



27/07/2011
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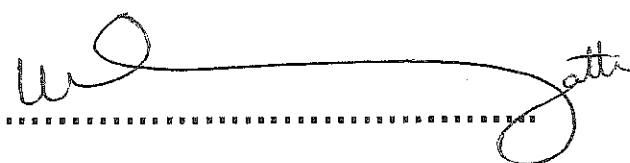
SESSIONAL PAPER NO. 2 OF 2011

KENYA GOVERNMENT GUARANTEE OF A LOAN OF EUR 60,000,000.00 EQUIVALENT TO KSH 7,560,000,000.00 FROM THE KfW, FRANKFURT AM MAIN TO THE KENYA ELECTRICITY GENERATING COMPANY FOR FINANCING THE 280MW OLKARIA I and IV GEOTHERMAL POWER 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 60 million equivalent to Ksh 7.5 billion from KfW, Frankfurt am Main, Federal Republic of Germany to co-finance Olkaria I and IV geothermal power plants to generate 280MW of electricity.

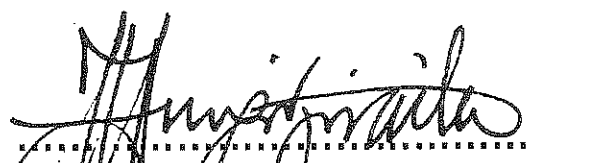
5. The Kenya Government is, in the context of the national Vision 2030, committed to transforming Kenya to a middle income country by 2030. To realize this objective means, among other things, the country must accelerate economic growth to around 10 percent annually and sustain it at that level for a 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. The implementation of Olkaria I and IV projects will contribute an additional 280MW to the national power grid.
6. The loan bears an interest rate of 3.0% per annum. Additional fees on the loan include a commitment fee of 0.25% per annum on undisbursed loan amounts and a one-time lump-sum management fee equaling 0.75% of the principal amount of the loan. The loan has a three and a half (3.5) year moratorium and a repayment period of eight and a half (8.5) years which translates into seventeen semi-annual installments.
7. KenGen is expected to augment the total project financing by about 12% (Ksh 12.2 billion). Based on KenGen's past performance and the projected performance, which takes into account cash flows relating to the Olkaria geothermal power plant project, the company will be able to meet its debt servicing obligations.

8. The National Assembly is requested to consider and approve the issuance of Government of Kenya Guarantee for the loan to KenGen of **EUR 60.0 million** equivalent to **Ksh 7.5 billion**¹ from KfW, Frankfurt am Main, Federal Republic of Germany, a Government owned overseas development assistance bank.
9. The current total contractual 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 77.4 billion**. This request for guarantee of a sum equivalent to **Ksh. 7.5 billion** will increase the aggregate amount to **Ksh 84.9 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 16th June 2011 .



Date 22.7.11

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



Hon. Kiraitu Murungi, EGH, MP
Minister for Energy

Date 19/7/11

¹Exchange rate of Ksh.126 to 1 Euro

