

# **PRESS RELEASE**

## **Preamble**

In the last few weeks, there has been a lot of speculation regarding the floatation of an international tender for the manufacture, design, printing and supply of new generation bank notes as well as a recent award of a one year contract to currency printing company De La Rue. The Central Bank of Kenya has been concerned with the spate of misinformation, assumptions and unconfirmed reports that have been doing the rounds specifically through the media and would therefore like to set the record straight, once and for all, to avert further unfounded speculation and see this process to its logical conclusion. The Bank also realises that perhaps there has been a deficiency of information regarding the whole process, thereby forming the basis for various inferences with regard to the procurement process. The Bank would like to confirm that the Governor of the Central Bank of Kenya is committed to transparency and will readily avail himself to respond to any queries that emanate during the remainder of this process, and is ready to be held accountable.

The Bank would like to provide members of the public a full background of the process that has led to the floatation of an international currency printing tender, hoping that as the process ensues, any enquiries thereof, or comments, will be made from a thoroughly informed position.

## **Background**

Prior to independence, the East African Currency Board was responsible for the printing of common currency notes for the three East African Countries, namely, Kenya, Uganda and Tanganyika. After the attainment of independence and establishment of Central Banks in the three sister states, the responsibility of printing currency notes devolved to the respective Central Banks.

### **1966 to 1986**

From 1966 to 1986, Kenya currency banknotes were printed by Bradbury & Wilkinson, United Kingdom. However, in 1986 Bradbury & Wilkinson was acquired by Thomas De La Rue & Company Limited (De La Rue) which took over the printing of Kenya currency banknotes.

### **1986 to-date**

From 1986 to-date, Kenya currency banknotes have been printed by De La Rue. ***On 8<sup>th</sup> October 1991, an Agreement was signed with the Central Bank of***

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**Kenya (CBK) appointing De La Rue as the sole and exclusive supplier of Kenya banknotes.** This followed a decision by De La Rue to put up a Printing Factory in Kenya.

The Agreement provided, *inter alia*, that:

- The Banknotes were to be produced in the plant in Kenya.
- The minimum order for Banknotes to be placed each year would be 170 million banknotes.
- The validity of the Agreement was to be 10 years with effect from 1<sup>st</sup> January 1993.
- The Agreement did not provide termination of the contract mid-way.
- The prices would be negotiated every two years ***based on average CPI (Consumer Price Index) in Kenya for printing and on average CPI in United Kingdom*** for the cost of paper. While the printing would be done in Kenya, the security paper was to be imported.

On **20<sup>th</sup> February 1996**, the contract was amended to allow for price renegotiations every two years, ***based on world banknote prices and technological improvements in banknote production***. The amended contract provided the expiry date as 1<sup>st</sup> January 2003 and also allowed extension of the contract prior to expiry.

On **5<sup>th</sup> December 2002**, CBK signed a ten (10) year Agreement for the printing of banknotes with De La Rue. The Agreement was to be effective from 1<sup>st</sup> January 2003 to 1<sup>st</sup> January 2013, with a provision for renewal before expiry of the ten-year contract period.

### **Termination of the Agreement with De La Rue**

On **14<sup>th</sup> March 2003**, the Government directed the Bank to terminate the 10 year contract signed on 5<sup>th</sup> December 2002 on the following grounds:

- The contract was single sourced instead of being open for competitive bidding, as transparency would require.

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- The contract period was extended to ten years instead of the normal five years for no apparent reason.
  - The Contract became effective on 1<sup>st</sup> January 2003 when NARC Government was in power and should have therefore been consulted. There was therefore no reason for the former Government to award the contract as early as they did unless there was something fishy.

The Government also directed that the procurement be through competitive bidding. Consequently, CBK cancelled the ten year contract with De La Rue on 17<sup>th</sup> March 2003.

In order to ensure that there was adequate supply of banknotes for the country while identification of a new banknote printer was going on, the Bank entered into a new contract with De La Rue from 21<sup>st</sup> March 2003 up to 31<sup>st</sup> December 2004. Some of the orders placed under this contract continue to be received.

### **Initial tender: The Process**

#### **Identification of Banknote Printers and Invitation of Tenders**

In order to implement the Government instruction for competitive bidding, the Board of Directors of the Central Bank asked the management to conduct research to identify companies with appropriate competence that could be invited to tender for the printing of the banknotes.

The following ten companies were initially identified as major world players in the commercial printing of banknotes:

- (i) Giesecke & Devrient – Germany
- (ii) Orell Fussli Security Print Limited – Switzerland
- (iii) Bundesdruckerei Banknote GMBH – Germany
- (iv) De La Rue Currency – U.K.
- (v) Francois Charles Oberthur Fiduciaire – France
- (vi) Joh Enschede Banknotes – Holland
- (vii) South African Banknotes Company – South Africa
- (viii) Austrian Note Printing Company – Austria
- (ix) Canadian Banknote Printing Company – Canada
- (x) Note Printing Australia Limited – Australia

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Following evaluation of the ten companies, six were invited to make presentations to the Bank on banknote features and printing. The purpose of this presentation was to give Board Members and Senior Management staff a broad picture of the banknote printing process and covered, among other things, the main advantages of the two materials (substrates) used in note production, that is, paper and polymer, types and different levels of security features, banknote sizes and denomination mix, as well as the advantages and disadvantages of multiple sourcing of banknotes. This would also enable the Bank to prepare the tender specifications.

### **The tenderers**

The six companies that were invited to participate in the tender were:

- (i) Giesecke & Devrient – Germany
- (ii) Orell Fussli – Switzerland
- (iii) De La Rue Currency – United Kingdom
- (iv) Joh Enschede Banknotes – Holland
- (v) Canadian Banknote Printing – Canada
- (vi) Note Printing Australia – Australia

The CBK Board of Directors considered the advantages and disadvantages of polymer and cotton substrate banknotes and decided that Kenya banknotes should continue to be printed on paper made from cotton substrate. Consequently, the companies which during their presentations were found to be strong in production of cotton substrate banknotes, were identified for invitation to tender. In compliance with the Exchequer and Audit (Public Procurement) Regulations 2001, authority was obtained from the Minister for Finance to allow the tender to be restricted.

### **Short-listed companies**

- (i) Giesecke & Devrient – Germany
- (ii) De La Rue Currency – United Kingdom
- (iii) Orell Fussli – Switzerland
- (iv) Francois Charles Oberthur Fiduciaire – France
- (v) Joh Enschede Banknotes – Holland

The tender was floated on 6<sup>th</sup> January 2005 and closed on 12<sup>th</sup> April 2005. Only four of the above invited tenderers submitted their bids as Joh Enschede had opted not to participate owing to new commitments.

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## Submission and Opening of the Tender Bids

The tender document required, *inter alia*, that each bidder should submit two separate envelopes as follows:

- i) A tender response document containing price quotation, bid bond, and evidence of compliance with the technical and mandatory requirements as stipulated in the tender document.
- ii) A sealed and coded envelope containing proposed banknotes designs (prototypes). The purpose of requiring submission of the designs (prototypes) without identifying the bidder was to facilitate evaluation of the designs by an independent committee having regard solely to the quality of design without any possibility of knowing the identity Of the tenderer.

In compliance with the Exchequer & Audit (Public Procurement) Regulations 2001, the Governor appointed a Tender Opening Committee under the chairmanship of the Deputy Governor to oversee the tender opening process.

The tenders were submitted to the Tender Opening Committee as scheduled at the Presentation Room, Central Bank of Kenya Headquarters. On arrival for presentation of the tenders, the tenderers' representatives were directed to place the two envelopes containing the tender response documents, that is, envelope containing the designs (prototypes) and envelope containing financial proposals, on two separate tables in the same room.

The financial proposals were opened first in the presence of the bidders' representatives and the results are summarized below:

No.	Tenderer	Tender Offer Price US\$
1.	M/S Giesecke & Devrient GMBH	148,635,557.10
2.	M/S De La Rue Currency	139,535,341
3.	M/S Orell Fussli Security Printing Ltd	104,161,532
4.	M/S Francois-Charles Oberthur Fiduciaire	98,527,836

The Tender Opening Committee then proceeded to scrutinize the envelopes containing the designs (prototypes). The following anomalies were noted:

- a) The envelopes containing the designs (prototypes) were not uniform in colour and size hence the possibility that the envelopes could be **identified** with the respective tenderers.

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- b) The envelopes containing the designs (prototypes) were placed by the tenderers' representatives on the designated table in the presence of other tenderers' representatives and Bank staff. Another possibility therefore existed of identification of tenderers.
- c) One envelope belonging to Orell Fussli Security Printing Limited was sealed with the normal tape and had in several places a sealing tape with the symbol of the tenderer. The envelope could therefore be easily identified with the tenderer.
- d) Another envelope, identified as belonging to Francois-Charles Oberthur Fiduciaire, containing prototypes was **not sealed** as per the requirements of the tender documents.

Arising from these anomalies, the tenders for Orell Fussli Security Printing Limited and Francois-Charles Oberthur Fiduciaire were considered not to have met the tender requirements and were disqualified. The tenders submitted by Giesecke & Devrient SZE and De La Rue Currency & Security Printing Limited were considered to have met the requirements of the tender opening process.

### **Cancellation of the Tender and Reasons for Disqualification**

The Tender Committee met on 16<sup>th</sup> May, 2005 and after reviewing the report of the Tender Opening Committee felt strongly that proceeding further with only two tenderers out of the five initially invited tenderers was not likely to meet the overall objective of this tender, in particular:

- the need to ensure competitiveness in both price and quality of the banknotes. In this regard, the Committee noted that the price differential between the lowest and highest tenderer amounting to over US\$ 50m raised serious concern with respect to competitiveness of the tender.
- the Committee also considered the fact that the envelopes containing the designs (prototypes) had been placed by the tenderers' representatives on the table in the presence of other tenderers and Bank staff.
- The fact that the envelopes by the tenderers were not uniform in colour and size may have rendered it possible to identify the envelopes with the respective tenderer during the evaluation process.

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For these reasons, the Tender Committee decided to cancel the tender as provided for in Clause 28 of Section B of the tender document and to invite fresh tenders.

### **Invitation of New Tender**

On 3<sup>rd</sup> June 2005, the Central Bank of Kenya Tender Committee approved, after due consideration, floatation of a new tender for the design, manufacture, printing and supply of New Generation Banknotes for Kenya. Consequently, tenders were invited on 6<sup>th</sup> June 2005 from the following pre-qualified major international companies that produce cotton substrate banknotes.

<b>No.</b>	<b>Name of Company</b>	<b>Country</b>
1.	De La Rue Currency	United Kingdom
2.	Giesecke & Devrient GMBH	Germany
3.	Francois Charles Oberthur Fiduciaire	France
4.	Orell Fussli Security Printing Limited	Switzerland
5.	Joh Enschede	Holland
6.	Canadian Banknote Company	Canada

Tenders were initially expected to be opened on 18<sup>th</sup> July 2005. However, at the request of the tenderers the submission date was re-scheduled to 29<sup>th</sup> August 2005 in order to allow the prospective tenderers sufficient time to prepare their proposals.

### **Justification for Entering the One Year Contract with De La Rue**

- Following the cancellation of the tender on 16<sup>th</sup> May 2005, the Bank reviewed the country's banknote requirements taking into account the projected time table for completion of the tender process.
- The review of the time table on scheduled activities revealed that delivery of New Generation banknotes will start from January 2007. It will, however, take up to end of April 2007 to build up adequate stocks for issue to the public.
- Analysis of currency consumption requirements for the period from 31<sup>st</sup> May 2005 up to April 2007 indicated that a total of 883.2 million banknotes shall be required during this period. The available stocks during the same period amounted to 657.36 million banknotes.
- In view of the unpredictability of a tendering process, the Bank decided to provide for two months strategic stock at current total monthly consumption rate of 38.4 million banknotes.
- The total shortfall in the country's banknote requirements during the period was arrived at as follows:

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	<u>Million</u>
	<u>Pcs.</u>
Actual requirements for the period between 30.05.2005 to 30.04.2007	- 883.20
<b>Add:</b> Two months strategic stock	- 76.80
<b>Total requirements</b>	<b>960.00</b>
<b>Less:</b> Available stock	- 657.36
<b>Shortfall</b>	<b><u>302.64</u></b>

Given the above shortfall, and in order to ensure that the country does not run out of currency, the Bank sought authority from the Government under Section 17 (4) of the Exchequer and Audit (Public Procurement) Regulations 2001 to enter into a new one year agreement with De La Rue for the supply of 300 million banknotes, which was granted.

The decision to execute a one year contract was necessitated by the need to ensure that, while the process for competitive bidding for the supply of new generation banknotes continues, contingency arrangements are in place for purposes of ensuring that the Bank shall be able to continue discharging its mandate of providing adequate stocks of currency.

In this regard, a thorough analysis of the currency stocks available in the Bank showed that unless arrangements to replenish the stocks are made, the existing stocks would start running out by June 2006. A critical projection of the time it would take to complete the on-going tendering process of identifying a supplier for the new generation Kenya currency banknotes through competitive bidding shows that if the tendering process proceeds smoothly without any interruption, such as an appeal by an aggrieved party when the tender is awarded, the earliest time when the new supplier would be able to deliver first consignment of the new generation Kenya currency banknotes would be in January 2007.

Consequently, the Bank after considering the serious consequences that would arise if the country were to run short of currency stocks and after appropriate consultations, proceeded to negotiate a one year contract with De La Rue. In opting to enter into a one year contract with De La Rue as a contingency measure, the Bank also took into account the fact that De La Rue having been the sole supplier of the current Kenya currency banknotes has the designs, art works and the plates in respect of the existing banknotes and would therefore be able to expeditiously meet the requirements of the Bank pending finalization of the ongoing tender for identification of a new supplier of the new generation Kenya currency banknotes.

The decision to extend the tender closing/opening date in respect of the ongoing tender for the new generation Kenya currency banknotes was not occasioned by the execution of the one year currency supply agreement with De La Rue. When the tender for the new generation Kenya currency banknotes was re-floated on 6<sup>th</sup> June 2005 the Bank received a number of requests for clarification on the tender document from the prospective bidders. After considering the clarifications sought, the Bank realized that to comply with the procurement regulations, it was necessary

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in addition to providing the clarifications to also extend the tender closing/opening date to enable the bidders adequate time to prepare their tender response. The Bank therefore dispatched the requisite clarification to the tenderers and also extended the tender closing/opening date to 29<sup>th</sup> August 2005.

On account of the above considerations, a new one year agreement was signed with De La Rue on 14<sup>th</sup> July 2005. The Agreement, *inter alia*, provides for the supply of 300 million banknotes in assorted denominations at a cost of Stg.£ 8,529,214.40, equivalent to Ksh 1.162 billion at the current exchange rate.

**THE GOVERNOR OF THE CENTRAL BANK OF KENYA**  
**10<sup>th</sup> August 2005**