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SESSIONAL PAPER NO. 2

KENYA GOVERNMENT GUARANTEE OF A LOAN TO THE
TANA AND ATHI RIVERS DEVELOPMENT AUTHORITY BY
THE YUGOSLAV BANK FOR INTERNATIONAL ECONOMIC
COOPERATION 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 U.S. Dollars Eleven million four hundred thousand (US \$ 11,400,000) equivalent to Kenya Shillings One hundred fifty six million (Kshs. 156,000,000) to be made available to the Tana and Athi Rivers Development Authority (TARDA) by the Yugoslav Bank for International Economic Cooperation which has its Head Office in Belgrade, Yugoslavia. The International Bank for Reconstruction and Development (IBRD) and the Grindlays Bank p.l.c. 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 could 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. 4,892.0 million.

3. The loan will be paid within a period of fifteen years (15) commencing in 1988, and will bear interest at the rate of 8 per cent per annum on the principal amount of the loan withdrawn and outstanding from time to time.

The borrower (TARDA) will pay a bank fee equivalent to U.S. Dollars Fifty seven thousand (US \$ 57,000) and a further commitment charge at the rate of one per cent per annum on the principal amount of the loan not withdrawn from time to time, as well as a service fee at the rate of one per cent per annum on the loan disbursed.

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 TAPDA 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. 4,892.0 million of which 61% or the equivalent of Kshs. 2,991.6 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. 4,286.2 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.

TABLE 1 ESTIMATE OF PROJECT COSTS - SUMMARY

<u>Project Component</u>				Portion
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>	<u>as % of</u>
a) Preliminary Work	187.0	18.0	205.0	9
b) Base	542.7	536.0	1,078.7	49
c) Furniture and Salaries	193.0	614.2	807.2	36
d) Housing Fund	134.0	246.9	379.9	17
e) Mechanical and Electrical Work	50.7	521.0	571.7	26
f) Engineering Consultants	147.0	302.0	449.0	20
g) Panel of Experts and Project Area Studies	5.3	16.6	21.9	1
h) Training	-	2.7	2.7	0
i) Miscellaneous	48.5	-	48.5	2
Total Project Cost (1985 prices)	1,289.4	2,327.4	3,616.8	100
Interest during construction	7.5	570.4	577.9	16
Credit Insurance	-	95.3	95.3	3
Estimated Customs Duties and Sales Tax	603.2	-	603.2	17
Total Financing Required	1,900.4	2,994.6	4,895.0	100

TABLE 2 FINANCING PLAN - SUMMARY

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
IBRD loan	537.3	762.7	1,300.0
Yugoslav Loan	-	156.0	156.0
Crindlays Bank p.l.c.	-	131.7	131.7
African Development Bank	-	203.7	203.7
Saudi Fund for Development	75.5	77.2	152.7
Other bilateral financing	98.3	1,500.3	1,678.6
Government Funds	603.2	-	603.2
UNEP/IFM	585.5	-	585.5
Total Financing Secured	1,900.4	2,994.6	4,895.0

The external funds for the Kiambere Hydroelectric Project will be in the form of grants and loans. These will be made to either TARDA 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 TARDA 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 TARDA a rental which would be adequate to cover TARDA'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.

TARDA is accountable to the Ministry of Energy and Regional Development. TARDA 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,

- 1) domestic and small commercial;

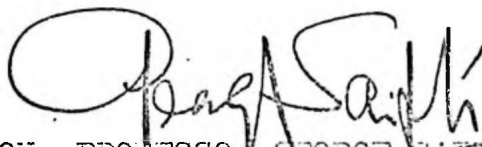
ii) industrial and large commercial.

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.



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