REPUBLIC OF KENYA

MINISTRY OF FINANCE

SESSIONAL PAPER NO 2 OF 1993

KENYA GOVERNMENT GUARANTEE OF A LOAN TO KENYA PIPELINE COMPANY LIMITED BY EXPORT DEVELOPMENT CORPORATION OF CANADA AND EXPORT AND IMPORT BANK OF JAPAN

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 relating to a guarantee by the Government in respect of the following two additional loans to Kenya Pipeline Company Limited.

   (a) The Export Development Corporation of Canada (EDC) is prepared to lend to Kenya Pipeline Company Limited a loan of CDN $ 15,500,000 equivalent to Ksh.760,341,650.00 at the official prevailing exchange rate on terms and conditions as set out in the Loan Agreement No. 880-KEN-5782 dated 16th March, 1993.

   (b) The Export Import Bank of Japan (Exim) is prepared to lend Kenya Pipeline Co. Ltd. a loan of Japanese Yen 1,122,800,000 equivalent to Ksh.689.623,760.00 at the prevailing official exchange rate on terms and conditions as set out in their Loan Agreement which is an extension of the earlier Loan Agreement dated 17th June, 1990.

2. The above two loans are supplementary to previous three loans for CD$49,073,103; Yen 7,121,887,700 and FRF 135,842,366.66 which were lent to Kenya Pipeline Company Ltd. by the Export Development Corporation of Canada; Export and Import Bank of Japan and Consortium of French Banks led by Banque De L'Union Europeanne. The existing Loans were guaranteed by the National Assembly on 6th December, 1989 Pursuant to Sessional Paper Nos 11, 12 and 13 of 1989 on 8th December, 1989; and Sessional Paper No 7 of 1990.

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The total guarantee amounted to US$126,287,580, that is, US%46,620,300 from the Export Development Corporation of Canada, US$58,355,640 from the Export and Import Bank of Japan and US$ 21,311,640 from Directions Des Relations Economique Exterieure of France.

3. Kenya Pipeline Company Limited, a wholly owned parastatal is undertaking the extension of the Mombasa-Nairobi white petroleum products pipeline from Nairobi through Nakuru branching off at Sinendet and terminating at Eldoret and Kisumu. The Pipeline is substantially completed and is due for commissioning during later part of 1993. This extended Pipeline system will transport Gasolene; Kerosene Diesel and Jet fuel required for the Western Kenya market and for exports to neighbouring countries.

4 Transportation of bulk liquid petroleum products by pipeline has proved to be the most efficient, reliable means when compared to road or rail transportation. This has been confirmed by the performance of the existing Mombasa to Nairobi pipeline system which has consistently been in profit since commissioning and by feasibility studies undertaken (for the extension) by the then project consultants and by the World Bank.

5. The above two supplementary loans now being sought are necessary for the successful completion of the ongoing Western Kenya Pipeline Extension Project. This fund is mainly for physical additions to the original scope of works including the provision of road tanker loading facilities at Nakuru and Kisumu depots; earthworks at Nakuru and Kisumu which necessitated the splitting of Nakuru Pumping Station from the Nakuru oil terminal; Higher voltage electrical substations and transformers; fire fighting equipment and 3 years of operational spare parts and consumables required for maintaining the overall pipelines system. In addition to the above, it was necessary to allow for engineering supervision costs; statutory and valid claims arising under the contract.

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6. The EDC Loan of CDN $15,500,000 will carry a grace period of 3 years followed by repayment period of 10 years. Interest on the Loan will be payable for the first tranche to cover for foreign portion at 8.05% per annum and for the second tranche a floating rate of interest equal to LIBOR Plus 1.5% per annum.

7. The loan from the Export and Import Bank of Japanese Yen 1,122,800,000 is being treated as an extention of the existing loan and the terms and conditions for the additional funding will remain unchanged. The loan will carry, similar to EDC loan a grace period of 3 years, followed by repayment period of 10 years at an interest rate of 5.7 per cent.

8. As at June 30th, 1993 Kenya Pipeline Company Limited had outstanding foreign loans of K£393,292,328.

9. The National Assembly is required to approve the Government guarantee of a loan of CDN $15,500,000 equivalent to Ksh.760,341,650.00 from the Export Development Corporation of Canada and a loan of Japanese Yen 1,122,800,000 equivalent to Ksh. 689,623,760.00 from the Export and Import Bank of Japan to Kenya Pipeline Company Limited (at exchange rate of Ksh.49.0543 per Canadian Dollar and Ksh0.6142 per Japanese Yen repectively).

10. The guarantee is being supported on the following grounds:

(a) The Kenya Pipeline Company Limited is a strategic parastatal which will remain in the Public domain.

(b) The project when completed will generate foreign exchange.

(c) The Kenya Pipeline Company Limited has been servicing its debt without any recourse to the Treasury and it will be expected to service its future debt service obligations.

(d) There is also an indirect benefit on the reduction of wear and tear on the roads due to heavy tanker usage.

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11. The current total contingent liability 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) amount to K£3,428,321,995 and with the guarantee of Kshs.1,449,965,410.00 equivalent to K£72,498,270 which is proposed in this Sessional Paper, the aggregate amount will be increased to K3,500,820,265 of which K£40,163,044 for local guarantees fall within paragraph (a) and £3,460,657,221 for external guarantee fall within paragraph (b) of Section 3(3) of the Act.

HON. MUSALIA MUDAVADI

MINISTER FOR FINANCE