

GUARANTEE BY GOVERNMENT TO BARCLAYS BANK KENYA LIMITED FOR A LOAN TO KENYA FARMERS ASSOCIATION (CO-OPERATIVE) LIMITED UNDER THE GUARANTEE LOANS ACT (CAP 461)

1. In accordance with the provisions of Section 5(1) of the Guarantee Loans Act (Cap 461) of the Laws of Kenya the following information regarding a proposed guarantee by Government to Barclays Bank Kenya Limited for a loan to Kenya Farmers Association (Co-operative) Limited (KFA) is laid before the National Assembly for consideration and approval.

2. The Guaranteed Minimum Returns System that was introduced by Government in 1942 as a Short-term Agricultural Credit for large scale wheat and maize growers has, over the years, encountered serious repayment problems. Non-payment of GMR by loanees has therefore featured in every annual financial Reports of the Controller and Auditor General and the Public Accounts Committees. The arrears of advances made under the Guaranteed Minimum Returns Scheme amounted to K&9,860,709 (KShs.197,214,180) as at 30th June 1978. This sum does not include the Cereals and Sugar Finance Corporation Shortfalls under the same Scheme that amounted to K&249,534 (KShs.4,990,680/=) at the same date. The Government has viewed the deteriorating situation of GMR System over the past years with serious concern and has therefore now decided in accordance with recommendations of the Public Accounts Committee and the views expressed by Honourable Members of the National Assembly that GMR should be abolished and be replaced with a better form of a Short-term Agricultural System that will service the Agricultural Sector more efficiently than the GMR Scheme. An efficient Short-term Agricultural Scheme requires a well organized and efficient administrative machinery that can process credit applications promptly and collect repayment of advances promptly from farmers farm produce when they are due. Such an administrative machinery cannot be created overnight. Time is required for detailed planning for manpower requirements, sources of credit finance, management and financial control procedures and grain handling and marketing.

GMR was abolished at a very short notice to farmers and hence there is every likelihood that wheat and maize farmers who only depended on GMR advances for purchase of farm inputs every crop season will not be able to plant during the next crop season - which is on now. If this happens the country will suffer from serious shortages of maize and wheat and therefore the Government will be forced to use its meagre foreign exchange reserves for importation of maize and wheat in order to feed the nation. This in turn will have serious repercussions on the economic growth of the country. The Government has, in view of this problem, decided that KFA which is a well organized institution that has had nearly 55 years of experience in supplying farm inputs and credits to farmers in the country should provide K&4 Million as Short-term Agricultural Credit to maize and wheat growers who previously used GMR advances for purchase of farm inputs and land preparation.

3. The proposed Short-term Agricultural Credit to be administered by KFA will have better administrative and management procedures because KFA as an agent of the Wheat Board of Kenya and Maize and Produce Board currently handles all the wheat deliveries from wheat farmers in all wheat growing areas and handles 50% of maize deliveries. Each farmer will under this new Credit System have a special account covering fertilizers; herbicides, seed maize and seed wheat. KFA will in close co-operation with the Ministry of Agriculture ensure that farmers participating in the new Credit Scheme do plant their crops on due dates recommended by the Ministry of Agriculture. The Credit repayments will be collected by KFA as and when crop harvests are delivered to KFA Depots.

4. Kenya Farmers Association (Co-operative) Limited which was incorporated in 1921 under the Companies Ordinance and later registered under the Co-operative Societies (Registration) Ordinance in 1932 with the objective of promoting the economic interests of its members by handling and marketing of members and non-members cereals and other crops; importing and supplying farm inputs and carrying on various types of Business that is advantageous to the farmers has greatly diversified its operations. Its trading activities are now conducted through 39 Branches spread throughout the country. These are supplemented by 6,000 stockists appointed to act as agents in areas where demand has not yet justified establishment of permanent KFA Branches.

As a grain handling agent of the Wheat Board of Kenya it operates wheat stores at Eldoret, Nakuru, Kitale, Naivasha, Kiganjo, Nyahururu, Njoro, Ol Kalou, Nanyuki and Nairobi. These stores cover all the wheat growing areas. As an agent of Maize and Produce Board it operates maize stores at Eldoret, Kitale, Moi's Bridge and Nakuru. With the proposed new Short-term Agricultural Credit to replace Guaranteed Minimum Returns System (GMR) and to be administered by KFA, KFA should be given powers to operate in areas where it has not been handling maize in order to be in a position to provide Short-term Agricultural Credit to farmers particularly those who depended on GMR advances. It is only by allowing KFA to handle all wheat and maize in all areas where the new Credit System is going to be utilized that problems of non-repayment of loans by loanees can be avoided.

5. The proposed Short-term Agricultural Credit to be operated by KFA calls for an additional total sum of K&4 Million. KFA cannot fund this Scheme from its own resources because:

- (a) its overdraft facility with Barclays Bank Kenya Limited - Nakuru West Branch is limited to the maximum of 3.5 Million. This bears an interest of K& 9½ per annum.
- (b) it has a loan of K&500,000 with the same Barclays Bank as in (a) above. This loan bears an interest of 10% p.a.
- (c) it operates a maximum of K&1 Million from the Cereals and Sugar Finance Corporation for farm inputs as a revolving fund.
- (d) it has a total of K&7.5 Million tied up in Credits to farmers and Wheat Board of Kenya which alone accounts for K&1.5 Million.

KFA is a commercial enterprise. The Government appreciates its current financial position and the important role it is playing in promoting agricultural development in the country and therefore wishes to propose that the K&4 Million required for short-term agricultural credit to replace GMR and to be administered by KFA should be drawn as a loan from Barclays Bank Kenya Limited and be guaranteed by the Government.

6. The loan by KFA from Barclays Bank Kenya Limited will bear 10% interest per annum. The principal loan is repayable by KFA to the Bank after 15 months. KFA will onlend this loan to farmers at the rate of interest of 12% which rate is applicable to both KFA members and non-members to whom KFA extends credit facilities. There will be a two months grace period on repayment of interest. The principal loan will be repaid by farmers as and when crop harvests are delivered to KFA stores - where each farmer will have a special account. KFA will operate a separate account for this Scheme.

7. By this Sessional Paper, the National Assembly is requested to approve and agree that Kenya Government may give to the Barclays Bank Kenya Limited, Nakuru West Branch of P.O. Box 111, Nakuru a Guarantee by Kenya Government for a bank loan of Kenya Shillings eighty Million (KShs.80,000,000/=) for Kenya Farmers Association (Co-operative) Limited under the Guarantee Loans Act.

8. The total current contingent liability of Kenya Government in respect of guarantee given under Section 3 of the Guarantee Loans Act (Cap 461) of the Laws of Kenya excluding liability under collateral and those specified in the Schedule to the Act amount to K&266,077,346 with the proposed guarantee of K&4 Million the aggregate will be increased to K&270,077,346 of which K&12,796,853 will fall under paragraph (a) and K&257,280,493 paragraph (b) of Clause 3(3) of the Act.

(HON. J. J. M. NYAGAH)
MINISTER FOR AGRICULTURE