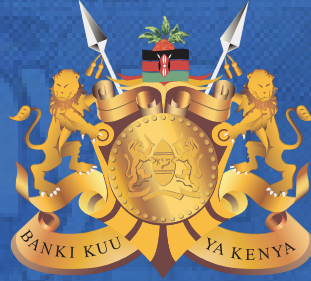


Banki Kuu ya
Central Bank of

Kenya



Central Bank of Kenya

PRESENTATION TO PARLIAMENT ON THE PROCUREMENT OF BANKNOTES

Wednesday, August 21, 2024

Central Bank of Kenya

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The Central Bank of Kenya is mandated under Article 231 of Kenya's Constitution and Section 22 of the CBK Act to:

- i) Formulate and implement monetary policy directed at achieving and maintaining stability of the general level of prices;
- ii) Issuing currency;
- iii) Ensure a proper functioning of a stable market-based financial system; and
- iv) Subject to the above, support the economic policy of the government, including its objectives of growth and employment.

Ensuring there is the right amount of money supply in the economy is, therefore, a constitutional mandate of the CBK, which ensures: (i) macro-economic stability (inflation and exchange rate); (ii) the stability of the financial system; and (iii) achieving growth and employment objectives of the Government.

- Over the course of time, currency notes get old, get torn, and are withdrawn from circulation. This means money supply in the economy reduces over time. It is therefore critical for the money to be periodically replenished.
- Since 1966, the source of Kenyan Banknotes had been from De La Rue International (DLR) or its predecessors Thomas DeLa Rue & Company Limited (TDR) and Bradbury & Wilkinson of the United Kingdom, and which was taken over by TDR in 1986.
- In October 1992, DLR established a factory in Kenya at Ruaraka, Nairobi County, and which thereafter printed the Kenyan Banknotes .
- The plant was solely owned by DLR, with the Government of Kenya through the National Treasury, acquiring a 40% stake of De La Rue Kenya EPZ Limited (a Joint Venture (JV) with DLR) in 2017. This company printed the 2019 series of the Kenya Banknotes until January 2023.
- All prior contracts were through Direct Procurement, except that for the 2019-series banknotes, which was subjected to a competitive bidding process. This process took five(5) years from the pre-qualification stage to delivery.

- Around mid-2023, CBK determined that the country was at risk of a stockout of currency banknotes
 - A stockout has significant economic and national security risks
 - A stockout of the KES1000 notes was looming
- Since De La Rue had shut down its Nairobi plant in January 2023, after fulfilling its contract to deliver the 2019-series banknotes, CBK began the process of procuring a new banknote printer to prevent this stockout
- With the risk of a banknotes stockout, CBK applied to the NT for a Classified procurement process, in line with the guidance from the National Treasury through Circular No.16/2016.

The Classified procurement process for currency became necessary on account of the following:

- a. There was an imminent stockout of the banknotes particularly the KES1000 which would have resulted in serious economic and security implications for the country. There was thus an urgent need for the currency procurement.
- b. The previous supply contract had lapsed and DLR had already shut down the Nairobi factory and dismissed all the staff.
- c. To align the process of procuring currency to global practice where most countries procure currency in a classified manner.
- d. The request for the Classified procurement process was also in line with the guidance from the National Treasury through Circular No.16/2016.
- e. CBK thus sought approval from the Cabinet through the CS, National Treasury.
- f. Due to its national security implications, CBK's request was initially considered by the National Security Council prior to its tabling before the full Cabinet. The Cabmemo was signed by the CS NT and the Attorney General.

- The National Security Council and Cabinet approved the classified procurement as requested.
- CBK was informed of the approval through a letter from the CS, National Treasury, noting that the Bank was guided to work with the relevant security agencies to achieve the classification objectives owing to the national security importance of currency printing, and further noting that currency is a high-level national security instrument.
- CBK gathered relevant data from the various companies' publicly disclosed information, as well as from other sources confidentially. Through this process, Giesecke+Devrient Currency Technologies GmbH (G+D), a reputable German Banknote printing company was identified.
- The Procurement process progressed thereafter in line with the Classified procurement process spelled out in the PPDA Act.
- All the processes required under classified procurement process including confidentiality were strictly followed.
- The contract was reviewed and approved by the Attorney General as required by law before execution by the parties.

The Classified procurement process is anchored under Section 90 of PPADA which has the following provisions:

- a. Section 90(2) - National security organs and other procuring entities that deal with procurements of classified nature shall manage their procurements and disposals based on a dual list maintained by the respective procuring entity as prescribed.
- b. Section 90(3) - Procuring entities other than national security organs referred to under sub-section (1), that procure classified items shall request the Cabinet Secretary for approval of the classified list of items annually.
- c. Section 90(6) – The Cabinet Secretary shall submit the list of classified items to Cabinet for approval.
- d. Section 90(7) - Any person carrying out his or her duties or responsibilities under this section shall maintain confidentiality and shall not disclose any information that may otherwise compromise National security.

- The design of the 2024-series banknotes is largely the same as the 2019 series.
- The banknotes also bear the signatures of the CBK Governor and the PS National Treasury, as a Member of the Board, as has been practice since 1966.

- Following the departure of De La Rue, the country was at a risk of stockout of banknotes, with grave economic and national security implications.
- The contract with De La Rue had been concluded, and the company had indicated its exit from the Kenyan market
- The Classified procurement process was therefore necessary to avert the stock-out crisis
- Procurement was conducted in accordance with the PPADA, and with the approval of the National Security Council and the Cabinet
- The cost of the Banknotes was €103,229,000 (US\$109,422,740 using the exchange rate at the date of contract signing). The contract for the 2019-series banknotes was worth US\$112, 856,000.
- The contract was reviewed and approved by the Attorney General as required by law before execution by the parties.
- The Bank is satisfied that the procurement process achieved the stated objectives.

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Thank You!

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