



REPUBLIC OF KENYA

Sessional Paper No. 4 of 1970

**GOVERNMENT GUARANTEE OF BANK OVERDRAFT
FACILITIES TO BE EXTENDED TO EAST AFRICAN
AIRWAYS CORPORATION BY THE NATIONAL BANK
OF KENYA LTD.**

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Government Guarantee of bank overdraft facilities to be extended to East African Airways Corporation by the National Bank of Kenya Ltd.

THE GUARANTEE (LOANS) ACT 1966

In accordance with the provisions of section 5 of the Loan (Guarantee) Act 1966, the following information is laid before the National Assembly in connexion with a proposed guarantee by the Kenya Government of a bank overdraft facilities in the amount of K£250,000 to be extended to East African Airways Corporation by the National Bank of Kenya.

2. East African Airways Corporation is a firmly established international airline owned by the Governments of Kenya, Uganda and Tanzania and which over the years has continued to expand its operations over international routes. It now provides regular services to most major cities of Western Europe, and the Far East. In the African continent, apart from providing intercity services in the domestic area of East Africa, it provides links with Zambia, Malawi, Somalia, Ethiopia, Congo (Kinshasa), Nigeria and Ghana. Thus, the airline is not only a vital factor in the promotion of intercity connexion within the African Continent but also plays an important role in the promotion of tourism to Kenya and the other Partner States. In addition to this it provides valuable air cargo services particularly for horticultural and dairy products of Kenya.

3. To maintain these services and to plan for future expansion it is essential for the airline to have sufficient working capital. This is usually found from the Corporation's own reserves and from the governments. Assistance from the latter source has been since 1946 when the airline was established, by way of loans and loan stocks. Because the East African Airways has made substantial financial commitment in connexion with the acquisition of modern aircraft, the Corporation, in submitting the 1968 estimates to the Communications Council indicated that in order to strengthen the airline's working capital during the next few years it would be essential for the governments to make full subscription of the East African Airways Corporation 1975 $3\frac{1}{2}$ per cent stock and then the three governments to guarantee separate bank overdrafts of K£250,000 each. These proposals, which were accepted by the Communications Council, meant that the total E.A.A. secured loan stock subscription would amount to K£450,000 (i.e. K£150,000 from each government) and the three bank overdraft guarantees to K£750,000, resulting in a total working capital available from these sources of K£1,2 million.

4. The K£250,000 overdraft facility which is proposed to be guaranteed by Kenya Government will be extended by the National Bank of Kenya Limited and will be for a period of five years from the date of the guarantee and will carry an interest of 7 per cent per annum. Thus the Kenya Government's total contingent liability under the proposed guarantee will be K£250,000 and the interest thereon. Similar guarantees will be given by the Governments of Uganda and

Tanzania in respect of similar bank overdrafts to be extended by banks in those countries. As the Communications Council has approved these proposals and as the other Partner States are in a process of giving the guarantees it is right and proper that the required guarantee should be given by the Kenya Government.

5. The current total contingent liabilities of Kenya Government in respect of guarantees given under the Guarantee (Loans) Act (other than those specified in the Schedule to the Act) amount to the equivalent of K£37,432,255. With the proposed overdraft guarantee of K£250,000 above mentioned and with the further proposed loan guarantees of K£15,130,000 and K£3,713,000 referred to in Sessional Papers Nos. 1 and 3 of 1970, the aggregate will be increased to K£56,525,255, of which K£16,582,255 will fall within paragraph (a) and K£39,943,000 within paragraph (b) of section 3 (3) of the Act. The guarantee limits imposed by paragraphs (a) and (b) of section 3 (3) are the subject of the Guarantee (Loans) Amendment Bill 1970 now before the Assembly.

Ministry of Power and Communications,
NAIROBI.

17th March 1970