

Kenya Government Guarantee of a Loan to the Industrial Development Bank Limited from the European Investment Bank.

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 Kenya of the obligations of the Industrial Development Bank Limited (hereinafter referred to as "IDB") in respect of a loan of 5 million European Units of Account plus estimated interest and other costs up to a maximum of Units of Account 1,250,000 equivalent to K£2,906,250, at current rates of exchange, to be granted to IDB by the European Investment Bank, 2, Place De Metz, Luxembourg, Grand Ducty of Luxembourg.
2. 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.
3. 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. The additional shares will be subscribed by the existing shareholders on a pro rata basis as it is the intention of the Government to keep IDB as a wholly owned Government development finance institution. The increased capital will enhance IDB's capability to mobilise both external and local resources for the industrial development.

4. IDB will continue to finance most of its investment by raising long term loans from foreign institutional lenders. In this way IDB will play a leading role in finding 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 development enterprises in accordance with Government's development strategy and may be used for both foreign exchange and local costs.
5. The loan will bear interest at the rate of approximately 5% per annum on the amount of loan disbursed and outstanding from time to time. Such interest will be paid semi-annually in arrears.
6. The principal will be repaid over a period of 7 years after a grace period of four years.
7. All payments by the borrower will be made to European Investment Bank in the currencies actually disbursed.
8. The loan is conditional upon a guarantee being provided by the Government of Kenya for which Parliament's approval is sought.

9. The current total contingent liability in respect of guarantees issued under Clause 3 of the Guarantee (Loans) Act (other than those specified in the schedule to the Act) amounts to K£300,729,041. With the Guarantee of 6,250,000 European Units of Account equivalent to K£2,906,250 proposed in this Sessional Paper, the aggregate will be increased to K£303,185,291 of which K£214,886,019 will fall within paragraph (a) and K£88,749,272 within paragraph (b) of Clause 3(3) of the Act.

HON. MWAI KIBAKI
MINISTER FOR FINANCE & PLANNING