REPUBLIC OF KENYA

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KENYA GOVERNMENT GUARANTEE FOR A LOAN TO THE EAST AFRICAN POSTS AND TELECOMMUNICATIONS CORPORATION BY THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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Kenya Government Guarantee for a Loan to the East African Posts and Telecommunications Corporation by the International Bank for Reconstruction and Development

THE GUARANTEE (LOANS) ACT 1966

In accordance with section 5 of the Guarantee (Loan) Act 1966, the following information is laid before the National Assembly in connexion with proposed guarantee by the Kenya Government (jointly and severally with the Governments of United Republic of Tanzania and Republic of Uganda) of the obligations of the East African Posts and Telecommunications Corporation in respect of a loan of the equivalent of approximately K£3,713,000 ($10,400,000) to the Corporation by the International Bank for Reconstruction and Development (World Bank).

2. To obtain the finance necessary for full implementation of the 1969-1972 postal development programme as approved by the Partner States, the East African Posts and Telecommunications Corporation had asked the International Bank for Reconstruction and Development for a loan in various foreign currencies equivalent to $15,600,000 or approximately K£5,570,000. This is the amount by which the Corporation's own resources and borrowings from other sources are estimated to fall short of its expenditure during the programme period and will provide most of the necessary foreign exchange content of the expenditure.

In the meantime, however, the Kingdom of Sweden agreed to make available to the three Partner States for re-lending to the Corporation a credit in principal amount of Swedish Kronor 27,000,000 equivalent at present parity to $5,200,000 thus leaving for negotiations with the World Bank a balance of $10,400,000 only.

3. The development programme of the Corporation evolved after careful evaluation of essential needs in full consultation with the three Governments and having regard to the financial position of the Corporation and its ability to service further borrowing aims primarily at the modernization and expansion of telecommunications services in East Africa.

4. Principal among the items to be financed with the proceeds of the World Bank Loan and Swedish credit in the ratio of 2:1 are—

(*a*) installation of approximately 21,000 lines of automatic local exchange equipment; installation of additional switches to carry increased traffic for existing subscribers; and installation and extension of the junction networks of the subscribers' distribution network and telephone installation at subscribers' premises;

(*b*) installation of switching, signalling and terminating equipment to meet additional traffic requirements and extend subsubscriber trunk dialling facilities; installation of high capacity (more than 600 channel) microwave system between Kampala, Nairobi, Mombasa, Tanga and Dar es Salaam; installation of Very High Frequency (VHF) tropospheric scatter system Dar es Salaam-Mtwara; installation of UHF/VHF equipment to provide spur routes to other centres; redeployment of recovered VHF equipment from the Kampala-Nairobi-Dar es Salaam route to serve other centres and increase capacity; installation of additional open wire trunk circuits involving new construction of approximately 2,600 pair miles; and installation of a number of open wire carrier systems;

(*c*) improvement and extension of telegraph and telex facilities allowing connexion of about 1,500 additional teleprinter stations;

(*d*) provision of ancillary equipment for telecommunications buildings;

(*e*) provision of technical consulting services in respect of installation of automatic local exchange equipment; installation of additional switches to carry increased traffic for existing subscribers; and terminating equipment to meet additional traffic requirements and extend subscriber trunk dialling facilities.

5. It is to be noted that it is only the foreign exchange content of the items which is to be financed out of the loan proceeds, local costs being met from the Corporation's own resources. The proceeds of the World Bank Loan and of the Swedish credit are to be used exclusively in the carrying out of the 1969-1972 postal development programme. The goods produced in (including services suppied from) the territories of Kenya, Tanzania or Uganda cannot be financed out of the proceeds of the Bank Loan or Swedish credit.

6. The amortization schedule for the World Bank loan of the K£3,713,000 equivalent, provides that the first repayment of principal shall be made on 15th June 1975 and the final payment on 15th June 1995. Effectively, then, the loan is for a period of approximately 25 years from the expected date of signing, with an initial grace period of some five years during which there will not be repayment of principal. The rate of interest applicable, in accordance with the unvarying practice of the World Bank, will be the Bank's ruling rate at the time the loan agreement and guarantees are signed; currently this is seven per cent. The payment of the principal and interest charges are so arranged as to spread the burden of the loan as evenly as possible over the life of the loan, excluding the grace period during which only interest on the amount already drawn down is payable.

7. The general terms of the loan and the various convenants required of the Corporation as borrower and of the Partner States as guarantors are in accordance with the normal practices of the International Bank for Reconstruction and Development and are on similar lines to those applicable to loans made in the past and

guaranteed by Kenya, most recently that made to the East African Harbours Corporation and that shortly to be made to the East African Railways Corporation. They provide *inter alia* that the loan is made specifically in respect of the Corporation's Development Programme 1969-1972 as agreed by the Partner States and the Bank and that the proceeds of the loan shall be applied solely for the purpose of its implementation. The Corporation is required to manage its affairs, plan the development of its properties and facilities, and maintain its financial position all in accordance with sound engineering, public utility, financial and business principles and practices and under the supervision of experienced and competent management; it is required further to maintain soundly its plant, equipment, properties and facilities and carry out the necessary renewals. The appointment, retention or promotion of sufficient qualified and experienced staff must be such as to enable the Corporation to conduct its operations efficiently. The Corporation is required to take all necessary steps within its power to establish and maintain tariffs for telecommunications services and all such other actions necessary to provide revenue sufficient to produce an annual rate of return of not less than 10 per cent on the value of its net fixed assets in operation. These requirements are directed at ensuring the continuance of the East African Posts and Telecommunications Corporation as an efficient and viable undertaking geared to meet the needs of the vigorous, expanding economies of East Africa. As such, it is in Kenya's interest that they should be honourably fulfilled.

8. In addition to these general terms and convenants required of the Corporation and of the Partner States as guarantors of the loan there are certain particular convenants which require special mention. The Corporation is required to restrict the rate of increase in its staff for telephone and telex services to five per cent below the station growth percentage rate, the basis for calculations being the positions authorized as for June 1968. The Corporation's actuarial study of its pension fund is to be completed by the end of 1973 and some organizational changes within the management are to be implemented by June 1971.

9. The East African Community is required to take all necessary steps within its power to ensure that the Corporation performs the convenants, agreements and obligations of the Corporation under the World Bank loan agreement, the relending agreement for the Swedish credit, and the joint financing agreement which covers both the World Bank loan and the Swedish credit.

10. The payment of the loan principal, interest and other charges under the Loan Agreement or under any Bonds given pursuant thereto, and the performance of all the other convenants and obligations of the Corporation under the Loan Agreement and Bonds, and under the Joint Financing Agreement, are, as a requirement of the loan, to be guaranteed jointly and severally by the Governments of Kenya, Tanzania and Uganda. (The Swedish credit is not a guarantee obligation as such, as it is to be advanced to the three Partner States directly and on-lent by them to the East African Posts and Telecommunications Corporation.)

11. The East African Posts and Telecommunications Corporation is an instrument of the three Governments and plays an essential role in the economies of all three countries. It is in their best interest that it remains an operationally sound, well-managed and viable undertaking and that its operational efficiency is unimpaired. This the loan is intended to ensure and Kenya, therefore, along with the other two Partner States of Tanzania and Uganda should enter into this Guarantee Agreement with the International Bank for Reconstruction and Development, as they have done with the loan recently made to the East African Harbours Corporation and shortly to be made to the East African Railways Corporation and with the previous loans to the Community's predecessor services.

12. The current total contingent liabilities of Kenya Government in respect of guarantees given under the Guarantee (Loans) Act (other than those specified in the Schedule to the Act) amount to the equivalent of K£37,432,255. With the proposed loan guarantee of K£3,713,000 above-mentioned and with the further proposed loan gurantees of K£15,130,000 and K£250,000 referred to in Sessional Papers Nos. 1 and 4 of 1970, the aggregate will be increased to K£56,525,255, of which K£16,582,255 will fall within paragraph (*a*) and K£39,943,000 within paragraph (*b*) of section 3 (3) of the Act.

The guarantee limits imposed by paragraphs (*a*) and (*b*) of section 3 (3) are subject of the Guarantee (Loans) Amendment Bill 1970 now before the Assembly.

Ministry of Power and Communications,
NAIROBI.
17th February 1970.

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