

**GOVERNMENT GUARANTEE FOR A LOAN TO THE
EAST AFRICAN HARBOURS CORPORATION
BY THE INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

THE LOANS (GUARANTEE) ACT 1966

In accordance with section 5 of the Loans (Guarantee) Act 1966, the following information is laid before the National Assembly in connexion with a proposed guarantee by the Government (jointly and severally with the Governments of Uganda and Tanzania) of the obligations of the East African Harbours Corporation in respect of a loan of the equivalent of approximately K£12,400,000 to the Corporation by the International Bank for Reconstruction and Development (World Bank).

2. To obtain the finance necessary for full implementation of its 1969-72 port development programme, the East African Harbours Corporation asked the International Bank for Reconstruction and Development for a loan in various foreign currencies equivalent to thirty-five million U.S. dollars or approximately K£12.4 million. Not all the programme will be financed by this borrowing. Careful assessment has been made of the amount that the Corporation itself can contribute towards the cost of implementing the programme: it is the shortfall, roughly equivalent to the foreign content of the necessary finance, that is to be borrowed.

3. The development programme is sensibly drawn to improve and add to existing port facilities, principally at Mombasa and Dar es Salaam. Its object is to increase the efficiency of East African port operations and to provide the additional berths, crafts, equipment and shore capacity necessary to cope with the expanding overseas trade of the Partner States and of neighbouring countries using the ports.

4. Included in the programme are two additional deep water berths at Mombasa, designed so that when the time comes they will be capable of dealing expeditiously and efficiently with the most modern container ships. Two similar berths are to be provided at Dar es Salaam. The old coal wharf at Mbaraki is to be converted to a modern cement and grain wharf and modernization is to be carried out also of berths 7-10

in Mombasa. At this port, too, are to be provided grain silos and a new cold store. These are all items which are very closely related to Kenya's own development programme and are essential to the realization of planned increases in the agricultural and industrial sectors of the economy. To facilitate the importation of crude oil at Dar es Salaam and to relieve congestion within the harbour proper by removing oil tankers to an outer anchorage, a single tanker mooring and submarine oil pipeline linked to the refinery are to be provided at Mjimwema Bay. Lesser project items include cargo handling equipment and cranes, a dredger, harbour and lighter towing tugs, pilot boats, lighters and pontoons, launches, tractors and trailers, navigation aids, etc., and the completion of works in progress.

5. The amortization schedule for the loan provides that the first repayment of principal shall be made on 15th June 1974 and the final payment on 15th June 1994. Effectively, therefore, the loan is for a period of 25 years from the expected date of signing, with initial grace period of five years during which there will be no repayment of principal. The rate of interest applicable will be the Bank's ruling rate at the time the loan agreement and guarantees are signed; currently, this is six and one-half per cent but if a higher rate is specified, a further Sessional Paper will be laid before the House prior to the guarantee being given. The payment of the principal and interest charges are so arranged as to spread the burden of the loan as evenly as possible over the 20-year period mentioned above; interest only is payable up to 15th June 1974.

6. The terms of the loan and the various covenants required of the Corporation as borrower and of the Partner States as guarantors are in accordance with the normal practices of the International Bank for Reconstruction and Development and are on similar lines to those applicable to previous loans made for the purposes of improvements to East African port facilities, to the Railways and to the Post and Telecommunications Services. They provide *inter alia* that the proceeds of the loan shall be applied solely for the purpose of implementing the agreed development programme, that the programme will be carried out with due diligence and efficiency and in conformity with sound engineering, financial and port management principles and practices, and with experienced consultants and contractors acceptable to the Bank. The Corporation is required to manage its affairs, plan the development of its properties and maintain its financial position sensibly and in accordance with sound financial and business principles and practices and under the supervision of experienced and competent management. The Corporation is required to take all necessary steps to achieve an 8 per cent return on its net fixed assets in operation after covering outgoings and reserve provisions. These are not arduous impositions but

rather conditions to be welcomed since they aim at ensuring to East Africa the efficient and economic port services which are necessary to the continuing and expanded growth in the economic life of the Partner States.

7. The payment of the loan principal, interest and other charges under the loan agreement or under any Bonds given pursuant thereto, and the performance of all the other covenants and obligations of the Corporation under the Loan Agreement and Bonds, are, as a requirement of the Loan, to be guaranteed jointly and severally by the Governments of Kenya, Tanzania and Uganda.

8. The Corporation belongs, of course, to these three partner states, for the benefit of whose peoples the services of the Corporation are provided. It is, therefore, right and proper that Kenya along with its partner states of Tanzania and Uganda should enter into this guarantee with the International Bank for Reconstruction and Development, as indeed they have done with previous such loans to the Community's predecessor services.

9. The current total contingent liabilities of the Government of Kenya amount to K£15,989,397. With the proposed loan of K£12,400,000 above mentioned this will be increased to K£28,389,397, which is within the limits prescribed by subsection (3) of section 3 of the Loans (Guarantee) Act 1966 (as amended by Act No. 44 of 1968).