

GOVERNMENT GUARANTEE OF A LOAN TO KENYA TEA DEVELOPMENT AUTHORITY (KTD)
FROM EUROPEAN INVESTMENT BANK (E.I.B.) FOR FINANCING THE 5TH KENYAN TE
DEVELOPEMNT PROJECT

THE GUARANTEE (LOANS) ACT (CAP 461)

In accordance with the provisions of the Guarantee (Loans) Act (Cap 461) of the Laws of Kenya, the following information is laid before the National Assembly relating to a guarantee by the Government of the Republic of Kenya in respect of a loan of seven million five hundred Thousand European Units of accounts (EU.A.7.500,000) equivalent to about Kenya shillings seventy nine million, five hundred thousand (Kshs.79,500,000) at current exchange rates to be granted by the European Investment Bank an agency of the European Economic Community to the Kenya Tea Development Authority. EIB grants loans directly to governments or public authorities, exclusively for projects offering satisfactory and assured rate of return, whose operating results or the resources directly generated thereby must normally be such as to cover loan repayments and interest due.

The Kenya Tea Development Authority (hereinafter called the Authority) is a statutory body corporate established by the Agriculture (Kenya Tea Development Authority) Order, of 1964 as made under section 191 of the Agriculture Act (Cap 318) of the Laws of Kenya. The Authority is charged with the function of promoting and fostering the developme of tea. In executing this function, the Authority is empowered, inter alia, to establish, acquire and operate processing factories and to raise such loans as is necessary to assist in the development of tea in tea growing areas. The Bank credit will be used for financing the cost of the construction of three (3) new tea processing factories under the Authority's 5th Kenyan Tea Development Project, in Meru, Nyeri and Kericho Districts respectively.

The loan is for a term of 15 years including a grace period of 3 years and 5 months calculated from the date of execution of the instruments of loan. The loan will bear an interest rate of eight per cent (8%) per annum but the said rate will be stepped down to 5% by way of a 3% interest rate subsidy granted by the Bank.

The current liabilities of the Authority in respect of loans guaranteed by the Government as at 30th June, 1980 was as follows: A balance of loan of BE599,569.00

(KSHS.10,301,135) from C.D.C; US \$ 8,684,304.50

(KSHS.63,327,681) granted by I.B.R.D. (World Bank); BE 5,038,000.00

(KSHS.86,557,374) granted by C.D.C.; BE 2,406,000.00

(KSHS.41,337,245) granted by C.D.C. These are the total loans outstanding and guaranteed by the Government and they amount to KSHS.201,523,435.

With the proposed guarantee of the equivalent of Kshs.79,500,000 aforesaid,, the Government guarantees to the KTDA will amount to Kshs.281,023,434 at current exchange rates.

The loan is conditional upon the provision of a guarantee by the Government under the Guarantee (Loans) Act covering all payments of fees, interest, and principal due from the Authority under the loan agreement.

The Government has decided and proposes to guarantee the loan so that the Kenya Tea Development Authority can borrow the funds it requires for the construction of the 3 tea processing factories.

It is anticipated that when the 3 factories are completed they will each be capable of processing nearly 8,400 tons of green leaf and at an outturn of 1,800 tons of made tea annually and will adequately serve smallholder tea plantations of roughly 1,000 hectares (2,500 acres) Tea being a major foreign exchange earner, the increased production will enhance foreign exchange earnings. The construction of the factories in the Districts will help Government efforts to promote rural industries and help smallholder tea growers market their produce easily. The Government is committed to the promotion of rural industries and the increased green leaf production will enhance the much needed foreign exchange earnings.

The approval of the House is sought under the Guarantee (Loans) Act to Government guaranteeing the repayment of the loan which is the subject of this paper.

The current total contingent liability of the Government of Kenya in respect of guarantee 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£ 314348094. With the guarantee of K£ 3975000 proposed in this sessional paper, the aggregate will be increased to K£ 318323094 of which K£ 12585583 will fall within paragraph (a) and K£ 305737511 within paragraph (b) of section 3(3) of the Act.