

**POLICY POINTS**

Chinese companies should increase workforce localization and improve transparency to help bolster local support for infrastructure projects.

Existing conflicts and ethnic grievances can impede project construction and implementation. Strengthening communication with local communities will help mitigate these challenges.

Liaison officers, translators, and mediators should be used to help bridge the gap between cultures and management styles of Kenyan and Chinese workers.


**LOCAL POLITICS MEETS CHINESE ENGINEERS: A STUDY OF THE CHINESE-BUILT STANDARD GAUGE RAILWAY PROJECT IN KENYA**
**BY UWE WISSENBACH AND YUAN WANG**

As part of China's new "Belt and Road Initiative," Kenya's Standard Gauge Railway (SGR) aims to open East and Central Africa up to Chinese trade and investment. Much like other Chinese infrastructure projects in Africa, the SGR has sparked controversy around its economic viability, corruption, opaque contracting practices, financing arrangements, and community and labor issues. Yet, the project has also created modest development opportunities for local content, jobs, and skills.

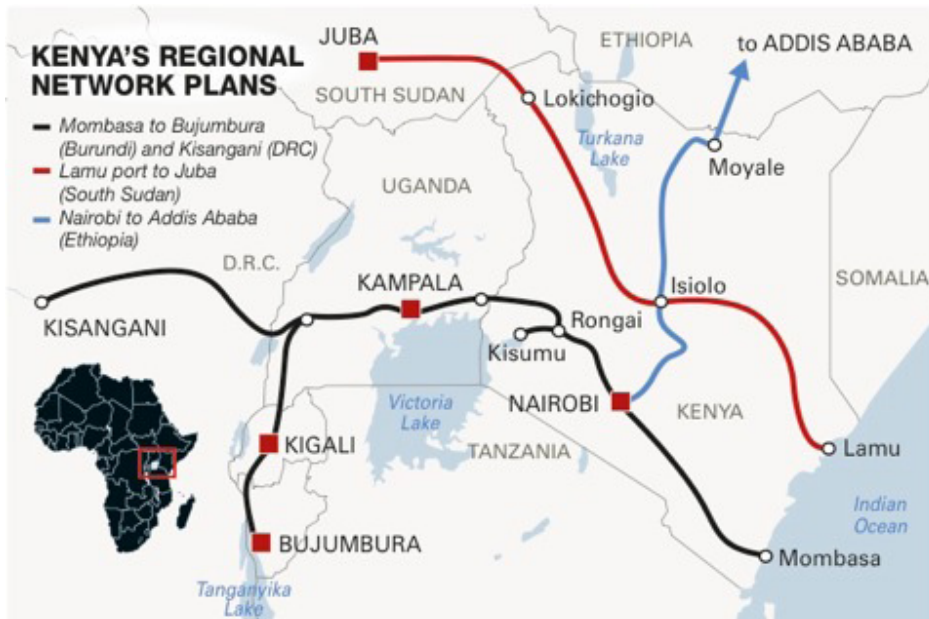
This policy brief examines how local Kenyan politics have affected the construction of the first phase of the SGR, which runs from Mombasa to Nairobi. Research was conducted through in-depth interviews with over 20 stakeholders, extensive review of publicly available documents and media coverage, and three field visits to project sites in November 2014, August 2015, and December 2015. On the one hand, we found that the Chinese company responsible for construction of the SGR failed to sufficiently consult with stakeholders before starting the project. On the other hand, our research also revealed a tendency among locals to feel disproportionately entitled to gains from the project, and a propensity among politicians to use the SGR and its controversies for political capital.

**HISTORY OF THE PROJECT**

The SGR will carry freight trains at speeds up to 80 km/h and passenger trains up to 120 km/h. This will reduce transport cost and time by as much as 60 percent compared to the current railroad.<sup>1</sup> Kenya's existing 19th century railway was built for the purpose of colonial exploitation. In contrast, President Kenyatta has emphasized that the SGR was an African idea. Regional leaders signed a Tripartite Agreement in 2013, stipulating that the second phase should comprise an extension from Nairobi to Malaba on the border with Uganda, while the final phase should run from Malaba to Uganda's capital Kampala and on to Kigali (Rwanda) by 2018, South Sudan and DRC.<sup>2</sup> However, doubts persist about whether these decisions will be implemented.

The SGR is being constructed by the China Roads and Bridges Corporation (CRBC). The CRBC had previously carried out other projects in Kenya, which was a factor in its selection for the SGR. A Memorandum of Understanding (MoU) between the Government of Kenya and the CRBC was signed in August 2009 to carry out a feasibility study and preliminary design for the railway. The designs were finished in 2012. In May 2014, during his visit to Kenya, Premier Li Keqiang witnessed the signing of a US\$3.8 billion contract for the SGR between CRBC and the Government of Kenya. Eighty-five percent of the funding came from China's Eximbank, while Kenya provided 15 percent

Figure 1: Map of the SGR<sup>4</sup>



**Land and Compensation Issues**

The Kenyan government is in charge of land resettlement and compensation. The National Land Commission (NLC) is responsible for the valuation and compensation of the land that the railway goes through. The NLC’s land valuation process is the source of greatest controversy. Each property that the railway line goes through is valued, but many owners claim that their land is worth more than the figure decided upon by the NLC. The budget allocated to land compensation has almost doubled as a result. The chairman of the NLC blames local political leaders for encouraging people to fight the process.<sup>6</sup>

co-financing. Construction started in October 2014 and is expected to finish in June 2017 just ahead of Kenya’s next national elections.

**IMPLEMENTATION AND IMPACT ON LOCAL COMMUNITIES**

*Local Sourcing and Business Concerns*

There is an unofficial understanding among Kenyans that the CRBC is to locally source 40 percent of its construction materials, yet this is not actually part of its contract. Due to organized pressure from Kenyan manufacturers and negotiations with the CRBC and China Eximbank that were led personally by Kenya’s President, all of the cement used in construction is now purchased from Kenyan industries. This required the transfer of manufacturing standards, thus upgrading the local capacity.<sup>3</sup> Railway cars and crushed rock are also produced locally, but construction machines, railway engines, and steel rails are all imported from China. Kenyan businesses are pushing for more areas of local content in future construction phases including the Naivasha extension.<sup>5</sup>

Local markets and shops have benefited from the influx of SGR workers during the construction phase. Once the railway is operational, the need for continued maintenance and operations will also create additional economic opportunities for local communities.

In Mombasa, land compensation disputes have posed a significant obstacle for the CRBC, which according to the Daily Nation, has accused the Mombasa County Government of interfering in the acquisition of land and the construction process.<sup>7</sup> The governor of Mombasa argues that resettlement and compensation should be viewed as a historical issue, and that “ancestral interest” should be included into each valuation by the NLC and Kenya Railways. Land ownership has been a long-standing political grievance in this area of Kenya, and as a result, these disputes do not directly stem from the SGR project. However, the railway project has exacerbated the conflict and brought issues around land ownership and compensation to the forefront of political debate.

Even outside of Mombasa County, land disputes are largely a reflection of long-standing local political conflicts which have not been addressed in the national government’s contract with the Chinese company. Although the contract stipulates that the national government is responsible for addressing and managing land resettlement and compensation, this is not clear to the local population. As a result, the Chinese companies and their employees often face hostility from local communities during construction.

## *Labor Issues*

The CRBC employs about 25,000 Kenyans and 2,000-3,000 Chinese depending on the construction phases. On field visits to camps and project sites, most workers are Kenyans, including machine operators, truck drivers, surveyors, and other specialists. Most of the Chinese workers at the project sites are engineers and speak little English or Kiswaheli.

Of the non-Chinese workers, a distinction should be made between Kenyan and local workers. Some positions that require higher skill levels are filled with Kenyan employees from Nairobi. Those “outsiders” are often resented by the local community, and this division is exacerbated by long-standing ethnic grievances in Kenya. But conflicts between rival ethnic groups can also emerge over the recruitment and employment of unskilled labor.

Chinese managers are largely unfamiliar with worker strikes, and their responses to strikes demonstrate significant cultural differences. Chinese managers interviewed in the Emali construction section emphasized that they abide by Kenyan law and their contract, and they cannot understand why local workers strike over what they see as trivial issues.

When confronted with labor demands, the CRBC’s main defense was the strict application of Kenyan laws and regulations, and they often relied on the national government to help sort out issues—but only after attempting a number of other mediation strategies. When disputes between Chinese and local workers arose, the CRBC first discussed the dispute with the workers. If no agreement could be found, the CRBC resorted to local governments for mediation. The county governments often supported local workers—a natural alliance given that county government officials are elected by many of these workers. As a last resort, the mediation would be referred to the national government in Nairobi, which tended to strongly support the CRBC so that the railway could be finished in time.

The tension between workers and employers witnessed during our field research was relatively “normal,” but seemed to be exacerbated by the deep ethnic grievances that exist in Kenya, as well as by the vast differences in management culture and workplace expectations between the Kenyans and Chinese.

## **TECHNOLOGY AND SKILLS TRANSFER**

Technology transfer is a key component of most foreign projects. Most technology transfer during construction of the SGR took place among unskilled laborers through “learning by doing.” In addition, a Technology Transfer Competence Training facility in Voi was financed by the CRBC’s corporate social responsibility (CSR) budget. The facility opened in August 2015, and was welcomed by the governor of Taita Taveta, John Mruttu, who claimed it as one of his initiatives.<sup>8</sup>

Thousands of unskilled workers acquired skills on-site through temporary employment. Subsequent demand for these skills in other infrastructure projects or SGR maintenance is expected, but not guaranteed and no structured opportunities for continued training exist other than the Voi facility. The future of the facility is not clear, but it is better positioned to meet industry demand for skilled workers than the current Kenyan vocational training system, which is largely theoretical and is not aligned with employer needs.

### *Liaison Officers*

In Voi County, we met with two liaison officers seconded by the county government to the CRBC Section 2 office. Similar arrangements exist in each construction section. They served as a bridge between the local community in Voi and the CRBC. The two liaison officers collected appeals and complaints from the local community, and discussed them with the CRBC. As a result, the CRBC helped renovate schools, health centers, churches, and mosques. The company also built small roads and bridges at the request of the local community. They also worked with the CRBC’s managers to find the most effective ways of dealing with diverse local communities and to ensure broad representation among the employees. On the flip side, they also helped promote the railway in the local community to garner support and acceptance for the project.

Using liaison officers seems to be an effective method of gaining local acceptance for the SGR. The officers helped reduce conflict over land issues and employment issues, and improved communication between the CRBC and local residents/workers.

**POLICY RECOMMENDATIONS**

- 1. Building an in-depth understanding of the political background of the host country is crucial for Chinese companies' operations.** Chinese companies tend to rely on top-down national government interventions to solve problems. However, obtaining the “social license” to operate in developing countries like Kenya is crucial for success. Increasing localization of the workforce, especially at the management level, as well as increasing transparency will help build local support and acceptance of infrastructure projects.
- 2. Kenyan politicians and planners should strengthen communication with local communities and encourage their participation in the early phases of a project.** Discussions should include issues such as local content, and existing ethnic and land disputes to avoid further conflict during implementation or delays due to re-negotiation of contract terms.
- 3. Stakeholders on both sides should proactively address all cultural, language, and management barriers.** The Chinese and Kenyans differ in their respective approaches to management and conflict resolution. Chinese managers rely on the “rule of law,” and employ state-centric conflict resolution tactics. The Kenyans rely more on their perceptions of what is “right” or what they feel entitled to, and they do not shy away from conflict or tough bargaining. In order to bridge these gaps, local advisors should be used more frequently and proactively, including liaison officers, as well as translators and mediators for any labor or ethnic conflicts that arise.

**ENDNOTES**

1. Lucie Morangi, “Rail project an engine of learning.” China Daily Africa, July 10, 2015, [http://africa.chinadaily.com.cn/weekly/2015-07/10/content\\_21242975.htm](http://africa.chinadaily.com.cn/weekly/2015-07/10/content_21242975.htm).
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3. Interview with Kevit Desai, Chief Executive Officer, Centurion Systems, and former Governor of Kenya Private Sector Alliance, January 14, 2016.
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5. The Naivasha extension agreement was signed between the CRBC and Kenya Railways during a cabinet meeting chaired by President Kenyatta on September 19, 2015. This also initiated creation of a SEZ linked to the new railway.
6. Daniel Tsuma Nyassy, “Swazuri tells off politicians on railway project,” Daily Nation, July 2, 2015, <http://www.nation.co.ke/news/Swazuri-tells-off-politicians-on-rail-project/-/1056/2773434/-/nt5k5uz/-/index.html>.
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8. Interview with Mr. John Mruttu, Governor of the Taita Taveta County, August 7, 2015.

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1717 Massachusetts Avenue, NW  
Suite 733  
Washington, DC 20036  
sais-cari@jhu.edu

[HTTP://SAIS-CARI.ORG/](http://SAIS-CARI.ORG/)



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**AUTHORS**

**Uwe Wissenbach** works for the European Union’s European External Action Service. The author writes in his personal capacity and the publication does not reflect EU policy.

**Yuan Wang** is currently a MSc candidate at Oxford University. She holds a Master of Public Policy from Harvard Kennedy School, and has previously worked in China and Kenya.