

MINISTRY OF FINANCE AND PLANNING

AFN 215/01

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SESSIONAL PAPER NO. I OF 1978:
GOVERNMENT GUARANTEE OF A LOAN
TO NAIROBI CITY COUNCIL BY THE
WORLD BANK (IBRD) FOR THE
NAIROBI WATER SUPPLY PHASE II
UNDER THE GUARANTEE LOANS
ACT (CAP. 461)

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1. In accordance with the provisions of Section 5(1) of the Guarantee (Loans) Act, (Cap 461) Laws of Kenya, the following information is laid before the National Assembly for consideration and approval.
2. The Government proposes to guarantee a loan in US dollars thirty million (US\$30 million) equivalent to approximately Kenya pounds (K£ 12,000,000) at current rates of exchange to be made to the Nairobi City Council by the World Bank (International Bank for Reconstruction and Development.)
3. The Loan bears interest of 7.9 per cent per annum. In addition, the borrower shall pay to the Bank a commitment charge of three-fourths of one per cent ($\frac{3}{4}$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time. The interest and other charges shall be payable semi-annually on February 15th and August 15th in each year. The principal amount of the Loan is repayable over a period of 20 years including a period of 5 years moratorium. As security for the Loan, the Nairobi City Council will issue a series of bonds or promissory notes covering each advance and maturing in accordance with an amortization schedule already agreed upon.
4. This Loan is subject upon the provision of a guarantee by the Government under the Guarantee Loans Act covering the principal interest and other charges payable on the enforcement of the guarantee agreement under the Bonds or Promissory Notes to be provided by the Nairobi City Council.

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TABLE I	
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The first part of the report deals with the general situation of the country at the beginning of the year. It shows that the economy was in a state of depression, with a high rate of unemployment and a low level of industrial production. The government had to take measures to stimulate the economy and to reduce the budget deficit.

The second part of the report deals with the financial situation of the country. It shows that the government had to increase its borrowing from foreign countries in order to finance its operations. This led to a high level of foreign debt, which was a major problem for the country.

The third part of the report deals with the social situation of the country. It shows that the living standards of the population were low, and that there was a high level of poverty. The government had to take measures to improve the social conditions, such as the construction of schools and hospitals, and the provision of social services.

The fourth part of the report deals with the political situation of the country. It shows that there was a high level of political instability, with frequent changes of government and a lack of political consensus. This was a major obstacle to the development of the country.

5. The Government has agreed and decided that the Nairobi City Council should obtain the Loan it requires for financing the second phase of Nairobi Water Supply Project which embraces expansion of the existing Ngethu Water Treatment Plant to capacity of about 160,000 m³/ per day, construction of a transmission main about 1 metre in diameter and about 36 km. long, construction of about three distribution reservoirs, about two distribution pumping stations, about 23km. of various trunk mains, about 20km. of secondary distribution mains, about 200km. of tertiary distribution mains and other related structures in order to increase the Water production and transmission Capacity of Nairobi's Water Supply system and to extend the distribution system to cater for the growing population and industries.

6. By this paper, the National Assembly is requested to approve and agree that the Kenya Government may guarantee the Loan intimated in paragraph two of the paper.

7. The current total contingent Liability of the Kenya Government in respect of guarantees given under section three (3) of the Guarantee (Loans) Act (other than those specified in the schedule to the Act) amount to K£.303,365,291. With the proposed guarantee of K£.12,000,000 the aggregate will be increased to K£.315,365,291 of which K£.226,886,019 will fall within paragraph (a) and K£.88,749,272 within paragraph (b) of Clause 3(3) of the Act.

MWAI KIBAKI
MINISTER FOR FINANCE AND PLANNING.

