SESSIONAL PAPER No. 5 OF 1980

The Kenya Government Guarantee of a loan to the Industrial Development Bank Limited from the Arab Bank for Economic Development in Africa.

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 relating to a guarantee by the Government of the obligations of the Industrial Development Bank Limited (hereinafter referred to as "IDB") in respect of a loan of United States Dollars 5 million equivalent to Kenya Shillings 36.9 million at current rates of exchange to be granted to IDB by the Arab Bank for Economic Development in Africa of P.O. Box 2211, Khartoum, Sudan (hereinafter referred to as "BADEA").

2. IDB was established at the initiative of the Government in January, 1973 to promote and stimulate the industrial development of Kenya by providing medium and long-term loans and equity finance for industrial projects which are economically sound, financially viable and technically feasible. In approving projects for financing, IDB gives considerable weight to projects that are labour intensive and make maximum use of local resources and raw materials.

3. The authorised share capital of IDB is KShs. 240 million comprising of KShs. 200 million Class A ordinary shares and KShs. 40 million Class B ordinary shares. The Government holds 49% of the Class A ordinary shares, the rest being held in equal proportions of 12¾% each by wholly owned Government institutions namely: the Industrial and Commercial Development Corporation, the Kenya National Assurance Company Limited, the National Bank of Kenya Limited and Kenya Reinsurance Corporation. All subscribed Class B shares are held by the Government.

4. BADEA was formed by Arab States in 1974 in order to forster economic, financial and technical co-operation between African countries and countries in the Arab world by, inter alia, assisting public or private companies, organisations and projects carrying out their business in African countries and in whose capital the Governments or citizens of those countries have a majority holding.

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5. The Government expects IDB to finance most of its investments by raising long-term loans from foreign institutions. In this way IDB plays a leading role in finding the foreign exchange needed to finance the importation of capital goods required for industrial development. The loans raised by IDB are on-lent on commercial terms to various industrial enterprises in accordance with Government development strategy.

6. The said loan will be utilised for procurement of foreign goods and services.

7. The loan will bear interest at the rate of 7% per annum on the amount withdrawn and outstanding from time to time. Such interest will be paid semi-annually in arrears.

8. The principal amount of the loan will be repaid over a period of 12 years including a grace period of three years.

9. The effectiveness of the loan is conditional upon a guarantee being provided by the Government. The National Assembly is therefore requested to approve that the Government may guarantee repayment of the loan referred to in paragraph 1 and other charges therein.

10. The current total contingent liability of the Government in respect of guarantees given under Section 3 of the Guarantee (Loans) Act (other than those specified in the schedule to the Act) amounts fo K£ 294,398,094. With the guarantee of a sum equivalent to K£ 18,450,000 now proposed, the aggregate will be increased to K£ 312,848,094 of which K£ 12,585,583 will fall within paragraph (a) and K£ 300,262,511 within paragraph (b) of Section 3 (3) of the Act.

HON. MWAI KIBAKI
VICE-PRESIDENT & MINISTER FOR FINANCE