

KENYA GOVERNMENT GUARANTEE OF A LOAN TO THE NAIROBI CITY  
COMMISSION BY MESSRS MERRILL LYNCH CAPITAL MARKETS OF NEW  
YORK

THE GUARANTEE (LOANS) ACT (CAP. 461)

1. In accordance with the provisions of Section 5(1) 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 United States Dollars amounting to seventeen million (US\$17,000,000) equivalent to Kenya Shillings two hundred eighty four million (Kshs.284.0m) to be made available to the City Commission by Merrill Lynch Capital Markets of New York.
3. The Nairobi City Commission, appointed under Section 252 of the Local Government Act (Cap. 265) exercises all the powers and duties of the City Council of Nairobi. Under Section 222 of the said Act, the Commission has powers to raise loans for purposes relating to its functions from such sources, in such amounts, and on such conditions, as the Minister for the time being responsible to the Local Government may approve.

Negotiations have already taken place with both Merrill Lynch Capital Markets of New York and the Government of United States of America, acting through the United States Agency for International Development, where upon agreement has been reached to the effect that the total proceeds of the said loan will be used to finance the development of Phase 11 of the Umoja Housing Estate in Nairobi, comprising of:

- (a) 4150 No. Low cost tenant purchase housing units and/or serviced plots, consisting of the types which will be affordable by families earning below the median urban income currently estimated at Kshs.2,300 per month in Nairobi.

(b) Community facilities consisting of schools, health centres, social halls, play-grounds and markets, industrial/commercial plots and landscaping of public areas; and

(c) An employment generation loan to provide short-term credit and related facilities and services to small businesses and industries in the estate.

The construction of the estate is scheduled to start as soon as the guarantee sought herewith is obtained. The said estate has already been designed by the Nairobi City Commission.

4. The term of the proposed loan is thirty years (30) with with ten years (10) grace period on repayment of the principal sum. Interest will be payable at the rate of four-tenths of one percentage point (0.4%) above the interest rate of 26 week obligations of the United States Treasury, as adjusted monthly, plus a USAID guarantee fee of half of one per cent (1/2%) per annum on any outstanding principal amount. The current US Treasury interest rates are 9%. The Nairobi City Commission shall also pay a one-time disbursement fee to the USAID at the rate of one per cent (1%) of the loan amount and one-time fee of US\$20,000 and an annual fee of US\$2,000 to the paying and transfer agent, the Riggs National Bank of Washington D.C.
5. The Loan is conditional, inter alia on the provision of the guarantee by the Kenya Government under the Guarantee (Loans) Act, covering all payment of fees, interest and principal due from the Nairobi City Commission under the loan agreement. This is in addition to a guaranty issued by the United States Government, through USAID, to the lender. The Government therefore requests the National Assembly to approve that the Government may guarantee the repayment of the loan referred to above. The Government has recommended that the Nairobi City Commission should borrow the funds it requires for the development of Phase II of the Umoja Estate since the money so borrowed will help Kenya get additional foreign exchange. In addition the proposed development will increase the housing stock and related community facilities in Nairobi, in accordance with the objectives laid down in the 1984/88 Development Plan. It will also generate employment opportunities for the Wananchi.

The mortgage payments to be charged for the housing units in the Phase 11 of the Umoja Estate will provide the Nairobi City Commission with an income more than sufficient to meet the payment of commitment fees, interest and principal under the loan agreement.

6. The USAID Housing Guaranty Program was developed as part of the U.S. Foreign Assistance Program to respond to the rapidly mounting world-wide shortage of adequate shelter. Since its inception in 1962, more than US\$1.5 billion in Housing Guaranty Loans have been authorized for 150 projects in 42 countries. As indicated above, the actual financing for approved Housing Guaranty projects is provided by private US investors or lenders who make loans to Governments or their institutions. The Government of Kenya has previously utilised the USAID Housing Guaranty Funds. The first Loan of US\$2,000,000 for Kimathi Estate was issued in 1969 and matures in 1992. The second Loan of US\$10,000,000 for Umoja Phase 1 was issued in 1975 and matures in 2004. Total liability on these two loans as of September 30 1984 is US\$10,348,862.
  
7. The current total contingency liability of the Kenya Government in respect of guarantees given under Section 3(3) of the Guarantee Loans Act (other than those specified in the schedule to the Act) amounts of K£466,838,582 of which K£413,756,000 is in respect of covenants expressed in foreign currency as per paragraph (b) and K£53,082,582 is in respect of covenants expressed in Kenya currency as per paragraph (a) of Section 3(3) of the Act.



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