

PAPERS LAID	No. 87
Speaker Mr. ...	11/11/75
...	...
...	...
...	...

GOVERNMENT GUARANTEE OF CREDIT TO KEN-REN CHEMICALS AND FERTILISERS LIMITED.

THE GUARANTEE (LOANS) ACT, CAP. 461

In accordance with section 5 of the Guarantee (Loans) Act, the following information is laid before the National Assembly in connection with a proposed guarantee by the Government of credits to be obtained for the financing of the purchase and construction of an agrochemical fertiliser factory complex at Mombasa by KEN-REN Chemicals and Fertilizers Ltd.

2. KEN-REN Chemicals and Fertilisers Ltd. (hereinafter called KEN-REN) is a company recently incorporated in Kenya in which the share capital is held sixty-five per cent (65%) by the Government and thirty-five per cent (35%) by the N-REN Corporation of Ohio, USA.

3. The N-REN Corporation is a large and world-wide manufacturer of agricultural and industrial chemicals and chemical fertilisers, and a designer and builder of factories for such manufacture. It has or participates in facilities in North and South America, Europe, Asia and Africa (where it has joint ventures in Senegal, Gabon and Mauritius).

4. KEN-REN has entered into a contract (called the Project Contract) with N-REN International (called the Contractor), a subsidiary of N-REN Corporation, for the supply and erection on a site at Changamwe, Mombasa, of a factory complex comprising all the facilities required to establish and operate two ammonia plants with a combined capacity of 100 short tons per day, a nitric acid plant of 250 short tons per day and an NPK (chemical fertilizer compounds) plant of 725 short tons per day. The factory complex is to be completed within thirty months.

5. The contract price under the Project Contract is US. \$53,495,000 which at present rates of exchange is equivalent to approximately Kenya Shs. 382 million. This price will be paid in the currencies of the countries where the factory equipment is manufactured (mostly European)

and also in Kenya currency to the extent of the construction done and services supplied in Kenya (which is estimated at one eighth of the whole). The price is subject to fluctuation to the extent that the value of such currencies (including Kenya currency) may change in relation to the U.S. dollar.

6. One fifth of the contract price is to be met out of the equity share capital of KEN-REN, which capital is to be Kenya Shs. 112 million subscribed Shs. 72.8 million by Government (or by governmental agencies such as the Industrial Development Bank Ltd. and the Agricultural Development Corporation) and Shs. 39.2 million by the N-REN Corporation and its subsidiaries.

7. The remaining four-fifths of the contract price, namely U.S. \$42,796,000 or the equivalent of approximately Kenya Shs. 305.687 million, is to be financed by credits obtained from the major overseas suppliers of the factory plant and equipment and/or from overseas financing agencies or institutions in respect of the supply contracts. That part of the said four-fifths balance which is not so financed by suppliers' or other credits is to be paid to the Contractor N-REN International Ltd. over seven years from completion of the plants by half-yearly promissory-note instalments and at a rate of interest equal to the average rate payable under the suppliers' contracts and other financing agreements, if any, in respect of such contracts (but not at a lower rate than that required to discount the promissory notes at face value under the commercial conditions existing when the notes are given on factory completion). These suppliers' contracts and/or financing agreements have still to be made but it is anticipated that the credits will be repayable over periods averaging seven (7) years from the completion of the plants, by half-yearly instalments, and at interest rates averaging not more than nine percent (9%) p.a. which is less than present ruling rates of interest for such finance. It is a condition of such financing that the payment by KEN-REN to the suppliers or other creditors and to the Contractor of the principal, interest and any incidental charges relating to these credits be guaranteed by the Government.

8. The project proposal involves the construction of the Chemical Fertilizer Factory at Mombasa with an annual capacity for the production of 240,000 tons of fertilizer products. Initially the factory is planned to produce 40,000 tons calcium ammonium nitrate, 26% n., 60,000 tons of N.P.K. Compound 25:5:5+5%S., and 70,000 tons of N.P.K. compound 11:54:0. These types of fertilizers are the most important for the majority of Kenya's crops. Other fertilizers eg. urea etc. not covered, will be imported.

9. The benefits to be derived from the establishment of the agrochemical complex include:

- (1). considerable savings of foreign exchange, and hence, release of such foreign exchange to other development fields;
- (2). cheaper fertilizer to the farmers, and so a savings to the agricultural industry;
- (3). guaranteed source of supply of fertilizers. Increased production of food and hence greater self-sufficiency with room for export;
- (4). more employment opportunities.

10. KEN-REN is expected to sell the products at such prices that they will realise profits to enable it to meet the loan commitments. A management agreement has been drawn up between KEN-REN and N-REN Corporation. The KEN-REN will have a Board of Directors consisting of six Directors from Kenya Government and the three from N-REN Corporation.

11. Kenya Government will charge KEN-REN a guarantee fee of 1% on the amount of principal guaranteed, payable over seven years from production date.

12. The approval of the House is accordingly sought under the Guarantee (Loans) Act to Government giving guarantees of payment to the Contractor and other parties extending to KEN-REN the credits mentioned in paragraph 7 of this paper, up to a limit of Principal amounts of U.S. \$45,000,000 equivalent to KSh16,071,428, at rates of interest

averaging not more than 9% over all the credits (plus incidental charges such as credit insurance and commitment fees where applicable) and for periods averaging seven years (more or less) from completion of the factory project.

13. The current total contingent liabilities of Kenya Government in respect of guarantees given under section 3 of the Guarantee (Loans) Act (other than those specified in the schedule to the Act) amounts to K£153,822,635 with the above proposed guarantees of K£16,071,428 the aggregate will be increased to K£169,894,063 of which K£96,434,091 will fall under paragraph (a), and K£73,459,972 under paragraph (b), of section 3 (3) of the Act.

MINISTER FOR AGRICULTURE.

22ND MAY, 1975.