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SESSIONAL PAPER NO. 4 OF 1985

KENYA GOVERNMENT GUARANTEE OF CREDIT
TO KENYA AIRWAYS LIMITED BY A
CONSORTIUM OF EUROPEAN BANKS LED BY
MIDLAND BANK PUBLIC LIMITED COMPANY
AS AGENT

THE GUARANTEE (LOANS) ACT (CAP 461)

1. In accordance with the provisions of Section 5 (1) 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 United States Dollars amounting to hundred million (US \$ 100,000,000) equivalent to approximately Kenya shillings one billion and six hundred million (Kshs. 1600m) to be made available to Kenya Airways Limited by a consortium of European Banks led by Midland Bank Plc in United Kingdom, Banque Indosuez in France and Dresdner Bank in West Germany.

3. Kenya Airways is a limited liability company incorporated under the provisions of the Companies Act (Cap. 486). All the shares are held by the Government that is 99% by Treasury and 1% by Ministry of Transport and Communications. Under the Articles



. 2 .

of Association of the Company, Kenya Airways Ltd., has powers to raise loans or credit for purpose relating to its operations from such sources, in such amounts and on such conditions as the Board of Directors may approve. As of now the Company has no external indebtedness.

Negotiations have already taken place with the afore-said European Banks and the credit insurers via Export Credit Guarantee Department ECGD of United Kingdom, HERMES of West Germany and COFACE of France on the one part and the Kenya Government appointed Negotiating Team on the other part where upon agreement has been reached to the effect that the total proceeds of the said credit will be used to finance the purchase by Kenya Airways of two Airbus Industrie A310-300 Aircraft scheduled for delivery in May and September, 1986.

4. The term of the proposed credit is ten (10) years. The total credit of US \$ 100 m will be procured as follows:-
US 20 million from United Kingdom, US \$ 40 million from France and US \$ 40 million from West Germany. The credit amount is further divided into two Tranches A and B representing 62.5% and 22.5% of the total credit respectively.



. 3 .

Under Tranche A the United Kingdom, France and West Germany interest rate are: 12%, 11.5% and 8.75% respectively.

Under Tranche B, the United Kingdom, France and West Germany interest rates are: 13.625%, 13.125% and 9.0% respectively. The credit attracts a commitment fee at the rate of 0.4% per annum beginning from 22nd July, 1985 on the account of the credit undisbursed from time to time. In addition the borrower will pay management fees at the rates of 0.4% flat of the total amount of the credit.

5. The credit is conditional, inter alia, on the provision of the guarantee by the Kenya Government under the Guarantee (Loans) Act, covering all payment of fees, interest and principal due from Kenya Airways Ltd., under the credit agreement.

The Government therefore requests the National Assembly to approve that the Government may guarantee the repayment of the credit referred to above. The Government has recommended that Kenya Airways Ltd., should borrow the funds for its re-equipment programme to ensure that the airline is competitive and efficient. In addition programme Kenya Airways is an important tool for promoting tourism and export trade thus enable the airline increase its foreign exchange earnings.



6. The current total contingency liability of the Kenya Government in respect of guarantee given under Section 3 (3) of the Guarantee Loans Act (other than those specified in the schedule to the Act) amounts of K£ 448,326,497 of which K£ 401,412,000 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.

DR. J. ROBERT OUKO

ACTING MINISTER FOR FINANCE

