

## **Building a Strong Syndicated Loan Market in our Financial Market.**

The Kenya financial market has started to embrace the growth of syndicated loan financing. A case in point is the Celtel Kenya Ksh.6 billion Syndicated Loan refinancing completed on December 2004. The loan facility was arranged through Standard Bank, which acted as a global advisor and arranger while Barclays bank of Kenya Limited, Kenya Commercial Bank Limited and Stanbic Bank Limited were lead arrangers for the issue which matures in five years. Syndicated loan is simply defined as two or more lending institutions jointly agreeing to provide a credit facility to a borrower. While syndicates have many variations, the basic structure involves a lead manager (the agent bank) that will represent and operate on behalf of the lending group (participating banks).

In principal virtually any type of corporate and commercial loan or credit facility can be syndicated. I urge commercial banks to be aggressively innovative and start syndicating loans in respects of terms loans, revolving credit facilities, standby facilities, constructions loans to spur our construction industry, export finance loans to boost our exports. It's important to note that Syndicated Loan tend to be of medium term facilities (one to five years). To initiate syndication, the lead bank or the arranger has to win a mandate from the borrower to lead the issue. In today's market it's not uncommon for a lead bank to take the initiative and bring a financing proposal to a potential borrower. Alternatively the borrower can initiate the transaction outlining the broad parameters of the financing. In order to spur the growth of syndicated loan financing our financial market should be more efficient and liquid which should lead to greater efficiency. Ultimately efficiency involves financial markets fully reflecting the forces of supply and demand accurately and quickly in market prices.

One important aspect that can enhance the syndicated loan market is to encourage use of loan ratings. This can prove particularly useful for institutional investors that may not have the same in-house capability as the banks to analyze loan credit. But let me quickly point out that there is difference between credit ratings for bonds and ratings for loans. Whereas bond ratings have been primarily an estimate of the probability of default, bank loans ratings take the analysis one step further and consider the loan's structural characteristics (Covenants, loan agreement and collateral support).

Another factor that can enhance our syndicated loan market is to encourage and structure an active secondary loan market. But a question would be asked how can we develop an active secondary loan market whilst our secondary bond market is very inactive and illiquid because of lack of tradable securities? Further is our financial market ready for repackaging the loan as a security and selling it to the third party? My position is that commercial banks and Investment banks should establish loan-trading desks to spur the secondary markets.

The beauty of loan syndications for banks can vary according to the role of the bank in the syndicate. In general the syndication technique allows lead banks to compete effectively with the bond markets for corporate financing business. The technique enables them to utilize their expertise in loan origination and fee collection for structuring, distributing and servicing large loans. Furthermore the syndication structure reduces the overall cost of loan origination because it spreads the burden among a number of banks. Participating banks may be motivated to join syndicates because they lack origination capabilities or because they desire to economize on origination cost. Moreover loan syndications are cost-effective methods by which participating banks can diversify their loan portfolios while to the borrowers it provides a complete menu of financing options.

---

### **LOITA CAPITAL PARTNERS INTERNATIONAL**

1<sup>st</sup> Floor, River Court, 6 St. Denis Street,  
P.O. Box 1079, Port Louis, Mauritius  
Tel: (230) 208 9022 - Fax: (230) 208 9033  
Website: [www.loita.com](http://www.loita.com)