



27/07/2011  
Speaker  
Member  
Clerk  
Director  
P.C.A.

**SESSIONAL PAPER NO. 1 OF 2011**

**KENYA GOVERNMENT GUARANTEE OF A LOAN OF EUR 39,100,000.00 EQUIVALENTS TO KSH 4,926,600,000.00 FROM THE KFW, FRANKFURT AM MAIN TO THE KENYA ELECTRICITY GENERATING COMPANY FOR THE REHABILITATION AND UPGRADE OF THE KINDARUMA HYDROPOWER PLANT**

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 (KenGen) Limited is a State Corporation, established under the Companies Act (Cap 486 of the Laws of Kenya). It is 70 percent Government owned, and falls under the Ministry of Energy.
3. The primary function of KenGen is to generate electricity in bulk for sale to the Kenya Power and Lighting Company Limited which is the principal distributor of commercial electricity in Kenya.
4. With the full support of the Government, KenGen has successfully negotiated for a loan of EUR 39.1 million equivalent to Ksh 4.9 billion from KfW, Frankfurt am Main,

Federal Republic of Germany to co-finance the rehabilitation and upgrade of the Kindaruma hydropower plant leading to its generation capacity enhancement from 40MW currently to 72MW.

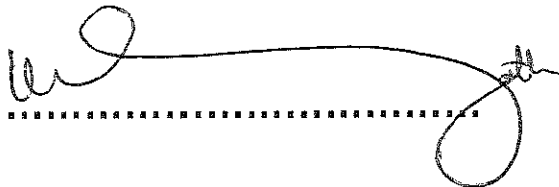
5. The Kenya Government is, in the context of the national Vision 2030, committed to transforming Kenya to a middle income country by 2030. To realize this objective means, among other things, the country must accelerate economic growth to around 10 percent annually and sustain it at that level for a long period. To achieve and sustain such high growth rates requires ample supply of electricity at competitive prices. At present, there are no such favorable conditions in the country. This project is therefore meant to create a conducive investment climate and enabling environment for economic growth in Kenya.
6. The rehabilitation and upgrade of the Kindaruma hydropower plant is scheduled to be completed by June 2013. This will entail rehabilitation of the existing 40MW power station, by raising its current capacity to 48MW and installation of an additional new 24MW unit (Unit 3) giving a total installed capacity of 72MW.
7. The loan has two components: an interest rate of 2.5% per annum, for the first EUR 30.0 million and 5.3% for the remaining EUR 9.1 million. Additional charges on the loan include a commitment fee of 0.25% per annum on undisbursed loan amounts and a one-time lump-sum

management fee of 0.75% of the principal amount of the loan. The loan has a three (3) year moratorium and a repayment period of ten (10) years, in twenty semi-annual installments.

8. KenGen is expected to augment the total project financing by about 31% (Ksh 1.932 billion). Based on KenGen's past performance and the projected performance which takes into account cash flows relating to the Kindaruma hydropower plant project, the company will be able to meet its debt servicing obligations.
9. The National Assembly is requested to consider and approve the issuance of Government of Kenya Guarantee for the loan to KenGen of **Euro 39.1 million** equivalent to **Ksh 4.9 billion**<sup>1</sup> from KfW, Frankfurt am Main, Federal Republic of Germany, a Government owned overseas development assistance bank.
10. The current total contingent liabilities of the Government of Kenya in respect of the Guarantee given under sub-section 3 (3) of the Guarantee (Loans) Act, Cap 461, Laws of Kenya, other than those specified in the schedule to the Act amount to **Ksh 72.5 billion**. This request for guarantee of a sum equivalent to **Ksh. 4.9 billion** will increase the aggregate amount to **Ksh 77.4 billion** which is within the ceiling of the guaranteed debts of Ksh 200 billion set by Parliament under sub-section 3 (3) of the Act on 16<sup>th</sup> June 2011.

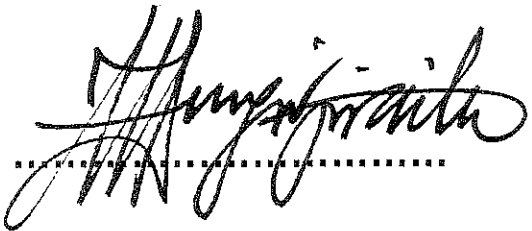
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<sup>1</sup> Exchange rate of Ksh.126 to 1 Euro



Date 22.7.11

**Hon. Uhuru Kenyatta, EGH, MP  
Deputy Prime Minister and  
Minister for Finance**



Date 19/7/11

**Hon. Kiraitu Murungi, EGH, MP  
Minister for Energy**