

Speaker & A.	Clerk Ass't I
Clerk N.A.	Reports
Clerk Ass't I	Press
Clerk Ass't II	Library
Clerk Ass't III	Binding

KENYA GOVERNMENT GUARANTEE OF TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY BY GRINDLAYS BANK P.L.C. TO FINANCE PART OF THE CONSTRUCTION COST OF THE KIAMBERE HYDROELECTRIC PROJECT.

THE GUARANTEE (LOANS) ACT, CAP. 461

1. In accordance with the Provisions of the Guarantee (Loans) Act (Cap 461) the following information is laid before the National Assembly for consideration and approval.
2. The Government proposes to guarantee a loan of Deutsche Mark Twenty five million (DM 25,000,000) equivalent to Kenya Shillings One hundred thirty one million seven hundred forty thousand (Kshs. 131,740,000) to be made available to the Tana and Athi Rivers Development Authority (TARDA) by the Grindlays Bank p.l.c. which has its Head Office in London, United Kingdom. The International Bank for Reconstruction and Development (IBRD) and the Yugoslav Bank for International Economic Cooperation are co-financiers of the Project. Other financiers for this Project are the African Development Bank (AfDB), the Saudi Fund for Development (SFD), the Swedish International Development Agency (SIDA), the Skandinaviska Enskilda Banken (SEB), the Canadian International Development Agency (CIDA), the Kreditanstalt fuer Wiederaufbau (KfW) and the Government of the United Kingdom. The Government will on-lend the proceeds from these loans and grants to TARDA. A further Government contribution in the form of equity in the amount of Kshs. 603.8 million would be used to defray the cost of duties and taxes imposed on the Project.

Funds estimated at net Kshs. 535.5 million to cover the remaining unfunded components of the Project would be provided through a proportion of the development surcharge collected by the Kenya Power and Lighting Company Limited (KP&L).

The total cost of the Project is estimated at Kshs. 4,392.0 million.

3. The loan will be paid within a period of six months (6) commencing 1984, and will bear interest on the principal amount of the loan withdrawn and outstanding from time to time at a rate per annum which is one and one quarter of one per cent (1 1/4%) above the rate at which Deutschmark deposits of an amount comparable to the sum outstanding for such interest period are offered to the lender by prime banks in the London Interbank Market. The interest for the last known interest period is 7 per cent per annum.
The borrower (TARDA) will pay a bank fee equivalent to Deutsche Mark One hundred and twenty five thousand (DM 125,000) and a further commitment charge at the rate of one half of one per cent per annum on the principal amount of the loan not withdrawn from time to time.
4. This loan is required to finance part of the construction cost of the Kiambere Hydroelectric Project which is being developed by the Tana and Athi Rivers Development Authority which is a Government owned parastatal.
5. The main objective of the Kiambere Hydroelectric Project is to assure a firm source of reliable electric generating capacity to meet the growth in demand which is expected to exceed the capabilities of the generating facilities in existence in 1987. The Project would develop indigenous renewable energy resources and create new job opportunities, particularly during its construction period.

A further objective would be to reduce the country's heavy dependence on imported oil.

The Project consists of the construction of hydroelectric generating facilities on the Tana River essentially as follows:

- a) a rock and earthfill dam, approximately 100 metres high with a crest length of about one kilometre, a saddle dam and a concrete-lined spillway and two diversion tunnels about 0.5 km long.
- b) an intake, a concrete and steel-lined shaft and a headrace tunnel 6.1 m in diameter and about 4.1 km long, to connect the reservoir to the underground powerhouse, and a reinforced concrete surge shaft near the downstream end of the tunnel.
- c) an underground powerhouse with two 70 MW vertical Francis turbines, and a tailrace tunnel of about 1.4 km long.
- d) one 220 KV switchyard.
- e) 80 km of 220 KV transmission lines to connect the generating station to the existing grid.

Upon completion of the Project a reservoir with a capacity of about 585 million cubic metres would be available to regulate the flow of the Tana River and carry stored water from a high flow year to the next year. The addition of 140 MW to the system would bring the total capacity, including the 30 MW supply of UEB to 692 MW, i.e. an 25% increase in installed capacity. It is expected to produce 910 GWh annually during an average water year which would increase the capacity of the system from 2,702 GWh to 3,602 GWh - a 33% increase in energy output.

A comprehensive environmental study was carried out by the Government prior to the construction of the Upper Reservoir, which is entitled "Upper Reservoir Pre-Construction Environmental Study", dated August 1976. The essential outcome of the study was that it was necessary to monitor closely the effect of the hydroelectric projects on the spread of vector borne diseases likely to arise.

In a separate study the Kiambere environmental aspects were reviewed in a report entitled "Kiambere Hydro-electric Development" of April 1980. The review did not disclose negative effects of sufficient magnitude to influence the construction of the proposed Kiambere Dam. However, a detailed study of the integrated development, possibly including resettlement, was not completed and SARRDA has retained consultants to prepare this. There are four storage reservoirs upstream of the Kiambere site and to date no adverse effects have been observed on the regime of the river.

The total project cost is estimated to be Kshs. 4,392.0 million of which 61% or the equivalent of Kshs. 2,691.6 million is in foreign exchange. The local costs include Kshs. 604 million for duties and taxes. The net cost, excluding duties and taxes, is estimated to be Kshs. 4,238.2 million.

The cost estimates were prepared on the basis of tender prices received, amended after contract negotiations and adjusted by adding physical and price contingencies to allow for unexpected changes in requirements, should any occur.

A summary of the cost estimate for the principal components of the Project is given in Table 1 with a corresponding Financing Plan in Table 2.

Foreign
as % of

<u>Project Component</u>	<u>Local</u>	<u>Foreign</u>	<u>Total</u>	<u>Total</u>
a) Preliminary Works	187.0	18.0	205.0	9
b) Dams	548.7	526.0	1,074.7	49
c) Powerhouse and Tailrace	193.0	614.2	807.2	36
d) Headrace Tunnel	132.9	246.9	379.8	17
e) Mechanical and Electrical Works	56.7	521.0	577.7	26
f) Engineering Consultants	117.0	382.0	499.0	22
g) Panel of Experts and Project Team Leader	5.3	16.3	21.6	1
h) Training	-	2.7	2.7	0
i) Miscellaneous	42.5	-	42.5	2
Total Project Cost (1983 prices)	1,239.1	2,327.4	3,566.5	164
Interest during construction	7.5	570.4	577.9	26
Credit Insurance	-	93.3	93.3	4
Estimated Customs Duties and Sales Tax	603.2	-	603.2	27
Total Financing Required	1,900.4	2,991.6	4,892.0	221

TABLE 2 FINANCING PLAN - SUMMARY

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
IBRD loan	537.3	762.7	1,300.0
Yugoslav Bank	-	156.0	156.0
Grindlays Bank p.l.c.	-	131.7	131.7
African Development Bank	-	283.7	283.7
Saudi Fund for Development	75.5	77.2	152.7
Other bilateral financiers	92.3	1,588.3	1,680.6
Government Funds	603.2	-	603.2
TANBA/IFPCL	585.5	-	585.5
Total Financing Secured	1,900.4	2,991.6	4,892.0

The external funds for the Kiambere Hydroelectric Project will be in the form of grants and loans. These will be made to either TARDI directly or the Government. With regard to the loans to the Government, the effective lending interest rates to the Government and the subsequent on-lending rate of 5% to TARDI are not excessive as the terms of many of the foreign loans would be soft. Under the lease agreement for the use of the Kiambere Powerstation, KP&L would pay TARDI a rental which would be adequate to cover TARDI's debt servicing of Kiambere over a 20-year period after commissioning, at an interest rate of 10%.

The Tana and Athi Rivers Development Authority, a regional development agency, will be the executing agency for the proposed Project.

TARDI is accountable to the Ministry of Energy and Regional Development. TARDI is a body corporate existing under the Tana and Athi Rivers Development Authority Act (Chapter 443 Laws of Kenya). Its duties include the following:

- a) to advise the Government on all development possibilities within the Tana and Athi River Basins;
- b) to establish long range plans for the effective utilization of the water resources of these basins;
- c) to co-ordinate and maintain all development projects in the catchment area and, in some cases undertake the execution of development projects including power projects;
and,
- d) maintain liaison between the Government, the private sector and foreign agencies in development of the Tana and Athi Basins.

For the justification of the Project the trends in sales of electricity over the last decade have been analysed. Sales of electricity have increased rapidly during that period. The average annual growth was approximately 9%. Sales of electricity can be divided into two categories, namely,

- i) domestic and small commercial;

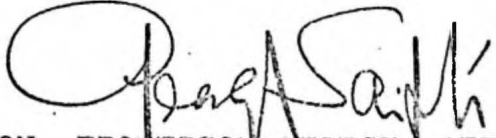
(ii) Industrial and large commercial.

The analysis of historical trends of these two categories relating them to the growth in the gross domestic product resulted in a forecast for a growth rate of the overall electricity sales of 6% per annum between 1982 and 1990.

Hence the justification for the Kiambere Hydroelectric Project which is expected to be completed by May 31, 1988.

6. The Government attaches great importance to the development of alternative sources of energy and this project is an important step towards that objective. The Government therefore requests the National Assembly to approve that the Government may guarantee the repayment of the loan referred to above.

7. The current total contingent liability of the Government of Kenya in respect of guarantees given under section 3 (3) of the Guarantee (Loans) Act (other than those specified in the schedule to the Act) amount of KSh 330,509,582 of which KSh 327,424,000 is in respect of covenants expressed in foreign currency as per paragraph (b) and KSh 53,082,582 is in respect of covenants expressed in Kenya currency as per paragraph (a) of section 3 (3) of the Act.


 HON. PROFESSOR GEORGE S. MWANGI, M.P.
 MINISTER FOR FINANCE AND PLANNING

Note.

The purpose of this loan on short terms is to bridge the finance for the advance and progress payments due to the German contractors in anticipation of the loan provided by the Kreditanstalt fuer Wiederaufbau (KfW) the details of which are currently under negotiation between the Government and the Federal Republic of Germany.

It is expected that funds from the KfW - loan will become available before September 1984 and out of these proceeds all amounts due at that time under the loan agreement with Grindlays Bank p.l.c. shall be settled.