project in the Northern Corridor (Mau Summit – Kisumu, in three large works contracts); and (iii) the North Airport Road in Nairobi.

5. Unit costs of road construction have gone up by 60-80% since the time of appraisal in early 2004 due to a disproportionate rise in international prices of basic construction materials such as fuel, bitumen, steel and cement. The costs have also risen in recent times due to a number of other reasons including: (i) recent imposition of income tax on turnover (foreign 20% and local 4%); (ii) delays in processing payment certificates because of increased checks and balances; (iii) high demand on construction industry worldwide occasioned by rapid growth in economies with slow supply response; and (iv) inadequate competition because of a decrease in the number of large contractors active in Africa. In addition to the increase in unit construction costs, there has also been an excessive deterioration of project roads because of exceptionally heavy rains and floods and exceptionally high growth of traffic compared to the projections (nearly 7- 10% per annum in the last four years compared to 5% projected).

6. At the same time, Kenya’s economic recovery has quickened (with the recent exception due to the post-election violence). At the time of appraisal in early 2004, GDP growth was less than 3% per annum and was expected to rise to 5% by 2006. During the first half of 2007 it was 7.0 percent, with a target of 10 percent by 2012. As a result of such rapid growth in the economy, the number of vehicles has nearly doubled in the major cities and the average annual daily traffic on selected road sections in the Northern Corridor varied from about 3,000 vehicles per day to 20,000 vpd in 2006, compared to 2,000 – 12,000 vpd in 2003. Bottlenecks along the Northern Corridor not only cause congestion and delays to the traffic in Kenya but also to the transit traffic going to the neighboring countries such as Uganda, Rwanda, Burundi, Democratic Republic of Congo (DRC), Sudan, and Ethiopia - adding drastically to the cost of doing business in those
countries. Similarly, the economic recovery has also contributed to an unprecedented growth in air traffic notably at JKIA (international passenger flows have increased from 3.7 million in 2003-2004, to 4.7 million in 2007, whereas the design capacity of the existing airport is only 2.5 million passengers).

7. The recent post-election violence in the country also saw an extensive amount of damage to critical infrastructure, particularly in the western region of the country. Sections of the Uganda-Kenya railway line were uprooted, trenches were dug across critical trunk roads, and several key bridges and public buildings were damaged or destroyed. The emergency works component introduced under the project will help finance the purchase and installation of bailey bridges and immediately restore damaged sections of roads, bridges and public buildings. This component will therefore restore confidence in the peace process and provide high dividends from Bank’s speedy response and continued commitment to a long lasting partnership with Kenya.

Description

8. The proposed additional Credit would help finance the costs associated with: (i) completion of the original project activities whose scope and costs have increased unexpectedly (78%); and (ii) implementing expanded project activities that scale up the development effectiveness of the project to address institutional capacity constraints and strengthen governance in the construction industry, including a component for rehabilitation of infrastructure damaged as result of the violent protests that followed the general elections in December 2007 (22%).

9. The Additional Financing Project also includes a proposal for restructuring the original project consisting of: (i) dropping activities pertaining to North Airport Road and Rehabilitation of Old Embakasi Airport; (ii) constructing a new Passenger Terminal (Unit 4) at Jomo Kenyatta International Airport (JKIA); (iii) carrying out of feasibility and design studies for the Sudan Link Road and Urban Public Transport in Nairobi; (iv) strengthening of governance in the construction industry; (v) reallocating funds among the disbursement categories; and (vi) extending the Closing Date of the Project from December 31, 2009 to June 30, 2012 to allow sufficient time to implement the expanded and new activities.

10. The proposed additional financing and restructuring will advance the attainment of the project objectives by: (i) financing the remaining unfunded road works contracts, and scaling up the institutional strengthening, capacity building and policy reform components of the project; (ii) financing the emergency repair and restoration of public assets, including roads, bridges and public buildings destroyed or damaged in the post-election violence in selected parts of the country; and (iii) financing a new component dealing with strengthening of governance in the construction industry to provide for better oversight, regulation and professional conduct of engineers, contractors and consultants, and better management of the periodic disasters on roads and bridges such as road washouts related to heavy rainfall and floods experienced in Kenya. No modifications to the implementation arrangements are required.

Financing
Implementation

11. There is no change in the implementation arrangements defined under the original project. The Ministry of Roads and Public Works is the implementing agency for the roads and bridges component and the new emergency repair of public infrastructure assets; Kenya Airports Authority will implement the expansion and fencing of the Jomo Kenyatta International Airport, the Kisumu Airport, and Wilson Airport and related safety and security enhancement activities; Kenya Civil Aviation Authority will implement its institutional strengthening and capacity building component; and the Ministry of Transport will implement its component related to institutional strengthening, capacity building and training.

Sustainability

12. Despite the initial start up delays, the project is likely to be implemented successfully and in a timely fashion because of the early and full involvement of the key stakeholders and the project team. The timely flow of counterpart funds will continue to be critical, specially given the increase in the government’s share of the counterpart funds (from 25% to 67% for the road works), but so far all indications are that the government is committed to funding this project in a timely manner given its high priority and regional significance.

13. The benefits of the project are likely to be sustained because maintenance and management of the Northern Corridor, after rehabilitation, is to be concessioned to the private sector managed by the autonomous National Highways Authority to be established under the project. Similarly, the KAA and the KCAA are now allowed to retain directly the passenger service and aviation user charges respectively, which will allow them to continue to maintain the high standard of safety and security required for continuous growth in international air traffic.

Lessons Learned from Past Operations in the Country/Sector

14. Previous experience with road sector projects, and their implementation record in Kenya hold a number of useful lessons which have been incorporated in the design of the Project:

- Project design must reflect the intent, interests and priorities of the beneficiaries and the stakeholders to ensure ownership of the project and particularly the reform process.
- There must be an emphasis on capacity building of project agencies. Experience in Kenya and elsewhere confirm that sustained project impact depends less on the physical works financed and more on well-managed, well-financed executing agencies.
• Preparation and implementation of the project by the responsible ministries of roads and transport will ensure the integration and follow-up activities within these ministries. The decision by the Government to set up an "all inclusive" Project Technical Team to prepare and implement the project will avoid previous experiences where the focus was more on physical works and less on financial management and other institutional aspects.

• Explicit provision for adequate (and assured) **domestic funding for maintenance** must be made for project-financed infrastructure to ensure sustainability after project completion.

• In general, any first effort in a sector, or a sub-sector, needs to be supported by a sustained **sector dialogue** aimed at defining and implementing the necessary institutional and financial reforms to achieve goals and policies. Follow-up operations, appropriately timed, are required to cement the gains and extend the policy and institutional reforms which may be left incomplete by the predecessor project.

15. These lessons are particularly relevant for the Northern Corridor Transport Improvement project. The proposed public-private partnership element of the project is the first of its kind in Kenya’s road sector. It aims at improving the long-term maintenance environment of the roads by facilitating concessioning of selected road sections of the Northern Corridor and initiating a pilot program of long-term performance based maintenance and management of a selected sub-network of lower volume roads. Project preparation effort and project design reflect deliberate and sustained dialogue between IDA and GOK. In addition, based on prior experience, the project, through the internalized Project Technical Teams (PTT) will emphasize upstream implementation of reporting, auditing and accountability measures to ensure early detection and remedy of implementation problems.

16. The composition of project task teams both on the side of the Borrower and the Bank is “all inclusive” and with diverse skill mix required for this project. In addition, the project is integrated in the line activities of Implementing Agencies.

**Safeguard Policies (including public consultation)**

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment (OP/BP 4.01)</td>
<td>[x]</td>
<td></td>
</tr>
<tr>
<td>Natural Habitats (OP/BP 4.04)</td>
<td></td>
<td>[x]</td>
</tr>
<tr>
<td>Pest Management (OP 4.09)</td>
<td></td>
<td>[x]</td>
</tr>
<tr>
<td>Physical Cultural Resources (OP/BP 4.11)</td>
<td></td>
<td>[x]</td>
</tr>
<tr>
<td>Involuntary Resettlement (OP/BP 4.12)</td>
<td>[x]</td>
<td></td>
</tr>
<tr>
<td>Indigenous Peoples (OP/BP 4.10)</td>
<td></td>
<td>[x]</td>
</tr>
<tr>
<td>Forests (OP/BP 4.36)</td>
<td></td>
<td>[x]</td>
</tr>
<tr>
<td>Safety of Dams (OP/BP 4.37)</td>
<td></td>
<td>[x]</td>
</tr>
<tr>
<td>Projects in Disputed Areas (OP/BP 7.60)*</td>
<td></td>
<td>[x]</td>
</tr>
<tr>
<td>Projects on International Waterways (OP/BP 7.50)</td>
<td></td>
<td>[x]</td>
</tr>
</tbody>
</table>

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

(1) Anil S. Bhandari
Title: Senior Advisor
Tel: 5368 + 6421 or (254) 20 322 6421
Fax: (254) 20 322 6380
Email: Abhandari@worldbank.org

(2) Josphat Sasia
Title: Senior Transport Specialist
Tel: 5368+6452 or (254) 20 322 6452
Fax: (254) 20 322 6380
Email: JSasia@worldbank.org

For more information contact:
The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Email: pic@worldbank.org
Web: http://www.worldbank.org/infoshop