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SESSIONAL PAPER

NO. 3 OF 1973

THE KENYA TEA DEVELOPMENT AUTHORITY  
( TEA FACTORY COMPANY )

KTDA/52

MINISTRY OF AGRICULTURE

31ST MAY 1973

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Government Guarantee of Moneys lent and subscribed to tea factory companies established by the Kenya Tea Development Authority.

THE GUARANTEE (LOANS) ACT, CAP. 461

In accordance with the provisions of the Guarantee (loans) Act, the following information is laid before the National Assembly for consideration and approval.

The Government proposes to guarantee moneys lent and subscribed to the Chebut Tea Factory Company Limited, by the Commonwealth Development Corporation and George Williamson Kenya Limited.

The Kenya Tea Development Authority came into being in 1964 as a successor to the former Special Crops Development Authority - this latter body having been established in 1960. The K.T.D.A. was established for the purpose of promoting, financing, and controlling the development of tea to be grown by small - holders. The order setting up the Authority, provides, as one of its functions, that K.T.D.A. will "establish, acquire and operate processing factories, to enter into agreement for the establishment of factories, and to promote and subscribe for shares in any Company incorporated in Kenya for the purpose of processing or marketing tea." In pursuance of this objective the K.T.D.A. has to date established ten tea processing factories, in Kisii, Nandi, Kericho, Kiambu, Kirinyaga and Nyeri Districts of the Republic, and the funds used for financing the establishment of these factories have been guaranteed by Government.

From its inception, the Authority, with loans from the Commonwealth Development Corporation, the World Bank and other lenders, has expanded tea growing by small-holders from a small acreage of 8,400 in 1962/63 to 64,600 acres in 1972. In 1972 the value of tea exports was £13,600,000 making it the second largest export earner after coffee. Production of tea by small-holders has increased from 566,801 kilos in 1963/64 to 13,316,861 kilos in 1972, and this increase is expected to gain momentum in future as a result of expanded and accelerated planting programmes now being undertaken in the K.T.D.A.'s Fourth Tea Project.

When the Authority came into being in 1964, only about 18,300 small - holders were growing tea in the country, and during its first year of operation produced an income of £147,923. To-date the number of small holders growing tea under the Authority is 66,900 growers, and this is to be increased to 100,000 in the new plan ending 1977/78.

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In respect of the Chebut Factory like other tea factories, a company has been formed to build, own and operate the factory by means of finance in the form of equity capital and loans. The equity capital is in the form of "founders" shares, the founders' shares being taken by K.T. D.A., the lenders and the Growers. The shares will be allocated to growers in terms of the Articles of Association of each Company, which undertakes to pay dividends of at least 8% on its issued share capital. Much of the greater portion of finance comes from the loans now to be made to the factory company, which are to be secured by first debenture charge on the company assets and all of which carry interest at 8% per cent per annum and are repayable over 17 years by half - yearly instalments starting 1974 and finishing in 1991.

The financing agreements for the tea factory company provides that upon the loan lenders becoming entitled to appoint a receiver under the debenture security (that is, upon the tea factory making default under the debenture), the Government will, if so required by the lenders, purchase the lenders' debenture and share at par value together with any interest and dividends respectively accrued or in arrears.

The contributions to capital by the K.T.D.A. and lenders will be as follows:-

Chebut Tea Factory Company, Kericho District.

		<u>Loans</u>		<u>Shares</u>
Lenders CDC	Sterling	£127,700	K.Sh.	50,000
George Williamson	Sterling	£105,000	K.Sh.	5
K.T.D.A.	K.Sh.	£392,860	K.Sh.	49,995
Estimated factory cost:				
4,600,000/=				

The factory company has an authorised capital of K.Sh. 200,000/= divided into 20,000 founders shares of Sh. 5/= each carrying (41) votes and 20,000 growers shares of K.Sh. 5/= each carrying 1 vote.

The total contingent liability of the Government under the above tea factory loan and share guarantees is the equivalent of K.Sh. 4,520.110/= (K.Sh. 44,860 + sterling £232,700 at an exchange rate of K.Sh. 17,50 = £1 sterling, such rates being subject to alteration); plus any interest and divided arrears, for which the approval of the National Assembly is now sought.

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The current total contingent liability of Kenya Government in respect of all guarantees given to date under section 3 of the Guarantee (loan) Act (other than those specified in the Schedule to Act), amount to K.shs.1,916,042,660. With the guarantee of K.shs.4,520,110 equivalent proposed by this Sessional paper, the aggregate will be increased to K.shs.1,920,562,770 of which K.shs.579,334,890 falls within paragraph (a), and K.shs.1,341,227,880 within paragraph (b), of section 3 (3) of the Act.

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