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REPUBLIC OF KENYA

MINISTRY OF FINANCE

SESSIONAL PAPER NO ....3........... OF 1986

KENYA GOVERNMENT GUARANTEE OF A LOAN TO THE KENYA POSTS AND TELECOMMUNICATIONS CORPORATION (KP & TC) BY THE EUROPEAN INVESTMENT BANK (EIB) TO FINANCE PART OF THE KP & TC'S THIRD TELECOMMUNICATIONS PROJECT

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 for consideration and approval.

2. The Government proposes to guarantee a loan of European Units of Accounts, twenty two million (ECUs 22,000,000) equivalent to approximately United States Dollars, fourteen million six hundred thousands (US$14,600,000) which is also equivalent to approximately Kenya Shillings, two hundred fourty eight million two hundred thousands (Kshs. 248,200,000) to be made available to the Kenya Posts and Telecommunications Corporation (KP & TC) by the European Investment Bank (EIB) which has its head office in Luxembourg.

Part of the project of an amount approximately United States Dollars Thirty-two million, six hundred thousands (US$32,600,000) equivalent to approximately Kenya Shillings, five hundred fifty four million two hundred thousands (Kshs. 554,200,000) will be financed by an additional loan from the International Bank for Reconstruction and Development (IBRD). Further parts of the project are expected to be financed from Export Credit Institutions in an amount equivalent to approximately United States Dollars, Sixteen million seven hundred thousands (US$16,700,000).

3. The loan will be repaid within a period of fifteen (15) years commencing four years after the signing of the loan Agreement and will bear interest on the principal amount of the loan

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withdrawn and outstanding from time to time at the nominal subsidized rate in accordance with Article 95 (2) of the Lome II convention.

4. The Kenya Posts and Telecommunications Corporation is a parastatal of the Government of Kenya which was established under the Kenya Posts and Telecommunications Act, Chapter 411 of the Laws of Kenya. The Corporation will be the Borrower and the executing agency of the proposed project. The Ministry of Transport and Communications is the Parent Ministry which is responsible for the operations of the Kenya Posts and Telecommunications Corporation. The duties of the Kenya Posts and Telecommunications Corporation include the following:-

(a) establishment and operation of postal services and performance of incidental services relating to the receiving, collecting, sending, despatching and delivering of postal articles;

(b) establishment and operation of telephone services and performance of incidental services relating to the issuing, receiving and paying of money orders;

(c) establishment and operation of telephone services and performance of incidental services relating to providing, installing and maintaining of telephone apparatus;

(d) establishment and operation of telegraph services and performance of incidental services relating to receiving, collecting, despatching and delivering of telegrams, and establishment and opeation of radio communication services, regulation and control of radio communication and provision, installation and maintenance of necessary equipment for any other person authorised to operate radio communication.

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REPUBLIC OF KENYA

MINISTRY OF FINANCE

5. This loan is required to finance part of the cost of the Kenya Posts and Telecommunications Corporation's Third Telecommunications Project which is part of the Corporation's 1984 - 1988 Development Programme. The Kenya Posts and Telecommunication Rural Development Programme follows very closely the Government Development Plan and Programmes.

The main objectives of the Third Telecommunications Project are:-

- to improve the quality of domestic and International telecommunication services;
- to increase accessibility of telephone services throughout the country especially rural areas;
- to modernise telecommunications network;
- to provide diversity in telecommunications services;
- to expand and upgrade the long distance network;
- to handle increased traffic;
- to improve engineering and equipment repair workshops;
- to upgrade and improve the corporation's school training infrastructure for improved performance including curriculum development.

The project has been planned for subscribers growth rate of sixteen per cent per annum (16% p.a.) which entails the provision of additional external cable plant and trunk transmission equipment. This plan involves;

- The provision of additional 44,700 automatic lines and 3,180 manual lines to the existing network;
- The reduction of line connection/extension ratio from the present 2.4. to below 2;

REPUBLIC OF KENYA

MINISTRY OF FINANCE

- The improvement of the telephone penetration factor for 100 inhabitants from 0.55 in 1984 to 0.96 by 1988.

The total cost of the project is estimated at Kshs. 1,384,600,000.

THE TABLE BELOW SHOWS THE COST SUMMARY

ESTIMATED COST

	Kshs. Million			US$ million			
	Local	Foreign	Total	Local	Foreign	Total	%
Local Switching network & Subscriber Plant	137.6	518.4	656	8.6	32.4	41.0	47.6
Long distance transmission and Switching equipment	4.8	49.6	54.4	0.3	3.1	3.4	3.9
International Switching equipment and earth station	1.6	30.4	32	0.1	1.9	2.0	2.3
Rural Facilities	12.8	35.2	48	0.8	2.2	3.0	3.5
Telex and Telegraph	11.2	108.8	120	0.7	6.8	7.5	8.7
Buildings	43.2	17.6	60.8	2.7	1.1	3.8	4.4
Power Plants	0.6	12.8	13.4	-	0.8	0.8	0.9
Workshops	4.8	8	12.8	0.3	0.5	0.8	0.9
Training	16	17.6	33.6	0.7	1.1	1.8	2.1
Consultancy	-	16	16	-	1.0	1.0	1.2
Total Base Cost	232.6	814.4	104.7	14.1	51.0	65.1	75.5
Physical Contigency	12.8	40	52.8	0.8	2.5	3.3	3.8
Price Contigencies	96	188.8	284.8	6.0	11.8	17.8	20.7
TOTAL	341.4	1,043.2	1,384.6	20.8	65.3	86.1	100.0

REPUBLIC OF KENYA

MINISTRY OF FINANCE

6. The Government attaches great importance to the development and improvement of telecommunications throughout the country as necessary infrastructure for socio-economic development. The Government therefore requests the National Assembly to approve that Government guarantee the re-payment of the loan referred to in this sessional paper.

7. The current total contingency liability of the Kenya Government in respect of guarantees given under Section 3(3) of the Guarantee Loans Act (other than those specified in the schedule to the Act) amounts to K£448,326,497 of which K£401,142,000 is in respect of covenants expressed in foreign currency as per paragraph (b) and K£46,914,497 is in respect of covenants expressed in Kenya currency as per paragraph (a) of Section 3(3) of the Act.

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MINISTER FOR FINANCE