



REPUBLIC OF KENYA

MINISTRY OF FINANCE

SESSIONAL PAPER 5 OF 1993

GOVERNMENT GUARANTEE OF A LEASE AGREEMENT BETWEEN TRANSTRAD
(PROPRIETARY) LTD AND INVESTEC BANK LTD OF SOUTH AFRICA
AND KENYA RAILWAYS CORPORATION

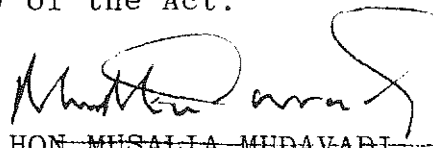
- 1.- In accordance with the provisions of the Guarantee (Loans) Act (Cap 461 of the Laws of Kenya) the following information is laid before the National Assembly for consideration and approval..
2. The Kenya Railways Corporation is a wholly owned Government parastatal, which was established under The Kenya Railways Corporation Act Cap 397 of 1978. The Act of Parliament provided for the establishment of the Corporation to be known as Kenya Railways, for the transfer to Corporation of the undertakings of the East African Railways Corporation within Kenya.
3. Kenya Railways Corporation is faced with inadequate locomotive availability, as a result of which hauling capacity has declined by almost 30%. As a result Kenya Railways Corporation has accordingly studied several options for short term measures to address the problem including:-
 - Stepping up spares supply to reclaim immobilised locomotives.
 - Re-powering some of the existing locomotives whose availability have declined due to age and absence.
 - Leasing 10 No type 9 locomotives to improve hauling capacity until a more permanent motive power is established.
4. With the full support of the Government, the Kenya Railways Corporation has entered into a lease agreement with Transtrade (the Commercial Arm of Spoornet)

and Investec Merchant Bank Ltd of South Africa (appointed by Transtrade to handle financial interest in the agreement) for the lease of 10 locomotives at a monthly hire charge of South African Rand(R) 954,800 which is equivalent to KShs. 19,573,000. As the lease will be for a period of 48 months(4 yrs) the rental charges for 10 locomotives will be R 45,830,400 which will be equivalent to KSh. 939,504,000 at the prevailing exchange rate. Kenya Railways is also exploring the possibility of purchasing new locomotives before the expiry of the lease agreement.

5. The payment for the 10 No. Locomotives will be made monthly in advance at the rate of R 954,800 per month (equivalent to KSh. 19,573,000) which is the daily hire charges and insurance for 31 days. The lease charges will be escalated at the rate of 6% per annum during the lease period. The 10 Locomotives will generate total revenue of KSh. 132,450,000 per month which will cover the monthly lease charges and leave a balance of KSh. 112,877.000.
6. Transtrade will maintain the locomotives on KRC's facilities at their(Transtrade's) cost using their imported spares. They will set up component maintenance facilities for sub-assemblies at their expense which would be used by KRC as well. They will maintain a minimum of 80% availability on the locomotives using KRC staff to be hired to them, and they will provide the necessary training required for these staff within the country and in the Republic of South Africa.
7. AS at June 1993 the Kenya Railways Corporation had outstanding foreign debt of Kf 102,254,905.25.
8. The National Assembly is therefore requested to approve the Government Guarantee of a lease of R 45,830,400 equivalent to Ksh. 939,504,000

from Transtrade (Proprietary) Ltd to Kenya Railways Corporation. This guarantee is being supported because according to the policy paper on Public Enterprise Reform and Privatisation of 1992, Kenya Railways Corporation was classified as a strategic commercially oriented state enterprise to be retained in the public domain.

9. The current total contingent of the Government of Kenya in respect of guarantees given under Section 3(3) of the Guarantees Loans Act (other than those specified in the schedule of the Act) amounts to K£ 3,535,972,140 and with the Guarantee of KSh 939,504,000 equivalent of K£ 46,875,200 which is proposed in this Sessional Paper, the aggregate amount will increase to K£ 3,582,847,340 of which K£ 40,163,044 for local guarantee will fall within paragraph (a) and K£3,542,684,296 for external guarantees within paragraph (b) of Section 3(3) of the Act.


~~HON MUSALIA MUDAVADI~~
~~MINISTER FOR FINANCE~~