



REPUBLIC OF KENYA

MINISTRY OF FINANCE

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KENYA GOVERNMENT GUARANTEES OF BANK LOAN FACILITIES EXTENDED TO

1. THE KENYA FURFURAL COMPANY (IN RECEIVERSHIP);
2. THE KENYA CHEMICAL AND FOOD CORPORATION LIMITED (IN RECEIVERSHIP);
3. KENYA FLOURSPAR COMPANY LIMITED (LIQUIDATED); and
4. EAST AFRICAN AIRWAYS CORPORATION (LIQUIDATED);

BY SOME LOCAL BANKS SPECIFIED HEREBELOW:-

THE GUARANTEE (LOANS) (ACT (CAP. 461))

In accordance with the provisions of the Guarantee (Loans) Act (Cap. 461), the following information is laid before the National Assembly:-

In its endeavour to promote development in Kenya, the Government supported financially a number of promising projects by persuading the local banks to participate in raising the capital for the projects. Such projects like Kenya Furfural Company Limited in Eldoret, Kenya Chemical and Food Corporation in Kisumu, and Kenya Fibre Corporation in Nanyuki, had seemingly very positive feasibility studies. Unfortunately, it transpired that a number of these projects after take-off, started developing financial problems due to various reasons such as marketing, poor management, underutilisation of capacity etc., projects whose capital was raised by way of loans secured on Government letters of awareness, were subsequently unable to service their debts.

The Attorney General advised that there is only one way which the Government can be bound to honour the borrowings by bodies corporate. This is set out in Cap. 461 Section 3 of the Laws of Kenya where it is stipulated that the Government may with the prior approval of Parliament guarantee the borrowing of Local Authority or body corporate.

Now therefore the Government Commitments on letters of awareness and the proposals therefore are as follows:

1. THE KENYA FURFURAL COMPANY LIMITED (IN RECEIVERSHIP) (KFC)

- (a) The Government proposes to guarantee the due repayment by KFC of (i) a bank loan of K£.750,000 from Kenya Commercial Bank Limited (KCB) and (ii) another bank loan of K£.500,000 from Barclays Bank of Kenya Limited. The two bank loans add up to a total of K£.1,250,000.
- (b) Interest is chargeable on the two bank loans at the maximum going rate (currently 15% per annum) for commercial bank loans as determined, from time to time, by the Central Bank of Kenya. Such interest is calculated on daily balances and is debited monthly by way of compound interest.
- (c) The bank loans are repayable in seven (7) years by fourteen (14) equal half-yearly instalments.
- (d) KFC is a body corporate duly organized and existing under the Companies Act (Cap. 486).
- (e) KFC was incorporated on 7th December, 1976 and, pursuant to an investment Agreement dated 21st January, 1977 and made between the Government, Industrial Development Bank Limited (IDB), Agricultural Development Corporation (ADC), Development Finance Company of Kenya Limited (DFCK), Kale-Agro Industries Limited, Lewis and peat Limited, Eschar Wyss GmbH and Foster Wheeler (Process Plants) Limited, it was agreed to establish and operate, through KFC, a factory at Eldoret for the Manufacture of furfural and acetic and formic acids, from maize cobs.
- (f) The authorised and issued capital of KFC of shs. 115 million is held as follows:-

<u>Investor</u>	<u>Percentage Holdings</u>
Government	31.4%
IDB	6.5%
ADC	8.4%
DFCK	15.8%

<u>Investor</u>	<u>Percentage Holdings</u>
Lewis and Peat Limited	24.8%
Escher Wyss GmbH	1.9%
Foster Wheeler Limited	1.9%
European Investment Bank	9.0%
Kale-Agro Industries Limited	0.3%
TOTAL	100.00%

(g) The bank loans were initially raised by way of overdraft facilities to finance the operations of KFC and their approvals were subject to Government guarantees being furnished to the two commercial banks as security.

(h) The KFC factory was constructed at Eldoret and was commissioned for operations in 1977. The factory, however, ceased production in January, 1982 due to financial (cash flow) problems. The secured creditors, IDB, DFCK and KCB (for other debts) therefore, appointed Receivers and Managers over KFC.

1. Efforts are being made to dispose of the KFC factory, failing which, a new company would be formed to take over the assets of KFC and operate the factory.

2. KENYA CHEMICAL AND FOOD CORPORATION LIMITED (IN RECEIVERSHIP)(KCFC)

a. The Government proposes to guarantee the due repayment by KCFC to the Kenya Commercial Bank Limited of the following loans and/or banking facilities amounting in all to KSh.12,179,101.05 equivalent:-

<u>Type of facility</u>	<u>Principal Amount and Currency</u>	<u>KSh. Equivalent as at 5.11.85</u>
Overdraft	Kshs.30,000,000	1,500,000
*Foreign Bank Guarantee	US\$. 12,000,000	9,515,101.05
Promissory Notes	Kshs.13,100,000	655,000
Receivers' Account	Kshs.10,000,000	500,000
		12,170,101.05

*The Foreign Bank Guarantee was in respect of funds raised from a syndicate of six (6) foreign banks led by UBAF Bank Limited and consisting of the following:-

<u>Name of Bank</u>	<u>Principal Amount in US\$</u>
International Energy Bank Limited	3,000,000
Roywest Banking Corporation Limited	3,000,000
UBAF Bank Limited	2,500,000
Banque deL'Indochine de Suez	1,000,000
Banque Belge Limited	1,500,000
International Commercial Bank Limited	1,000,000
	<hr/>
	12,000,000
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- b. (i) Interest is chargeable on the loan amounts due in local currency at the maximum going rate (currently 15% per annum) for commercial bank loans as determined, from time to time, by the Central Bank of Kenya. Such interest is calculated on daily balances and is debited monthly by way of compound interest.
- (ii) Interest is chargeable in US Dollars on the loan amount which is still due in US Dollars (Currently US\$ 6,972,666.68) at 13/8 per annum above LIBOR (London Interbank Offered Rate). A transfer fee equivalent to 3/8% is also payable.
- c. (i) The amount representing the Foreign Bank Guarantee of US \$12 million (equivalent to K£ 9,515,101.05 as indicated in sub-paragraph (a) above is repayable in four and a half (4½) years by nine (9) equal half-yearly instalments.
- (ii) The balance of the loans amounting to K£ 2,655,000 is repayable in seven (7) years by fourteen (14) equal half-yearly instalments.

- d. KCFC is a body corporate duly organized and existing under the Companies Act (Cap.426).
- e. KCFC was set up on 30th June,1977 as a joint venture between the Government, Chemfood Investment Corporation S.A. and Advait International S.A. for the purpose of establishing and operating a factory at Kisumu for the manufacture of power alcohol (ethanol),bakers yeast;citric acid, and vinegar and the by-products thereof such as ammonium sulphate, gypsum and methane gas.
- f. KCFC's paid up share capital of Kshs.170 million was subscribed for a follows:-

<u>Shareholder</u>	<u>Percentage Holdings</u>
The Government	51%
Chemfood Investment Corporation S.A.	34%
Advait International S.A.	15%
	<hr/> <u>100.00%</u> <hr/>

- g. The loans and banking facilities were raised to finance the setting up of the said factory at Kisumu and their approvals were subject to joint and several guarantees being furnished to Kenya Commercial Bank Limited by the Government and the two other shareholders. The guarantees of the other shareholders have been obtained.
- h. The construction of the KCFC factory was not completed due to project cost estimate escalations. Kenya Commercial Bank Limited, therefore, appointed Receivers/Managers over KCFC under the terms of their debenture in January, 1983.

3. FLOURSPAR COMPANY OF KENYA LIMITED (IN RECEIVERSHIP) (FCK)

- a. The Government proposes to guarantee the due repayment by FCK to the National Bank of Kenya Limited of a loan amounting to K£1,500,000.
- b. Interest is chargeable on the loan at the maximum going rate (currently 15% per annum) for commercial bank loans as determined, from time to time, by the Central Bank of Kenya. Such interest is calculated on daily balances and is debited monthly by way of compound interest.

- c. The loan is repayable in seven (7) years by fourteen (14) equal half-yearly instalments.
- d. FCK is a body corporate duly organized and existing under the Companies Act (Cap.486).
- e. FCK was set up on 14th May, 1971 as a joint venture between ICDC and International Minerals Corporation (a United States firm and its subsidiaries for the purpose of mining and processing flourspar within the Kerio Valley.
- f. FCK was duly established and started its mining operations in early 1970s. However, as a result of financial problems caused by over supply of flourspar in the world market, the secured creditors, namely Kenya Commercial Bank Limited, National Bank of Kenya Limited, ICDC, Citibank N.A. and National Housing Corporation appointed receivers/managers over FCK on 11th May, 1979. A new company in the name of Kenya Flourspar Company Limited was subsequently formed to take over the assets of FCK. The new company has been operating well without major problems.
- g. The loan was raised to finance the operations of FCK and approval was subject to Government guarantee being furnished to the National Bank of Kenya Limited by way of security.

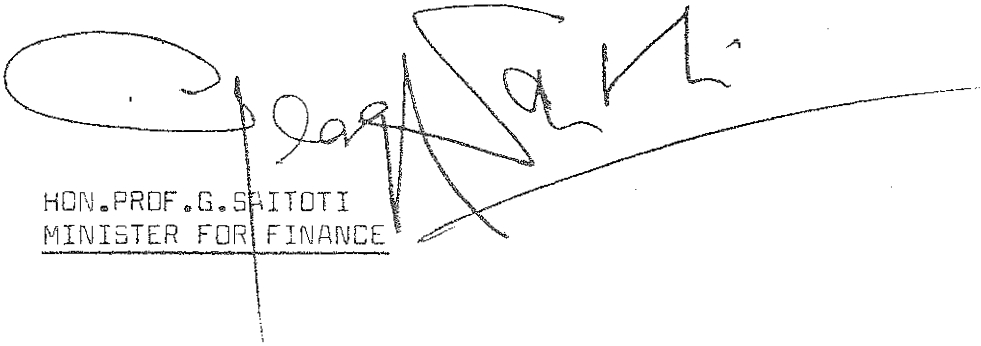
4. EAST AFRICAN AIRWAYS CORPORATION (IN RECEIVERSHIP) (EAA)

- a. The Government proposes to guarantee the due repayment by EAA to the National Bank of Kenya Limited of a loan amounting to K£1,541,662.7.
- b. Due to receipts from the Official Liquidator, the amount outstanding on the account has since been reduced from K£1,985,957 to about K£1,541,662.7.
- c. Interest is chargeable on the loan at the maximum going rate (currently 15% per annum) for commercial bank loans as determined, from time to time, by the Central Bank of Kenya. Such interest is calculated on daily balances and is debited monthly by way of compound interest.
- d. The loan is repayable in seven (7) years by fourteen (14) equal half-yearly instalments.
- e. EAA is a corporate duly organized by and existing under the East African Airways Corporation Act as applied to Kenya by virtue of the Treaty for East African CO-operation Act (Cap.4).

- f. The loan was raised to finance the air transport operations of EAA prior to the break-up of the former East African Community.
- g. EAA was one of the Corporation established under the auspices of the former East African Community.

CONTINGENT LIABILITY

The current total contingent liability of the Government in respect of guarantees given under Section 3 of the Guarantee (Loans) Act (Cap.461) (Other than those specified in the schedule to the Act) amounts to KES592,829,776. with the guarantee of the sums stipulated in clauses 1(a), 2(a), 3(a), 4(a), and above amounting in the aggregate to KES16,461,764 herein proposed, the total contingent liability of the Government will be hereby increased to KES609,291,540 of which KES68,126,261 is in respect of covenants expressed in Kenya currency as per paragraph (a) and KES541,165,279 is in respect of covenants expressed in foreign currency as per paragraph (b) of Section 3(3) of the Act.


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