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REPUBLIC OF KENYA
MINISTRY OF FINANCE


SESSIONAL PAPER NO. ¹~~2~~ OF 2004

KENYA GOVERNMENT GUARANTEE OF A LOAN OF JAPANESE YEN 10,554,000,000 EQUIVALENT TO KSHS.7, 543,260,400 FROM THE JAPAN BANK FOR INTERNATIONAL COOPERATION (JBIC) TO THE KENYA ELECTRICITY GENERATING COMPANY FOR THE IMPLEMENTATION OF THE SONDU MIRIU HYDRO-POWER PROJECT

1. In accordance with the provisions of the Guarantee (Loans) Act (Cap 461) of the Laws of Kenya, the following information is laid before the National Assembly for consideration and approval.
2. The Kenya Electricity Generating Company Limited is a wholly Government-owned company established under the Companies Act (Cap 486 of the Laws of Kenya).
3. The primary function of the Kenya Electricity Generating Company is to generate electricity for sale to the Kenya Power and Lighting Company Limited which is the sole distributor of commercial electricity in Kenya.
4. With the full support of the Government, the Kenya Electricity Generating Company Limited has successfully negotiated for a second loan of Japanese Yen 10,554,000,000 equivalent to Kshs. 7,543,260,400 from the Japan bank for International Cooperation (JBIC) to finance phase II of the Sondu Miriu Hydro Electric Power Project. The first phase whose implementation commenced in 1997 involved civil works (**for the tunnel**) and consulting services and was financed through a loan of JPY 6,933,000,000 equivalent to Kshs. 3,466,500,000 borrowed from the Overseas Economic Cooperation Fund of Japan on Government of Kenya guarantee,

5. The Sondu Miriu Project had initially been scheduled to be completed in 2003 but has been delayed by more than three years due to delay in funding caused by concerns over debt sustainability, alleged corruption, negative publicity by Non-Governmental Organisations on the environmental impact of the project and exclusion of Kenya from the International Monetary Fund (IMF) lending programme. This has led to cascading adverse opportunity costs to the economy as the project would have reduced dependence on expensive power from oil fired plants. In addition, KenGen apart from losing an opportunity to generate revenue for three years from electricity sales from the plant is also expected to incur total cost overruns of at least US\$30 million hence the need to finalise financing arrangements to complete the project urgently.
6. The loan bears an interest rate of 0.75% per annum and carries a 10-year grace period and a repayment period of thirty (30) years. KenGen is expected to augment the total project financing by 15% and has in this respect set aside Kshs. 3 Billion for this purpose. Based on KenGen's past performance and the projected performance, which takes into account cash flows relating to the Sondu Miriu project, the company will be able to meet its debt servicing obligations.
7. The scope of work will involve civil works (**for the power house and associated buildings**), engineering consulting services and installation of 60 MW turbines and generators including an associated transmission line to Kisumu. On completion, the project will provide an additional 60 MW to the national grid. The project is expected to be completed by 2006/07.
8. The National Assembly is requested to approve the Kenya Government Guarantee of the loan of Japanese Yen 10,554,000,000 equivalent to Kenya Shillings 7,543,260,400 from the Japanese Bank for International Co-operation (JBIC), a 100% Japanese Government owned overseas development assistance bank, to the Kenya Electricity Generating Company.
9. The current total contingent liabilities of the Government of Kenya in respect of the Guarantee given under section (3) of the Guarantee (Loans) Act other than those specified in the schedule to the Act

amount to Kshs. 40,162,036,000 and with the guarantee of a sum equivalent to Kshs. 7,543,260,400, the aggregate amount will be increased to Kshs. 47,705,296,400 which will fall within the ceiling of the guaranteed debt amounting to Kshs. 80 billion in accordance with sub-section (a) of the Act.


DAVID MWIRARIA, MP
MINISTER FOR FINANCE

DATE.....*10th March, 2004*.....