



REPUBLIC OF
KENYA

MINISTRY OF FINANCE

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GOVERNMENT GUARANTEES OF LOANS TO KENYA TEA DEVELOPMENT AUTHORITY
BY THE EUROPEAN INVESTMENT BANK AND THE COMMONWEALTH DEVELOPMENT
CORPORATION FOR THE CONSTRUCTION OF FOUR TEA FACTORIES

1. In accordance with the provision of the Guarantee (Loans) Act (Cap.461) the following information is laid before the National Assembly for consideration and approval.

The Kenya Tea Development authority is a state Corporation which is charged with the responsibility of fostering the development of tea growers.

Pursuant to this statutory duty the KTDA has managed to organise planting and growing of tea on a total of about 56,000 hectares in the 12 districts where KTDA small holders grow the crop. The KTDA has been able to organise the construction and management of a total of 39 tea factories where green leaf is processed and manufactured into tea for domestic and export markets.

In its expansion programme KTDA has proposed to construct 15 new processing factories which would be adequate to cater for the extra crop in the various districts i.e. Kericho, Kisii, Kakamega, Muranga, Kerinyaga, Embu, Meru and Kiambu. The 15 new factories will process about 150 million KG of Green leaf out of the projected increase of 287 million KG of green leaf and the balance will be processed in the existing factories which are being expanded.

3. The construction of the factories will be in 3 phases. Phase I for which loans have been negotiated will entail the construction of four factories (one in Kericho, two in Muranga and one in Kirinyaga). Construction is expected to start in 1987/88 financial year for completion in 1989/90 financial year.

Phase II comprise six factories to be ready for commissioning by 1990/91 at the latest.

phase III five factories to be completed and commissioned in 1991/92.

- 4. A total of Kshs. 409 million will be required to finance phase I of this project and the sources of funds are indicated here below:

	Kshs. millions
European Investment bank	
ECU's 11 million loan	165
ECU's 2.5 million concessionary loan	37.5
Stg.16 million. Commonwealth Dev. Corporation loan	<u>152.0</u>
 Total loans to be guaranteed by the Government	 354.5
KTDA local Banks	48.0
KTDA own resources	<u>6.5</u>
Total finance required	<u>409.0</u>

- 5. The Government proposes to guarantee the following three loans
 - (a) A loan from the European Investment Bank amounting (ECUS11,000,000) eleven million which is equivalent to approximately Kenya shillings one hundred sixty five million (Kshs.165,000,000) denominated in various European currencies to be made available to Kenya Tea Development Authority. The loan shall bear interest at a nominal subsidised annual rate which shall be determined at the time of signature of the finance agreement but is not expected to exceed 7% per annum and shall be payable semi annually in arrears on the dates to be agreed at the time of the signature. The principal amount of the loan shall be payable in twenty four. Semi annual instalments commencing three years after the date of signature of the agreement.


(b) A soft loan amounting to ECU's two million five hundred thousand (ECU's 2,500,00) equivalent to approximately Kenya shillings Thirty seven million, five hundred thousand (Kshs.37,500,000) denominated in various currencies to be made available to Kenya Tea Development Authority by the European Investment Bank. The loan shall bear an interest at annual rate of 2% (two per cent) and shall be payable in arrears on the

dates to be determined at the signature of the finance agreement. The loan can be used by the Kenya Tea Development Authority for the purchase of shares in the factory companies or as outright loan to factory companies. The repayment of the principal amount of the loan used to acquire shares in factory companies shall commence five years from the date of the signature of the finance agreement and the instalment payment shall be equivalent in ECU to one half of the net income received by the Kenya Tea Development Authority, on the shares in the respective factory company in the twelve months expiring on the previous 30th June. Any balance outstanding after 20 years from the date of signature of the finance agreement shall be repaid by five equal annual instalments, the first instalment falling due on the 21st year and the last one on the 25th year from the date of signature of the agreement. The repayment of that part of the principal amount of the loan used in making loans to factory company shall be repayable in fifteen annual instalments after five years from the date of signature of the finance agreement.

(c) A loan amounting to sterling pounds six million (stg.£6,000,000) equivalent to approximately Kenya shillings one hundred fifty two million Kshs.152,000,000 denominated in sterling pounds and the United States of America dollars to be made available to Kenya Tea Development Authority by the Commonwealth Development Corporation. The loan shall bear interest at the rate of 7% per annum payable half yearly in arrears. The principal amount of the loan shall be repayable by twenty four equal instalments the first of such instalment to be paid on 30th September, 1990 and the last on 31st March in the year 2002.

6. The total current loan liability for the Kenya Tea Development Authority guaranteed by the Kenya Government is Kshs.687,524,412 and at 31st Dec. '87. The proposed additional loans of Kshs.354.5 million will raise Kenya Government to Kshs.1,042,042,412
7. The National Assembly is requested to approve that the Government may guarantee the loan of ECUS13.5 million from the European Investment Bank and a loan of stg.£6 million from the Commonwealth Development Corporation totalling Kshs.354.5 million to Kenya Tea Development Authority.

8. The current contingent liabilities of the Government in respect of guarantees (Loans) Act (Other than those specified in the schedule to the act) amounts to K£528,944,655 and with this guarantee of a sum equivalent to K£17,725,000 the aggregate will be increased to K£546,669,655 of which K£495,005,158 will fall within paragraph (a) and K£51,664,497 within paragraph (b) of section 3(3) of the Act.



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