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REPUBLIC OF KENYA

Sessional Paper No. 3 of 1971

KENYA GOVERNMENT GUARANTEE OF A LOAN TO THE TANA RIVER DEVELOPMENT COMPANY LIMITED BY THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, AND OF CERTAIN OBLIGATIONS OF THE EAST AFRICAN POWER AND LIGHTING COMPANY LIMITED TO THE IBRD

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THE GUARANTEE (LOANS) ACT, 1966

In accordance with section 5 of the Guarantee (Loans) Act, Cap. 461, the following information is laid before the National Assembly in connexion with a proposed guarantee by the Government of the obligations of the Tana River Development Company Limited in respect of a loan of US \$23,000,000 the equivalent of approximately K£8,214,286 by the International Bank for Reconstruction and Development to be used for the development of new generating capacity at Kamburu on the Tana River, and of the obligations of the East African Power and Lighting Company Limited under a joint financing agreement with the IBRD relating to this project.

The present power generation capacity in Kenya amounts to approximately 158 MW of which 63 MW are installed in three hydro electric stations on the Tana River. In addition to its own generating capacity Kenya also imports a 30 MW bulk supply from Uganda. It is estimated that maximum power demand which stood at 125 MW in 1970 will continue to grow in the next 15 years at an annual rate approaching 12 per cent.

To help meet such growth in power demand until 1986, two additional hydro electric generating stations with a capacity totalling 140 MW are contemplated on the Tana River. Unfortunately, however, cost estimates for such new generating facilities are high, being in the range of US \$500 to US \$600 per kilowatt installed.

Such high costs for hydro power development, coupled with the existence of promising geothermal surface manifestations in the Rift Valley, have suggested the need for exploring Kenya's geothermal potential as a more economic alternative source to meet the country's growing power demand. An exploration project has already been mounted but it will be some time before the feasibility of economic exploitation of the geothermal potential can be established and plans developed for harnessing the latent power. In the meantime, however, it is necessary to ensure an immediate increase in Kenya's power output. For this it has been necessary to seek external finance, of which the proposed loan by the International Bank for Reconstruction and Development forms the greater part and in respect of which a guarantee by Government is required.

Until recently the generation of power in Kenya was undertaken by private companies which were partly foreign-owned. In view of the undesirability of this both politically and economically, the Government decided to assume full responsibility for the development of new power sources and to acquire majority

control of the East African Power and Lighting Company Limited. Consequently all the shares of the Tana River Development Company Limited have been acquired by Government and the Company is to become the vehicle for implementing Government policy as enunciated above.

The project itself consists of the first stage of the Kamburu Hydro Electric Power Station on the Tana River with an installed capacity of 60 MW (2 x 30 MW Units) together with related step-up station, the construction of a 220 kV. single circuit transmission line of about 105 km. in length from Kamburu to the tapping point for the proposed new Nairobi substation and a 132 kV. single transmission line of about 1.2 km. from this point to the existing Juja substation, and the construction of a 132 kV. single circuit transmission line of about 14.5 km. in length from Kamburu to the existing 132 kV. step-up substation at the Kindaruma Hydro Electric Power Station. Provision is also made for necessary extensions to the existing Kindaruma and Juja Road substations and the proceeds of the loan will also be used to pay for the services of consultants to carry out engineering design and supervision of construction of the Project which is expected to be completed by the middle of 1974.

The loan will be used to defray the greater part of the foreign exchange content of the Project together with a Swedish credit to Government for on-lending to the Tana River Development Company Limited of Swedish Kronor 31,500,000 equivalent approximately to US \$6,000,000 and the K£2,142,540 Funds will be made available by the East African Power and Lighting Company to meet local costs.

The loan is for a period of 25 years. Principal repayments are made semi-annually commencing on 1st July, 1975 and terminating on 1st July, 1996. The rate of interest applicable in accordance with the unvarying practice of the International Bank for Reconstruction and Development will be the Bank's ruling rate at the time the loan agreement and guarantees are signed: currently the rate is $7\frac{1}{4}$ per cent per annum. The general terms of the loan and the various covenants required of the Company as borrower and of the Kenya Government as guarantor are in accordance with the normal practices of the International Bank for Reconstruction and Development and are on lines similar to those applicable to loans made in the past and guaranteed by Kenya.

In addition, Government is asked to guarantee certain obligations of the E.A.P. & L. Co. Ltd. to the IBRD under a joint financing agreement relating to the project. These obligations relate to the management, profitability and financial position of the East African Power and Lighting Company Limited and include the making by East African Power and Lighting Company Limited to the TRDC Ltd. of a loan of K.Sh. 81,300,000 on terms satisfactory to the Government and the Bank, to assist in the financing of the project.

The current total contingent liabilities of the Kenya Government in respect of guarantees given under section 3 of the Guarantee (Loans) Act (other than those specified in the Schedule to the Act) inclusive of the guarantees sought to be given under Sessional Papers Nos. 1 and 2 of 1971 amounts to K£58,691,674. With the guarantee of K£8,214,286 proposed the aggregate will be increased to K£66,905,960 of which K£24,738,846 will fall within paragraph (a) and K£42,167,114 within paragraph (b) of section 3 (3) of the Act.