

REPUBLIC OF KENYA

MINISTRY OF FINANCE

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SESSIONAL PAPER NO.1..... OF 1987

KENYA GOVERNMENT GUARANTEE OF A LOAN TO THE EAST AFRICAN DEVELOPMENT BANK (E.A.D.B.) FROM THE AFRICAN DEVELOPMENT BANK (A.D.B.)

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 Units of Account thirty million, (U.A. 30.0) equivalent approximately to Kenya shillings five hundred seventy four million and fifty six thousand (Ksh. 574,056,000) to be made available to East African Development Bank (EADB) by the African Development Bank (ADB) which has its head office in Abidjan, Ivory Coast.
3. The East African Development Bank (EADB) owned by the three member states of Kenya, Uganda and Tanzania, is one of the few institutions which survived the demise of the East African Community. In 1980, the said member states signed a new Charter for EADB which enabled EADB to undertake investments in Agriculture, Tourism, Infrastructure and Consultancy, besides the EADB's hitherto traditional role in industry. The signing of the Charter has enabled EADB not only to operate on a sound basis but also to expand its investments. EADB's total lending to development projects in the member states has increased from year to year.

A brief review of the operations of the last three years, shows the following: In 1983, EADB commitments was SDR 14.0 million and the number of projects financed were 22. The investment portfolio stood at SDR 35.0 million. The total net assets of EADB was SDR 55.3 million and EADB made a profit of SDR 1.0 million. A dividend of 3% was declared.



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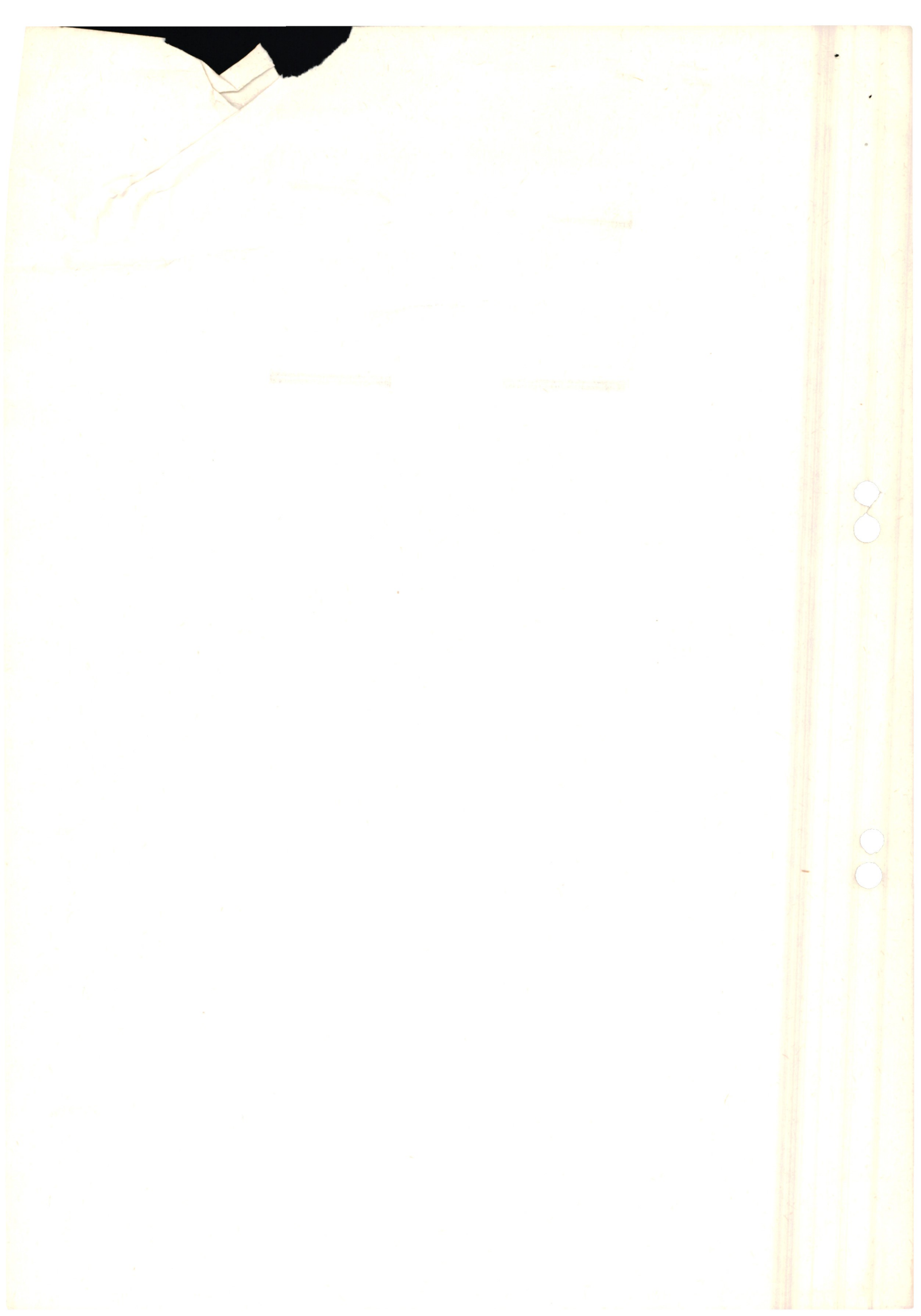
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In 1984, total lending by EADB amounted to SDR 16 million, for 24 projects, and net assets increased to SDR 59.1 million. SDR 1.45 million was realised as profit and a dividend corresponding to 3% of the paid-in capital, was again declared. As for 1985, total lending amounted to SDR 17.4 million; net assets increased to SDR 61.3 million. EADB realised SDR 1.570 million in profit for the year and the Board has proposed a dividend on the same rate as the previous years. In summary, it may be stated that EADB has been able to carry out its activities successfully within the limitations set by the political and economic problems prevailing in the member states and to strengthen institutional capacity for future contribution to regional development and co-operation.

In order to achieve the above objectives and results, EADB will continue to count on the support of the member states and EADB's external financiers. In the past, EADB has had generous support in the form of Lines of Credit and grants from a number of external financiers including the World Bank, SIDA, NORAD and the African Development Bank. EADB has also in the past, secured some export credits and some minor loans on market terms. The African Development Bank has in the past given three lines of credit to EADB totalling ADB UA 17 million. All lines of credit were secured against guarantees from the Member States. The amounts have since been fully disbursed to projects.

EADB's portfolio includes well performing projects and some difficult ones. This is true also for those financed from ADB funds. The Bank is actively assisting the problem projects, and has been able to improve its portfolio in the last few years.

In 1985, EADB management approached the African Development Bank for another line of credit and, after initial advances, the EADB Board of Directors passed a resolution on 5th December, 1985, effectively authorising EADB to borrow 30 million Units of Account from the African Development Bank.





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4. The line of credit will be for a period of fourteen (14) years including four years of grace. The Rate of Interest will be 9.5% per annum on reducing balance. The loan also carries a commitment fee of 1% per annum on the undisbursed portion of the loan and a commission of 1% per annum for the period of the loan.
5. The purpose of the loan is to bridge the gap in the EADB resource requirements for the next three years. The loan will be used to finance relatively small-scale development projects with total costs of less than five million Units of Account each. During the process of negotiations for the loan EADB was required to produce a pipeline of projects and, with respect to Kenya, the following projects have already been identified and, indeed some of them have already been approved for financing by the EADB Board. Some of these are:
 - (i) Bungoma Enterprises Limited, for a major expansion of Bungoma Tourist Hotel owned by 5,000 local school teachers;
 - (ii) Molecular Chemicals Limited, a new project sponsored by indigenous Kenyans, to be located in Thika, for the production of general purpose, quality control and analytical chemicals for schools, colleges and industrial laboratories;
 - (iii) Tropical Food Products Limited - a project to be located at Mtwapa, Kilifi District, and geared to process fruits into fruit concentrates for the export markets. The project will depend on outgrowers for its supply of fruits;
 - (iv) African petals Limited - which will engage in the growing of roses for export;
 - (v) Prudential Printers Limited - to engage in the printing industry, and
 - (vi) 100 Palms Hotel, for the construction of a hotel at the coast for the tourist market.



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Projects now under implementation in Kenya have, in recent past benefitted from the Third Line of credit from ADB.

These include:

- (i) Kwacha Limited - for production of gas cyclinders;
- (ii) Terracon Manufacturers Limited, located in Kikuyu, for the production of reconstituted marble and terrazzo tiles;
- (iii) Nzamba Maize Millers limited, located in Machakos, for the milling of high grade sifted maize meal for sale in Machakos and Kitui Districts.
- (iv) Naka Industries Limited, for the manufacture of up-graded paper and board from locally made paper.
- (v) Nairobi Oil Products Limited, for recycling of waste oil to be re-used as paint thinners, turpentine, wood preservatives, polishes, etc.

6. The African Development Bank has required the Line of Credit to be guaranteed by the member states severally and proportionately, i.e. each of the three member states guarantees a third of the total credit. The previous lines of credit were also guaranteed, the first one having been guaranteed jointly and severally and the other two having been guaranteed severally. It is pertinent to point out here that EADB has never defaulted in its obligations towards creditors and ADB could have granted the loan on the basis of the EADB credit as indeed other institutions have done. EADB intends to pursue this option rather vigorously in future. However, ADB management is of the opinion that the member states guarantees are one of the most visible ways of proving their commitment and support for EADB and have retained it as a condition for the Fourth Line of Credit. EADB management has consequently approached the two other Member States to obtain the guarantees. The Government of Uganda is ready to sign at the first opportunity. The Government of Tanzania is also making the necessary preparations.



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7. The Government attaches great importance to the development of industrial enterprises as illustrated by the above mentioned examples, throughout the country as a necessary indigenisation development. The Government therefore requests the National Assembly to approve that the Government guarantees the re-payment of the loan referred to above.
8. 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 to K£ 478,072,497 of which K£ 431,158,000 is in respect of covenants expressed in foreign currency as per paragraph (b) and K£ 46,914,497 is in respect of covenants expressed in Kenya currency as per paragraph (a) of Section 3(3) of the Act.

Hon. Prof. George Saitoti
Minister for Finance

