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REPUBLIC OF KENYA

Sessional Paper No. 9 of 1970

**KENYA GOVERNMENT GUARANTEES FOR A LOAN TO
THE EAST AFRICAN COMMUNITY
FOR THE PURPOSES OF THE EAST AFRICAN RAILWAYS
CORPORATION, BY THE GOVERNMENT OF THE UNITED KINGDOM
AND NORTHERN IRELAND, AND FOR A LOAN BY THE GOVERNMENT
OF THE FEDERAL REPUBLIC OF WEST GERMANY, TO THE
EAST AFRICAN RAILWAYS CORPORATION AND OF COMMERCIAL
CREDITS BY ASSOCIATED ELECTRICAL INDUSTRIES LIMITED AND
ANDREW BARCLAYS LIMITED TO THE EAST AFRICAN RAILWAYS
CORPORATION**

KENYA GOVERNMENT GUARANTEES FOR A LOAN TO THE EAST AFRICAN COMMUNITY, FOR THE PURPOSES OF THE EAST AFRICAN RAILWAYS CORPORATION, BY THE GOVERNMENT OF THE UNITED KINGDOM AND NORTHERN IRELAND, AND FOR A LOAN BY THE GOVERNMENT OF THE FEDERAL REPUBLIC OF WEST GERMANY, TO THE EAST AFRICAN RAILWAYS CORPORATION AND OF COMMERCIAL CREDITS BY ASSOCIATED ELECTRICAL INDUSTRIES LIMITED AND ANDREW BARCLAYS LIMITED TO THE EAST AFRICAN RAILWAYS CORPORATION.

THE LOANS (GUARANTEE) ACT 1966

In accordance with section 5 of the Loans (Guarantee) Act 1966, the following information is laid before the National Assembly in connexion with proposed guarantees by the Government (jointly and severally with the Governments of Tanzania and Uganda) of the obligations of the East African Community in respect of a loan of up to £1,000,000 stg., the equivalent of approximately K.Sh. 17,143,000 by the Governments of the United Kingdom and Northern Ireland, and of the obligations of the East African Railways Corporation in respect of a loan of DM. 8,600,000 equivalent to approximately K.Sh. 17,005,000 by the Government of the Federal Republic of West Germany and in respect of a credit of up to £795,000 stg., equivalent to approximately K.Sh. 13,630,000, by Associated Electrical Industries Limited and of a credit of up to £465,000 stg., equivalent to K.Sh. 7,972,000 by Andrew Barclay Limited both of the United Kingdom, all to be used for the purchase of diesel locomotives.

In order to enable the Railways Corporation to purchase diesel locomotives of various types necessary to replace obsolete steam locomotives and to provide the additional power necessary to meet operational requirements the East African Community sought offers of financial assistance from interested Governments overseas. In the event, and having regard to such matters as price, technical suitability, manufacturer's competence and the financial assistance terms supporting the purchases, orders for a total of 70 diesel locomotives have been placed. Of these 35 are being manufactured in Canada, 25 in the United Kingdom and 10 in West Germany. The Canadian order will be covered entirely by loan finance provided by the Canadian Government in respect of which no guarantees are required from the three East African Governments. In respect of the loan finance from the Government of the United Kingdom and Northern Ireland, the credit finance from Associated Electrical Industries Limited and Andrew Barclay Limited who are supplying the 25 British manufactured locomotives and the loan finance from the Government of the Federal Republic of West Germany however joint and several guarantees by the Governments of Kenya, Tanzania and Uganda are required.

It is necessary for the 70 diesel locomotives to be purchased if the Corporation is to be able to fulfil its vital role in the economy of East Africa and the development programmes of the Partner States are not to be jeopardized and retarded. The Corporation itself would be compelled to incur high cost in attempting to keep in service life-expired steam locomotives which are difficult to maintain in sound working order and in respect of which necessary spare parts are almost impossible to obtain.

The Corporation would also be denied the economies associated with modern diesel locomotives operations and might be compelled to reduce existing services which are already barely adequate to meet traffic requirements. The large sums about to be expended on other projects in the Corporation's development programme, including the proceeds of the IBRD Loan recently concluded, would be largely abortive.

The loan of up to £1,000,000 stg. by the United Kingdom Government is interest free. The amortization schedule for this loan provides for the first repayment of principal to be made on the 1st February 1973 and thereafter for half-yearly payments in varying amounts, the final payment to be made on the 1st August 1995. This loan which approximates to half the cost of the 25 British-made locomotives, is to be on-lent by the Community to the Railways Corporation on the same terms.

The commercial credit from Associated Electrical Industries Limited of up to £795,000 stg., equivalent to approximately K.Sh. 13,630,000 and that from Andrew Barclay Limited of up to £465,000 stg., equivalent to approximately K.Sh. 7,972,000 is repayable over a period of 10 years, the first payment being due on the 28th February 1972 with half-yearly payments terminating in April 1982. The interest rate will be 5½ per cent per annum.

The loan from the Government of the Federal Republic of West Germany carries interest at the rate of 3 per cent per annum on outstanding amounts, and there is a grace period of eight years before the repayment of principal is to commence. The annual interest on the outstanding amounts is payable half-yearly. Repayments of the principal amount will start in December 1978 with 34 half-yearly instalments the last payment being made in June 1995.

In respect of the United Kingdom loan, the credit finance and the West German loan the terms are generous and represent significant assistance in the acquisition of these locomotives which are necessary for the continued operational efficiency of the East African Railways Corporation.

The repayment of the loan principal sums the commercial credits and the payment of the interest charges relating thereto are required to be guaranteed jointly and severally by the Governments of Kenya, Tanzania and Uganda. Having regard to the purpose of the loans and the credit finance, it is right and proper that such guarantees should be given by Kenya along with similar guarantees from the other two Partner States.

The current total contingent liabilities of the Kenya Government in respect of guarantees given under section 3 of the Loans (Guarantee) Act 1966 (other than those specified in the Schedule of the Act) amounts to the equivalent of K£61,430,674. With the proposed loan and credit guarantees of K£2,787,500 above mentioned the aggregate will be increased to K£64,218,174 of which K£21,487,674 will fall within paragraph (a) and K£42,730,500 within paragraph (b) of section 3 (3) of the Act.

MINISTRY OF POWER AND COMMUNICATIONS
NAIROBI.

25th November 1970.

