

REPUBLIC OF KENYA

SESSIONAL PAPER No. 3 OF 1980

The Kenya Government Guarantee of a loan to the Industrial Development Bank Limited from the International Bank for Reconstruction and Development.

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 relating to a Guarantee by the Government of the obligations of the Industrial Development Bank Limited (hereinafter referred to as 'IDB') in respect of a loan in various currencies equivalent to U.S. Dollars Thirty million (US\$ 30,000,000) or Kenya Shs. 221.4 million equivalent to be granted to IDB by the International Bank for Reconstruction and Development of 1818 H Street N.W. Washington D.C. 20433, United States of America (hereinafter referred to as the 'World Bank')
2. IDB was established at the initiative of the Government in January, 1973 to promote and stimulate the industrial development of Kenya by providing medium and long-term loans and equity finance for industrial projects which are economically sound, financially viable and technically feasible. In approving projects for financing, IDB gives considerable weight to projects that are labour intensive and make maximum use of local resources and raw materials.

3. The authorised share capital of IDB is KShs. 240 million comprising of KShs. 200 million Class A ordinary shares and KShs. 40 million Class B ordinary shares. The Government holds 49% of the Class A ordinary shares, the rest being held in equal proportions of 12½% each by wholly owned Government institutions namely:- the Industrial and Commercial Development Corporation, the Kenya National Assurance Company Limited, the National Bank of Kenya Limited and Kenya Reinsurance Corporation. All subscribed Class B shares are held by the Government.

4. The Government expects IDB to finance most of its investments by raising long-term loans from foreign institutions. In this way IDB plays a leading role in raising the foreign exchange needed to finance the importation of capital goods required for industrial development. The loans raised by IDB are on-lent on commercial terms to various industrial enterprises in accordance with Government development strategy.

5. This will be the fourth World Bank loan to IDB to be guaranteed by the Government. The first loan of U.S. Dollars 5 million was concluded in 1973 and is now fully committed and disbursed. The second loan of U.S. Dollars 10 million was concluded in 1975 and is now fully committed and 97% disbursed. The third loan of U.S. Dollars 20 million concluded in 1977 is now 80.6% committed. Due to sound management of its resources, IDB has been able to meet all its obligations and commitments to the World Bank as required by the terms of all the three previous loans and the Government is confident that this trend will continue.

6. The US\$ 30 million loan is repayable by half-yearly instalments and is for a term of 18 years including 3 years moratorium on principal repayments.

The rate of interest on the loan will be 8.25% per annum payable half-yearly on the principal amount withdrawn and outstanding from time to time. The loan will be used for funding IDB supported industrial projects during the two and a half year period from June 1980 to December 31, 1981.

7. The effectiveness of the loan is conditional upon a guarantee being provided by the Government. The National Assembly is therefore requested to approve that the Government may guarantee repayment of the loan referred to in paragraph 1 and other charges thereon.
8. The current total contingent liability of the Government in respect of guarantees given under Section 3 of the Guarantee (Loans) Act (other than those specified in the schedule to the Act) amounts to KE 283,328,094. With the Guarantee of a sum equivalent to KE 11,070,000 now proposed, the aggregate will be increased to KE 294,398,094 of which KE 12,585,583 will fall within paragraph (a) and KE 281,812,511 will fall within paragraph (b) of Section 3 (3) of the Act.

HON. MWAI KIBAKI
VICE-PRESIDENT & MINISTER FOR FINANCE