

GOVERNMENT GUARANTEE OF A LOAN TO KENYA TEA DEVELOPMENT
AUTHORITY BY THE COMMONWEALTH DEVELOPMENT CORPORATION
THE GUARANTEE (LOANS) ACT (CAP. 461)

In accordance with the Provisions of the Guarante (Loans) Act (Cap.461), the following information is laid before the National Assembly relating to a guarantee which the Government of the Republic of Kenya proposes to give to the Commonwealth Development Corporation in respect of a loan of £Stg.6,840,000 to the Kenya Tea Development Authority.

The Kenya Tea Development Authority (hereinafter called the Authority) is a statutory body established by the Agriculture (Kenya Tea Development Authority) Order 1964 made under section 191 of the Agriculture Act (Cap.318) of the Laws of Kenya. The Order provides that the Authority will acquire, operate, establish or enter into agreement for the establishment of tea processing factories; it will promote, finance and control the development of tea grown by smallholders and subscribe for shares in any company incorporated in Kenya for the purpose of marketing and processing tea. In pursuance of this objective, the Authority with the aid of loans from the World Bank, Commonwealth Development Corporation and other lenders, has developed smallholder tea industry in the Republic's tea districts namely Meru, Embu, Nyeri, Kirinyaga, Murang'a, Kiambu, Kericho, Kisii, Nandi, Kakamega and Trans Zoia, and has established a total of 24 tea processing factories in the first 9 of these districts.

The Kenya Tea Development Authority has now successfully negotiated with the Commonwealth Development Corporation for a loan of £Stg.6,840,000 (equivalent to KShs.117,648,000/-) for the financing of the cost of the construction of 4 new tea factories and the equipping of each of the other further 8 tea factories with an additional third drier and its auxiliary machine components.

The agreement with the Commonwealth Development Corporation inter alia provides that the loan shall bear interest at the rate of six and one-half per cent ($6\frac{1}{2}\%$) per annum and will be repaid by twelve (12) equal annual instalments in the years 1983 to 1994 to be repaid on 30th day of April in each of the years. In addition the borrower shall pay to the lender a commitment charge at the rate of three-quarters of one per cent per annum on the principal amount of the loan advanced, but not withdrawn on within the specified time.

In Sessional Paper No.8 of 1980 - the Government is also requesting the National Assembly to approve the guarantee by Government of a further loan of Seven million five hundred thousand European Units of Account (EUA 7,500,000) equivalent to about KShs.79,500,000/- at current exchange rates for financing the cost of construction of another three factories as particularly described in the said Sessional Paper.

The current liabilities of K.T.D.A. in respect of loans guaranteed by the Government together with the amounts to be guaranteed under Sessional Paper No.8 of 1980 amount to KShs.281,023,435/-. With the proposed guarantee, the total liabilities will amount to KShs.398,671,435/-.

The Commonwealth Development Corporation has agreed to extend the loan to the Kenya Tea Development Authority subject to the Government guaranteeing the payment of the Principal of, and interest and other charges of the loan in accordance with the provisions of the Guarantee (Loans) Act.

The Government has decided and proposes to guarantee the loan to enable the Kenya Tea Development Authority construct the 4 new tea factories and carry out extension work for a third drier in each of eight other factories. Tea being a major foreign exchange earner for the Republic's economy, the Government is committed to the policy of promoting the development of smallholder tea industry and therefore supports, and attaches great importance to the construction of tea factories and/or their expansion.

The National Assembly is now requested to give approval for the Kenya Government to extend to the Commonwealth Development Corporation the required guarantee regarding the payment of the principal sum and interest and other charges thereon in respect of this loan of £Stg.6,840,000 (equivalent of KShs.117,648,000/-) to the Kenya Tea Development Authority.

The current total contingent liability of the Government of Kenya in respect of guarantees given under section 3(3) of the Guarantee (Loans) Act (excluding liability under collateral and those specified in the schedule to the Act) amount to K£318,323,094. With the guarantee of K£5,882,400 proposed in this Sessional Paper, the aggregate will be increased to K£324,205,494 of which K£12,585,583 will fall within paragraph (a) and K£311,619,911 within paragraph (b) of section 3(3) of the Act.

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