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REPUBLIC OF KENYA

SESSIONAL PAPER NO. 7 OF 1977

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

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THE GUARANTEE (LOANS) ACT (CAP.461)

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The Treasury.

June, 1977.

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THE GUARANTEE (LOANS) ACT (CAP.461)

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In accordance with the provision 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 a maximum of United States Dollars twenty million (US\$20,000,000) (or K£8,300,000) to to be granted to IDB by the International Bank for Reconstruction and Development of 1818 H. Street N.W., Washington D.C. (hereinafter referred to as "the World Bank").

IDB was established at the initiative of the Government in January, 1973 to promote and stimulate industrial development of Kenya by providing medium and long term loan finance and participating in equity of the industrial projects which are economically sound, financially viable and technically feasible.

The authorised share capital of IDB is £4,000,000 which has already been subscribed by the Treasury (49%) the Industrial and Commercial Development Corporation (26%) the Kenya National Assurance Company Limited (12½%) and the National Bank of Kenya Limited (12½%). All these institutions are wholly owned by the Government. Thus IDB is a Government owned limited liability company. A second share capital replenishment of £2 million will be made during the year 1977. The additional shares will be subscribed by the existing shareholders on a pro rata basis. The increased capital will enhance IDB's capability to mobilise external resources for the industrial development of Kenya.

IDB is expected to finance most of its investment by raising long term loans from foreign institutions. In this way IDB would assist in finding the foreign exchange needed in the country to finance the importation of capital goods for industrial development. The loans raised by IDB are on-lent on commercial terms to various industrial development enterprises in accordance with Government's development strategy and may be used for both foreign exchange and local costs.

The first World Bank loan to IDB of US\$ 5 million was concluded in 1973. This loan is now fully committed. A second loan of US\$ 10 million concluded in 1975 is now 80% committed. The proceeds of the third World Bank loan of US\$ 20,000,000 will be used mainly to finance the foreign exchange component of projects approved for financing by IDB. In approving projects for financing by IDB considerable weight is given to those industrial projects that are labour intensive and make maximum use of local resources.

The US\$ 20,000,000 loan from the World Bank is repayable by half-yearly instalments commencing 3 years and finishing 18 years from now, the amount of these instalments being on a rising scale starting at US\$ 330,000 and finishing at US\$1,120,000 (the last instalment being due in February, 1995), subject to adjustment according to the on-lending repayment schedules. The rate of interest on the World Bank loan will be approximately 8.20% per annum payable half-yearly on the principal amount drawn and owing by IDB from time to time.

The current total contingent liability of the Kenya Government in respect of guarantees given under clause 3 of the Guarantee (Loans) Act (other than those specified in the schedule to the Act) amounts to K£ 282,136,841. With the guarantee of a sum equivalent to K£ 8,300,000 now proposed, the aggregate will be increased to K£ 290,436,841 of which K£ 201,687,569 will fall within paragraph (a) and K£ 88,749,272 within paragraph (b) of clause 3(3) of the Act.

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