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GOVERNMENT OF KENYA

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GOVERNMENT GUARANTEES FOR THE CHEMELIL SUGAR COMPANY

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I. INTRODUCTION:

The Government sugar development plans are described on pages 174 - 176 of the Development Plan. This aims to increase white sugar production in the Nyanza Basin from its present 25,000 - 30,000 tons per annum to 145,000 tons per annum. This will be achieved by expanding the area under cane from approximately 30,000 acres at present to 80,000 acres. Factory capacity will be increased by expanding the existing mill at Miwani to 40,000 tons per annum, constructing a mill of 45,000 tons capacity at Muhoroni and another of 60,000 tons capacity at Chemelil. The Muhoroni factory is under construction and will open in September.

II. DESCRIPTION OF THE CHEMELIL PROJECT:

This project is the result of Government initiative. It forms the most important part of the overall sugar scheme. The Chemelil Sugar Company Ltd. was incorporated with nominal capital of £100 in July, 1965 and field operations commenced towards the end of 1965. The sugar factory is due to come into production during the early part of 1968. Over 2,000 smallholders will participate as cane growers producing cane worth £500,000 a year. The Chemelil Company will carry out the necessary heavy machine work for smallholders and provide technical advice. This has been facilitated by a £893,000 loan to the Kenya Government from K.F.W. - the German Reconstruction and Development Bank. The scheme will therefore bring prosperity to a difficult farming area, which has no other high priced cash crop. The balance of the cane requirements of the factory will be grown by large scale farmers and by the Chemelil Company Nucleus Estate.

In addition to bringing prosperity to farmers in the Chemelil area and to those sections of commerce and industry serving these farmers, there will be considerable saving in foreign exchange. At least 3,000 new jobs will be created and in the long run the return from the Government investment in the scheme will generate finance for other development projects.

III. FINANCIAL COMPOSITION OF THE CHEMELIL COMPANY:

The scheme is an excellent example of international co-operation in financing a development project. The Kenya Government through the Agricultural Development Corporation in co-operation with the Governments of Germany and Britain and private investors in those countries are providing the £5,608,000 capital necessary. The individual contributors and the composition of the capital is shown in the table which follows.

	Share Capital £	Loans £	Other £	Total £
A.D.C.	350,000	-	-	350,000
A.D.C. (German Loan)	-	893,000	-	893,000
A.D.C. (U.K. Loan)	-	464,000	-	464,000
Development Finance Co. of Kenya Ltd.	150,000	150,000	-	300,000
National & Grindlays Finance & Development Corporation	150,000	150,000	-	300,000
G.H.H.	100,000	-	2,451,000*	2,551,000
D.E.G. (German Develop- ment Co.)	250,000	-	-	250,000
Kenya Shell	100,000	-	-	100,000
National & Grindlays Overdraft	-	-	250,000	250,000
Kenya Government or its Nominee	150,000 ^φ	-	-	150,000
<u>TOTAL</u>	1,250,000	1,657,000	2,701,000	5,608,000

* Credit for sugar factory machinery

^φ To be subscribed only if required.

Out of the total sum about £4,000,000 will be used on the factory side of the Project and the balance on agricultural development.

IV. GUARANTEES SOUGHT FROM THE KENYA GOVERNMENT:

In view of the large sums involved and the position of the Government as the initiator of the project, certain of the overseas investors have asked for undertakings from the government to increase the security of their investments. These undertakings fall into two categories; firstly, assurances regarding certain ancillary services which the Government normally provides, such as roads, and these have been given; and secondly the purely financial undertakings, for which, in accordance with the Loans (Guarantee) Act, Parliamentary approval is required. These are listed in detail in the Parliamentary motion, which is attached as an Appendix to this paper.

In some cases the investors are seeking additional security since investment of this type is outside their normal business. This applies to the equity investment by G.H.H. who are manufacturers of machinery rather than sugar manufacturers, and to National and Grindlays Finance and Development Corporation whose investments are normally confined to loans rather than equity. In this latter case also, there is a corresponding option for the Government to purchase National & Grindlays's shares, if it so wishes.

Parts (h) and (i) of the motion call for mention in that they are both part of the general undertaking of the Government to provide end-finance i.e. if for reasons beyond the Company's control and which cannot now be foreseen the total cost of the project is increased over the present estimates, to provide sufficient funds to complete the project. This is normally the responsibility of the promoter of any project, in this case the Government.

The Government has examined the financial projections for the Company and is satisfied that, unless unpredictable adverse factors intervene, the Company will be a viable enterprise, which will be able to meet its financial commitments. The Government therefore proposes to give the undertakings requested by certain of the other investors and is seeking Parliamentary approval to undertake these contingent liabilities. When this has been given there will be no further obstacle to a formal Finance and Co-operation Agreement being concluded between all the partners in the enterprise, including the Government, so that the project can proceed with all possible speed.

Encl: Appendix

A P P E N D I X

In accordance with the provisions of the Loans (Guarantee) Act the House is asked to approve the following motions -

- a) that this House approves the proposal of the Government to guarantee the repayment over a period of ten years from April 1968 to October 1977 together with interest thereon in the meantime at the rate of 7% per annum of a loan of 27,449,220 Deutschmarks (being the equivalent of approximately £2,450,000 sterling at the current rate of exchange) to be made by Gutehoffnungshutte Sterkrade Aktiengesellschaft of the Federal Republic of Germany to Chemelil Sugar Company Limited towards the cost of the financing of the Chemelil Sugar Project;
- b) that this House approves the proposal of the Government to guarantee the payment over a period of up to three years from the present time of instalments of the purchase price of machinery to be supplied by Gutehoffnungshutte Sterkrade Aktiengesellschaft of the Federal Republic of Germany at an estimated cost of 4,036,650 Deutschmarks (being the equivalent of approximately £360,000 sterling at the current rate of exchange);
- c) that this House approves the proposal of the Government to enter into an undertaking to purchase on the expiration of five years from the respective dates of receipt of the investment by Chemelil Sugar Company Limited the share holding in that Company held by Gutehoffnungshutte Sterkrade Aktiengesellschaft, if so required, at a price in shillings representing the par value (£100,000) together with simple interest thereon in the meantime at the rate of 8% per annum;
- d) that this House approves the proposal of the Government to guarantee the repayment over a period of eight years from 30th June 1969 together with interest thereon in the meantime at the rate of 8 $\frac{1}{4}$ % per annum of a loan of £150,000 sterling to be made by National and Grindlays Finance and Development Corporation Limited to Chemelil Sugar Company Limited towards the cost of the financing of the Chemelil Sugar Project;
- e) that this House approves the proposal of the Government to enter into an undertaking to purchase on the expiration of eight years from the date of incorporation of Chemelil Sugar Company Limited the shareholding in that Company held by National and Grindlays Finance and Development Corporation Limited, if so required within a period of two years thereafter, at a price in shillings representing the par value or the value of such shares at the time of the request to purchase, whichever shall be the greater. The par value of such share is £150,000;
- f) that this House approves the proposal of the Government to guarantee over a period up to the 31st December 1968 the repayment by the Chemelil Sugar Company Ltd. of all monies owing by that Company, to National and Grindlays Bank Limited in respect of overdraft facilities granted to the Company and not exceeding a total of £250,000 at any one time;