



REPUBLIC OF KENYA

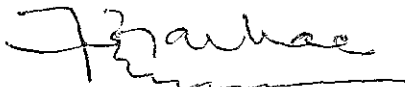
MINISTRY OF FINANCE

SESSIONAL PAPER .....<sup>2</sup>.....OF 1998

**RE: GOVERNMENT OF THE REPUBLIC OF KENYA/BANQUE NATIONALE DE PARIS RESCHEDULING AGREEMENT**

1. Pursuant to clause 5 of External Loans and Credits Act (Cap 422) of the Laws of Kenya, the following information is laid before the National Assembly for members' information and noting.
2. The Government of the Republic of Kenya, acting through the Minister for Finance, signed an Agreement on May 29, 1998 with Banque Nationale de Paris of France to reschedule an external debt arrears of US\$70.95 million that had been outstanding since 1992/93. Banque Nationale de Paris signed as Agent of the Consortium of banks with a stake in the arrears. The details of the debt and the rescheduling are as follows:-
3. During the difficult times of 1992 and 1993 when foreign exchange was scarce following the suspension of donor funds to Kenya in 1990, Kenya accumulated debt arrears amounting to about US\$560 million owing to Paris Club Creditors (Government to Government debts) and London Club Creditors (Commercial Bank debts).
4. In 1993, the Government approached both Paris Club and London Club Creditors to reschedule its debt arrears. Because of their nature, the Paris Club negotiations were immediately successful and they were concluded in 1994. However, the London Club portion of arrears amounting to US\$70.95 million remained unrescheduled. The amount has now been rescheduled and the rescheduling complies with External Loans and Credits Act, Cap 422 of the Laws of Kenya. The rescheduled amount will bring the total National external indebtedness to about Ksh.312 billion which is still below the set limit of Ksh.320 billion.
5. The London Club arrears mainly related to the loans for construction of Turkwell Gorge Hydroelectric power station. The loans had been provided to the Government by a Consortium of 18 French banks led by Banque Paribas, Banque Nationale de Paris, Banque Europeene de CIC and Credit Agricole Indosuez.

6. The terms of the (Agreement) rescheduling are as follows:-
- (a) Of the debt of US\$70.95 million owing in principal and interests, US\$23.83 million was forgiven.
  - (b) US\$4 million was paid to the creditors.
  - (c) The balance of US\$43.12 is to be progressively repaid over a period of 10 years including a grace period of 3 years, effective June 30, 1998.
  - (d) Interest rate was fixed at 3.5% p.a for the first 4½ years and Libor (London Inter-bank offer rate) plus 0.8125% (or about 6.6%) thereafter. These rates are more favourable than in the original contract and are below market rates.
  - (e) The rescheduled debt is denominated in US dollars and will be repayable in US dollars.
7. The terms and conclusion of the negotiations carry the following benefits for Kenya:-
- (a) The immediate forgiveness of US\$23.83 million is a significant benefit for the Country.
  - (b) The rescheduling of the amount instead of an outright payment reduces a lot of pressure from the Government Budget.
  - (c) The resolution of the arrears is a milestone as it marks a positive turning point for Kenya in its relationship with the International Community. The relationship had somewhat been affected by the outstanding arrears.
  - (d) The absence of external debt arrears enhances the Country's credit rating and builds foreign investor confidence in the economy. It also stimulates floatation of Kenya's financial securities in the global market .
8. The National Assembly is requested to consider and note the rescheduling.



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**MINISTER FOR FINANCE**