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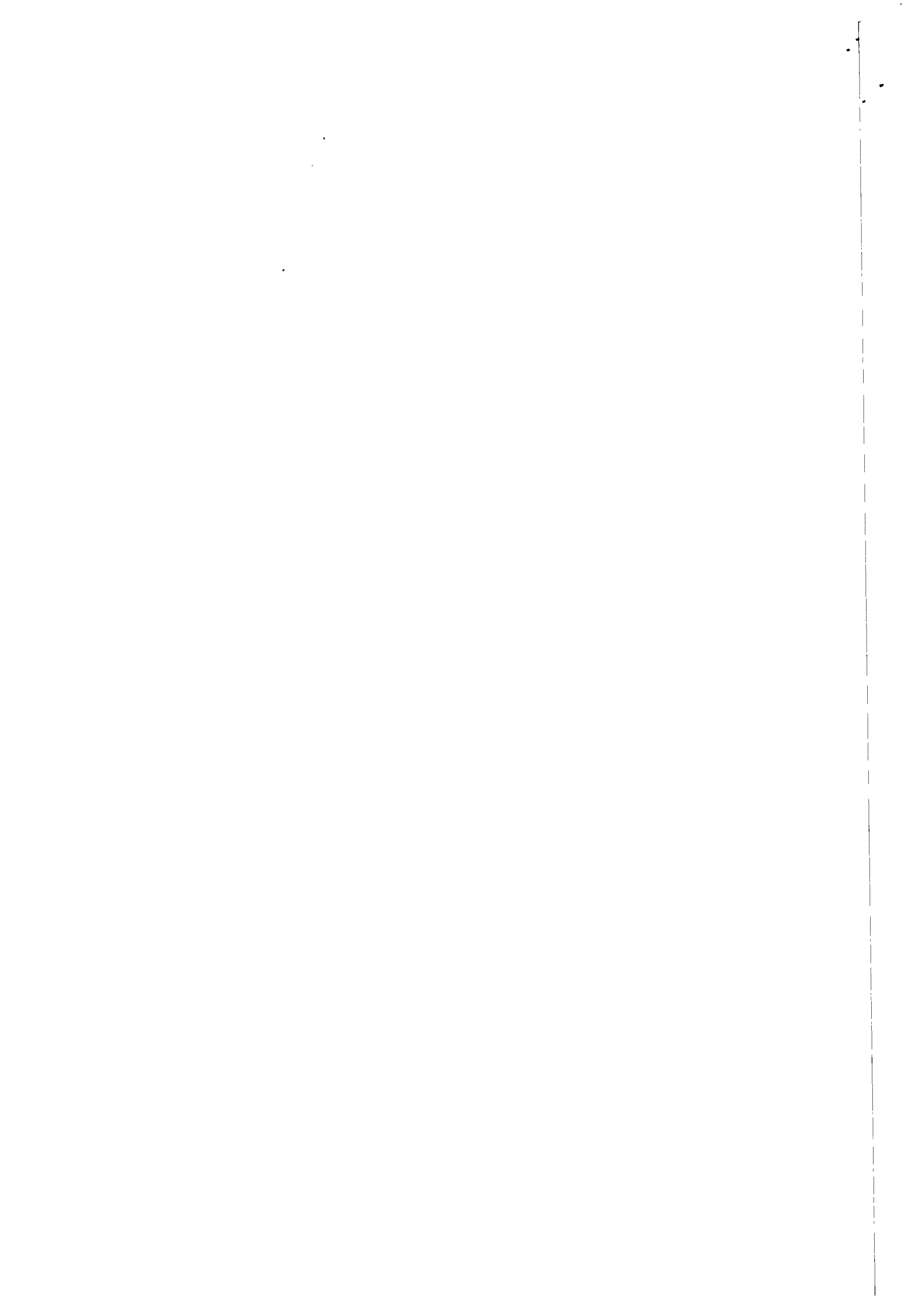
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REPUBLIC OF KENYA
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REPORT OF THE
JOINT DEPARTMENTAL COMMITTEES ON
AGRICULTURE, LANDS AND NATURAL RESOURCES
&
FINANCE, PLANNING AND TRADE
ON
SESSIONAL PAPER NO.1 OF 2002
ON RESTRUCTURING OF
AGRICULTURAL FINANCE CORPORATION (AFC)

Clerk's Chambers
National Assembly
Parliament Buildings
NAIROBI

October, 2002



PREFACE

Mr. Speaker Sir,

Sessional Paper No.1 of 2002 on the restructuring of the Agricultural Finance Corporation was referred to the relevant Departmental Committees on 3rd July 2002. In this case the relevant Departmental Committees were:-

- (i) The Departmental Committee on Finance, Planning and Trade and
- (ii) The Departmental Committee on Agriculture, Lands and Natural Resources.

The two Departmental Committees held Three joint meetings to deliberate on the Sessional Paper. During the deliberations, the Committees received evidence and clarifications from:-

- (i) The Minister for Finance Hon. Chris Obure, M.P.;
- (ii) The Minister for Agriculture Hon.(Dr.) Bonaya Godana, M.P.;
- (iii) Senior Officials from the two Ministries, and
- (iv) Officials from the Agricultural Finance Corporation, and

Mr. Speaker Sir, the Joint Committee also received documents clarifying issues relating to the Institution. After thorough scrutiny of all evidence and documents received, the Committee arrived at the report and recommendations contained herein.



SESSIONAL PAPER NO.1 of 2002 ON RESTRUCTURING OF THE AGRICULTURE FINANCE CORPORATION (AFC)

The Minister for Finance gave the background of the problems facing the Corporation since its inception. Among the problems he enumerated were:-

Guaranteed Minimum Return Funds

The G.M.R. Scheme which was stopped in 1980's was replaced by Seasonal Crop Credit Scheme which was also stopped after a while. In both schemes farmers did not provide any tangible security. Many of the farmers had accessed credit through such Institutions, as Kenya Farmers Association, National Cereal and Produce Board, KMC etc. Some of these Institutions failed to perform in the 1990's making it difficult for AFC to recover the loans.

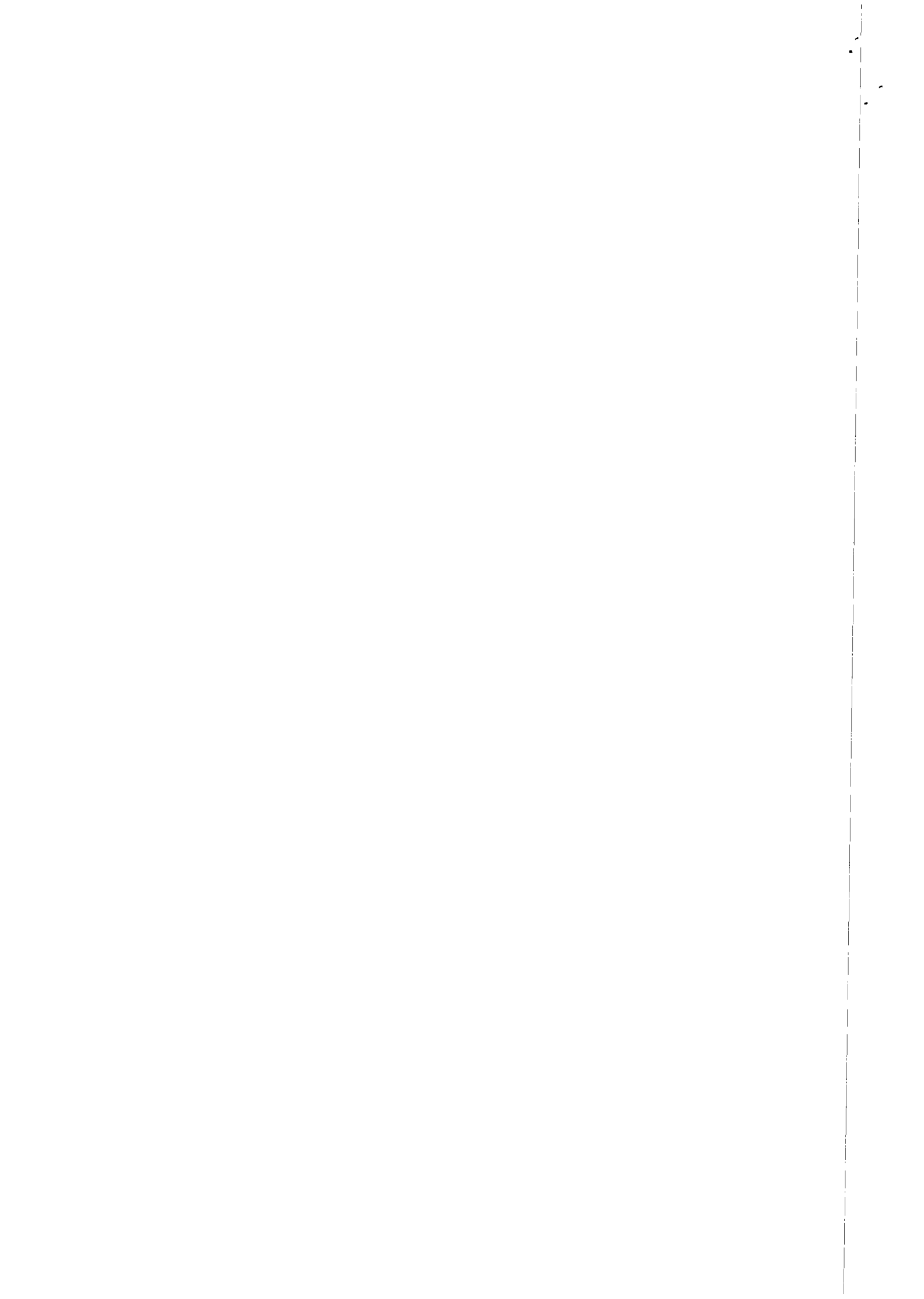
Interest charged by AFC

The Government provided loan facilities at exorbitant interest rates while AFC could only charge at a minimal interest. AFC was therefore subsidizing the interest. Some loans were borrowed at 13% while AFC could not charge more than 12%.

Government also issued a directive to AFC not to charge compound interest and any interest on arrears. This directive seriously affected the institution.

The 1984 Drought

During the 1984 drought, many farmers were left in very poor shape that they needed help. The government therefore asked AFC to write off some



loans owed by farmers. The government did not however write off these loans against the AFC account. The amount written off was Kshs.817.3 million. The loans which were written off were in different categories e.g. sugar, livestock, cotton etc.

The Committee in a meeting held on Thursday 8th August, 2002 resolved to have the following information from the Minister for Finance:-

- (i) Loans given out by category, that is, GMR, Seasonal Credit, Development, Livestock etc. indicating those able to pay and those recommended for write off and the amount in each case.
- (ii) The year when the loans were given, the name of the loanee, the crop, the station, the amount advanced then and the current outstanding amount
- (iii) A list of loans not to be written off by category and indicating the station, the loanees name, the specific purpose e.g. land purchase, machinery purpose etc. the year, the amount advanced then and the outstanding amount.
- (iv) An undertaking to restructure AFC to include a new Board and a new professional Management.

In a subsequent meeting held on Tuesday, 13th August, 2002 the Minister tabled the following documents as requested:-

- (a) A list indicating loans given by category (this is Appendix A)
- (b) A list indicating loans written off, (1989) amounting to Kshs.817.3 million (This is Appendix B)
- (c) A list of loans proposed to be written off (This is Appendix C)

Will there be a new Board and a New Professional Management?

The Minister gave the following answer:-

“The restructuring process of AFC encompasses operational,



organizational and Financial aspects. Within this Framework, the Government is committed to restructure the operational, organizational and Management aspects to provide AFC with an environment and Management which enables it to carry out the mandate of the "New look AFC" more effectively.

From the above reply, the Minister undertook to have a new Board and new Management put in place after the restructuring.

Did the Loanees give Collateral Security to AFC?

On being asked whether the loanees had given collateral security to AFC the Minister said that the loans were given in certain areas where people did not have existing titles. They were given loans purely on faith and unfortunately they did not honour their debts.

Breakdown of loans to be written off:-

The Minister gave the following as the breakdown of loans recommended for write off:-

-	Seasonal Crop Credit	=	Kshs.2,081,792,172
-	Ranch Loans	=	Kshs. 200,746,276
-	Land Purchase Loans	=	Kshs. 26,480,800
-	Development loans (these were mainly for Machinery)	=	Kshs. 343,843,630
-	Unsecured loans (these are historical were given before titles were available	=	Kshs. 284,925,979
	Total		<u>Kshs.2,937,888,857</u>

The Sessional Paper also seeks authority to write off an amount of Kshs.7,732,139,327 which comprises of principle and interest and was given to AFC to loan to farmers over the years.

The other category for write off is an amount of Kshs.817.3 m. which was given out as G.M.R. loans to farmers and which A.F.C. wrote off after




directive from the Government but approval was not sought from Parliament.

The Minister explained that loans issued under "Land Purchase" were not recovered in full after the land owed by defaulters was sold and that the figure of Ksh26,480,800 relates to the balance.

Recommendations:

From the foregoing the Committee recommends that the House approves the Sessional Paper, on condition that a new Board and a new professional Management will be put in place.

Signed:



Hon. John Sambu, MP
Chairman – Departmental Committee on
Agriculture, Lands and Natural Resources



Hon. Simeon M. Mkalla, MP
Chairman – Departmental Committee on
Finance, Planning and Trade



MINUTES OF THE FIRST MEETING OF THE JOINT COMMITTEES OF AGRICULTURE AND FINANCE TO DELIBERATE ON SESSIONAL PAPERS NO.1 OF 2002 ON RESTRUCTURING OF AGRICULTURAL FINANCE CORPORATION (AFC) AND NO.2 OF 2002 ON REVIVAL OF KENYA MEAT COMMISSION (KMC) HELD ON TUESDAY, 9TH JULY, 2002 AT 10.00 A.M. AT THE MAIN CONFERENCE ROOM COUNTY HALL, PARLIAMENT BUILDINGS

PRESENT: The following Members were present:

Hon. John Sambu, MP - Chairman
Hon. Simeon Mkalla, MP - Co-chairman
Hon. Jimmy Angwenyi, MP
Hon. Molu Shambaro, MP
Hon. Mohammed Galgallo, MP
Hon. Soita Shitanda, MP
Hon. Daniel Khamasi, MP
Hon. David Murathe, MP
Hon. Adan Keynan, MP
Hon. Onesmus Mboko, MP

IN ATTENDANCE

Mr. J.N. Mwangi - Principal Clerk Assistant
Mrs. F. Abonyo - Clerk Assistant

MINISTRY OF FINANCE

Hon. Chris Obure - Minister for Finance
Mr. Mwaghazi Mwachofi - Permanent Secretary
Ms Esther Koimett - Investment Secretary
Mr. Solomon Kilungu - Principal Economist

AUDITOR GENERAL

Mr. S. Maluki - Auditor General (Corporations)
Mary Onyango - Financial Controller, AFC
Ruth Otima - Technical Services Manager, AFC

MINISTRY OF AGRICULTURE

Douglas J. Mwasaga - Deputy Secretary
Albert Chebeda - Senior Deputy Director



MIN.NO.01/02: DELIBERATION ON SESSIONAL PAPER NO.1 OF 2002 ON RESTRUCTURING OF AFC

Hon. Chris Obure, Minister for Finance gave the Government's stand on the restructuring of AFC. He gave a background of the problems facing the Corporation as:

(a) GMR Loans

Among the problems was the funds issued out as GMR which was stopped in the 1980s. The GMR was then replaced by Seasonal Crop Credit Scheme which was also stopped after a while. In both cases, farmers did not provide any tangible security. Many of the farmers had accessed credit through such institutions as Kenya Farmers Association, National Cereals and Produce Board, KMC etc. Some of these institutions failed to perform in the 1990s making it difficult for AFC to recover the loans.

Interest Charged by AFC

The Government provided loan facilities at exorbitant interest rates while AFC could only charge at a minimal interest. AFC was therefore subsidizing the interest. Some loans were borrowed at 13% while AFC could not charge more than 12%.

Government also issued a directive to AFC not to charge compound interest and any interest on arrears. This directive seriously affected the institution.

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MIN.02/02: APOLOGIES FROM THE MINISTER FOR AGRICULTURE

The Minister for Finance gave apologies from the Minister for Agriculture for not attending the meeting. He explained that Hon. Godana had a prior commitment and had sent some two officers to represent him.

MIN.03/02: COMMENTS BY MEMBERS

Members of the Committee raised various comments and questions among which were:

- (i) What will happen to those property has already been sold by AFC?
- (ii) Does AFC have other loans apart from those from the Government?
- (iii) Will the present management be retained after the restructuring.
- (iv) A list of loans by category should be submitted.



MIN.04/02: ISSUE DEFERRED

The Committee resolved to defer the issue until Monday, 15th July, 2002 at 2.30 p.m. in order to allow the Minister and his team prepare the documents required.

The committee also directed that the Minister for Agriculture and the management of AFC appear on that day.

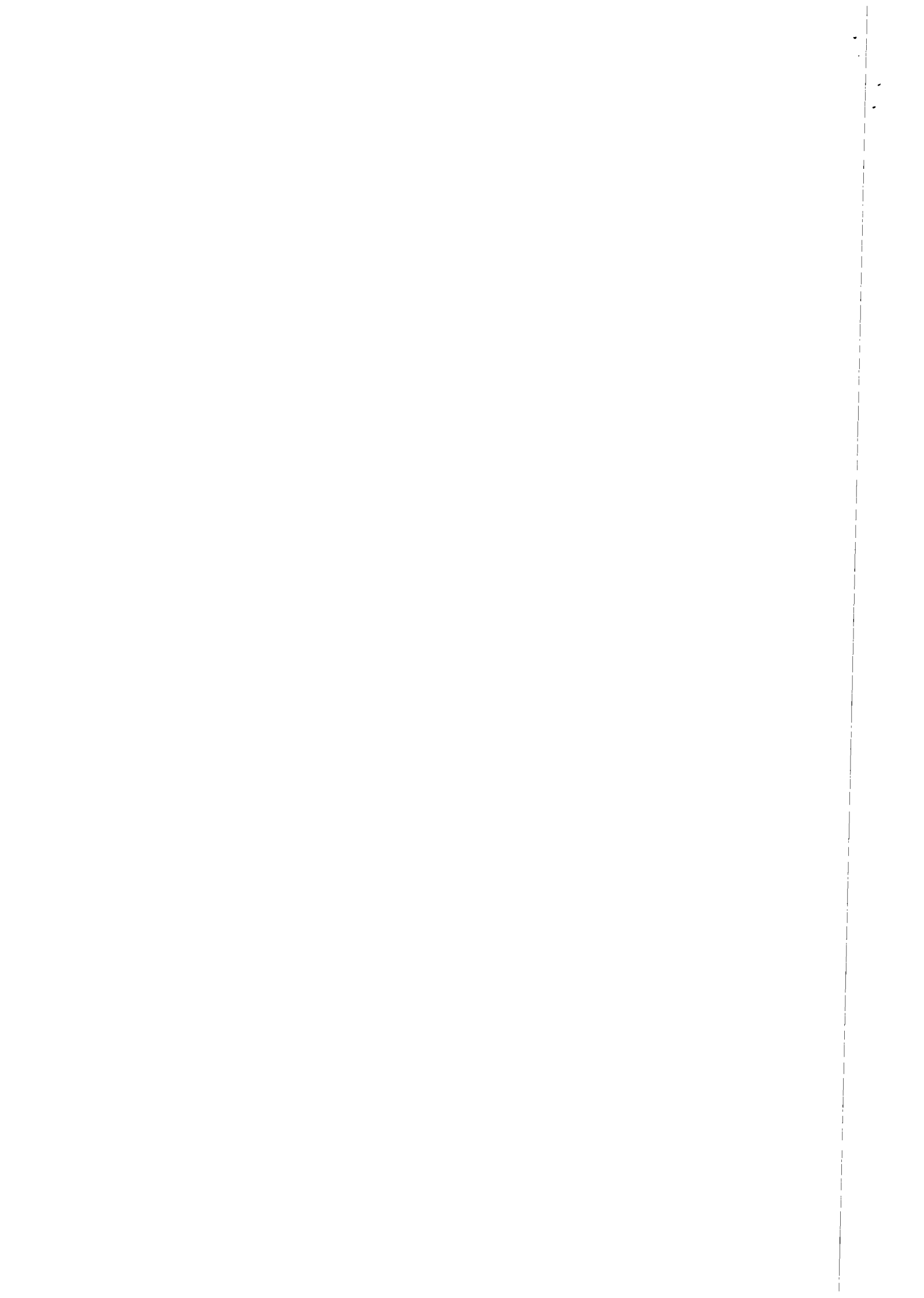
MIN.05/02: ADJOURNMENT

And the time being thirty minutes past One O'clock, the Chairman adjourned the meeting until Monday, 15th August, 2002 at 2.30 p.m.

Confirmed: (Signed)

Hon. John K. Sambu, MP
(Chairman)

Date: 22nd October, 2002



MINUTES OF THE SECOND MEETING OF THE JOINT COMMITTEES OF AGRICULTURE AND FINANCE TO DELIBERATE ON SESSIONAL PAPERS NO.1 OF 2002 ON RESTRUCTURING OF AGRICULTURAL FINANCE CORPORATION (AFC) AND NO.2 OF 2002 ON REVIVAL OF KENYA MEAT COMMISSION (KMC) HELD ON MONDAY, 15TH JULY, 2002 AT 2.30 P.M. AT THE MAIN CONFERENCE ROOM COUNTY HALL, PARLIAMENT BUILDINGS

PRESENT: The following Members were present:

Hon. John Sambu, MP - Chairman
Hon. Simeon Mkalla, MP - Co-chairman
Hon. Joseph Munyao, MP
Hon. Peter Ndwiga, MP
Hon. Jimmy Angwenyi, MP
Hon. Molu Shambaro, MP
Hon. Mohammed Galgalo, MP
Hon. Soita Shitanda, MP
Hon. Ochollo Ayoki, MP
Hon. Onesmus Mboko, MP

IN ATTENDANCE

Mr. J.N. Mwangi - Principal Clerk Assistant
Mrs. F. Abonyo - Clerk Assistant

MIN.06/02: MEETING WITH THE MINISTERS FOR FINANCE AND AGRICULTURE

Hon. Chris Obure, Minister for Finance and Hon. Bonaya Godana, Minister for Agriculture, accompanied by:

S. Maluki - Auditor General (Corporations)
Solomon Kitungu - Principal Economist
J.O. Mwasaga - Deputy Secretary, Ministry of Agriculture
A.M. Gakere - Deputy Secretary, Ministry of Agriculture
A. Chabeda - Senior Deputy Director, Livestock
Mary Onyango - Financial Controller, AFC
Ruth Otima - Technical Services Manager
Andrew Gregory - Receiver, KMC
Julius Musyoki - KMC

Gave the following comments concerning the two Sessional Papers:-

A new management team will be put in office after the restructuring of AFC – this reply was given by the Minister for Agriculture in response to a question by a member of the Committee.



The Minister for Finance then gave the background of the problems facing AFC :-

(a) GMR Loans

Among the problems was the funds issued out as GMR which was stopped in the 1980s. the GMR was then replaced by Seasonal Crop Credit Scheme which was also stopped after a while. In both cases, farmers did not provide any tangible security. Many of the farmers had accessed credit through such institutions as Kenya Farmers Association, National Cereals and Produce Board, KMC etc. some of these institutions failed to perform in the 1990s making it difficult for AFC to recover the loans.

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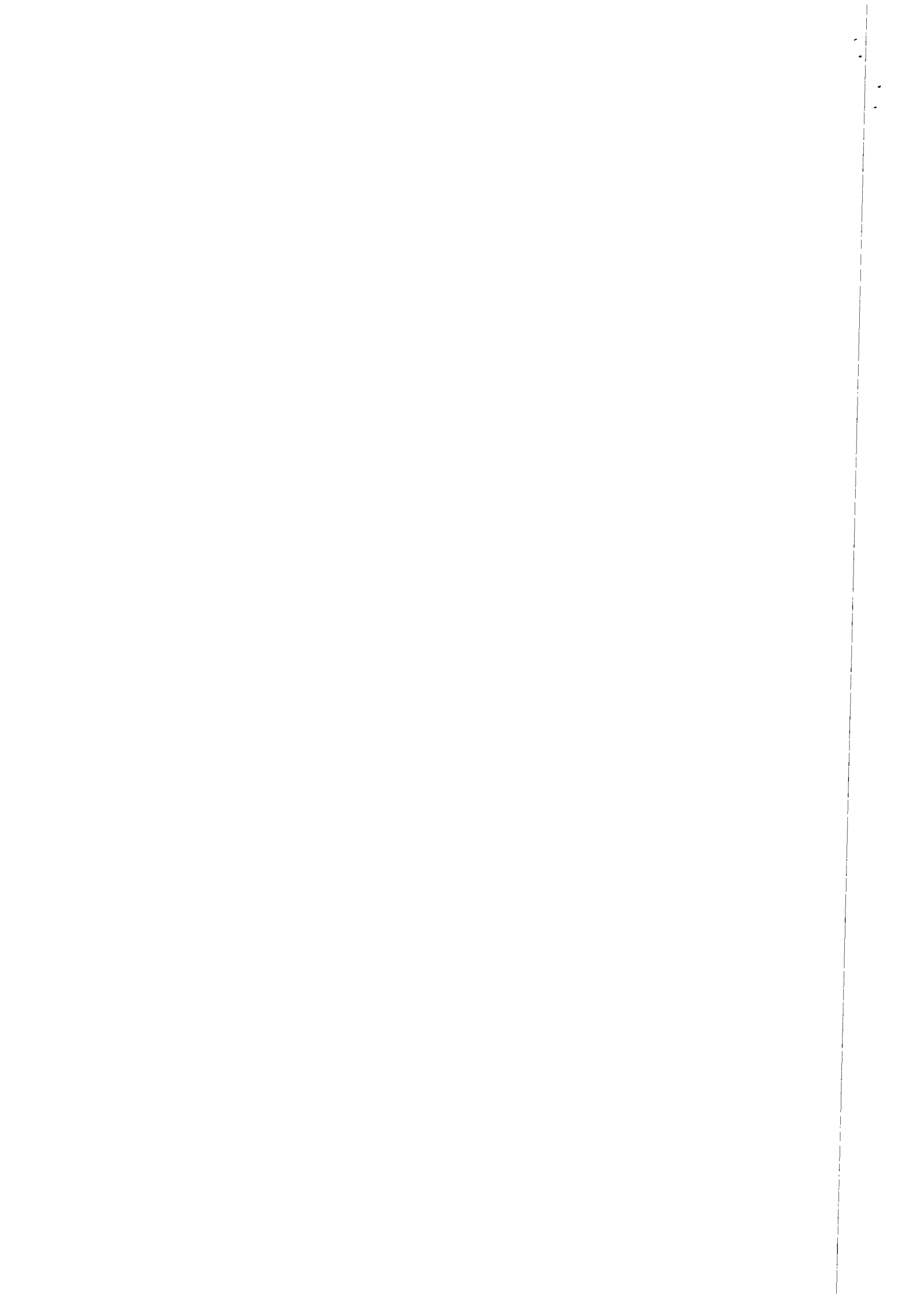
Comments by the Members

Members raised the following Questions and comments:

- (a) what will happen to those whose property had already been sold by AFC for failure to repay the loans?
- (b) Does the Government intend to sack the present management of AFC?
- (c) The list of loanees by category should be submitted to the Committee.
- (d) Does AFC have other loans apart from those from the Government?

Issue deferred

The Committee deferred the AFC issue to 12th August, 2002 at 2.30 p.m. in order for the Ministry to prepare the list as requested.



Deliberation on KMC

The Committee was informed that:-

- (i) KMC is currently under receivership by the National Bank of Kenya
- (ii) An amount of Ksh372.3 million is due to Mitsubishi Corporation. The agreement for the loan was signed in 1992.
- (iii) Mitsubishi Corporation has taken a chattel mortgage thus no assets can be sold until the loan is repaid.
- (iv) The loan from Mitsubishi Corporation was borrowed and used to install a canning plant which is operational.
- (v) Kenya Meat Commission is expected to perform a Commercial role once sold. At the moment, the assets of KMC can not be sold because of the Chattel Mortgage.
- (vi) KMC has 2,500 acres of land which is referred to as Goat and Sheep Ranch.

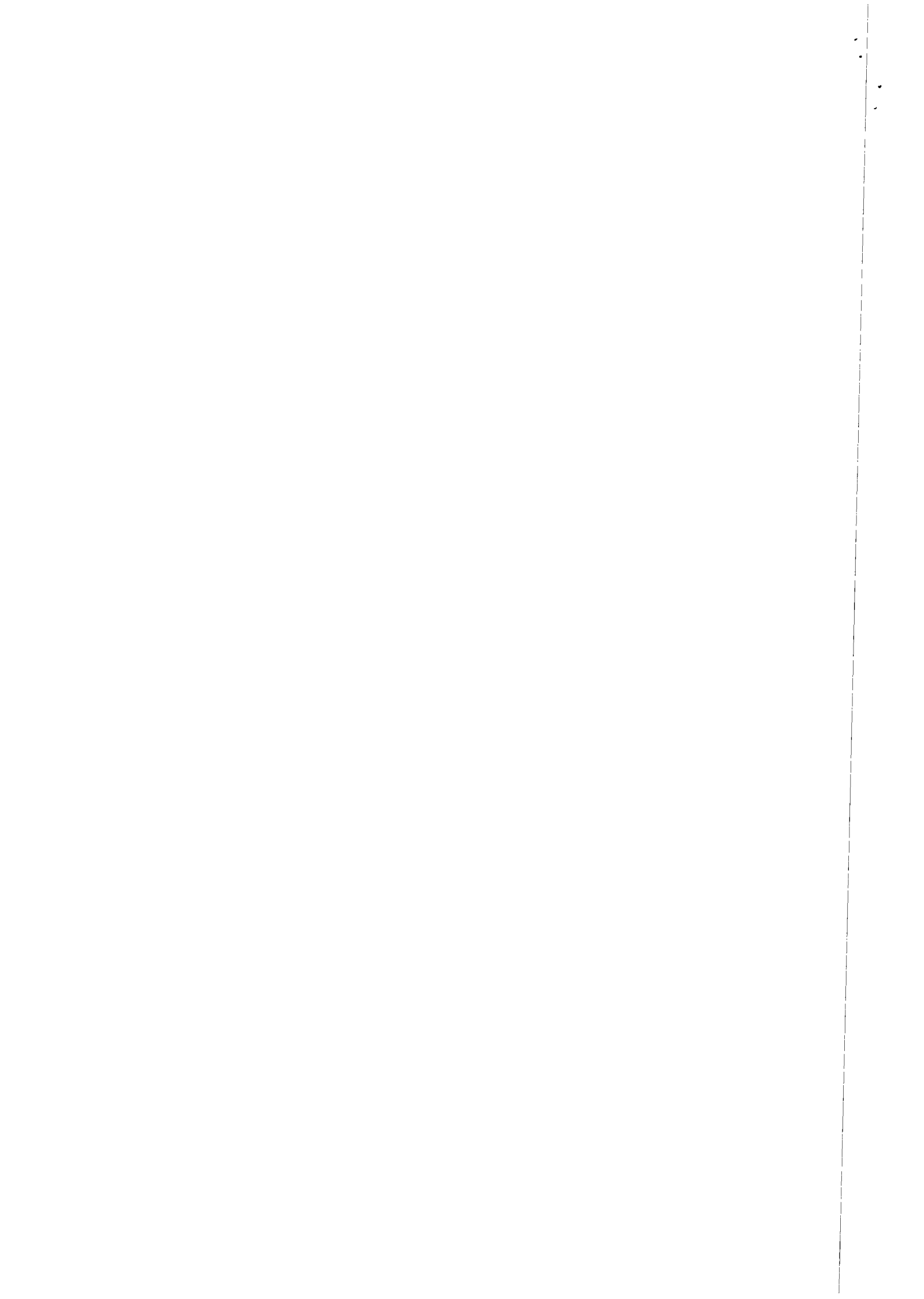
Comments by Members

The Members raised the following Questions and comments:

- (i) What are the assets of KMC?
- (ii) Does KMC have any title for land owned
- (iii) What happened to the 1.2 billion loan given by National Bank of Kenya
- (iv) If Government takes over the loan will the ministry reopen the factory or will it be sold of?
- (v) How and why did KMC borrow such large amounts from Mitsubishi Corporation?
- (vi) How will the Kenyan tax payer benefit if the government takes over the loan of 372 million?
- (vii) Has the KMC land been allocated to individuals and if so, who are they?

KMC issue deferred


The Committee resolved that the KMC issue be deferred until 12th August, 2002 and that the Minister for Lands and Settlement, the Permanent Secretary and the Commissioner of Lands appear on that day to comment on the issue relating to land belonging to KMC.



MIN.07/02: ADJOURNMENT

And the time being twenty minutes past Six O'clock, Mr. Chairman adjourned the meeting until Monday, 12th August, 2002 at 2.30 p.m.

Confirmed:


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Chairman

22 OCT 2002.
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Date

MINUTES OF THE THIRD SITTING OF THE JOINT COMMITTEES ON FINANCE AND AGRICULTURE TO DELIBERATE ON SESSIONAL PAPERS NO.1 (AFC) and No.2 OF 2002 ON REVIVAL OF KENYA MEAT COMMISSION HELD ON TUESDAY, 13TH AUGUST, 2002 at 10.00 A.M. AT THE MAIN CONFERENCE ROOM, COUNTY HALL, PARLIAMENT BUILDINGS.

PRESENT:

The following Members were present:-

Hon. John Sambu, MP - Chairman
Hon. Simeon Mkalla, MP- Co-Chairman
Hon. Dr. Odongo Omamo, MP
Hon. Ochillo Ayoki, MP
Hon. Mohammed Weyra, MP
Hon. Soita Shitanda, MP
Hon. Daniel Khamasi, MP
Hon. Jimmy Angwenyi, MP
Hon. Peter N. Ndwiga, MP

IN ATTENDANCE

Mr. J.N. Mwangi - PCA
Mrs. F. Abonyo - CA
Ms. Sarah Mbatia - Intern
Ms. Beatrice Werrhe - Intern.

MIN.No 8/02 DELIBERATION ON SESSIONAL PAPER NO.I ON RESTRUCTURING OF AFC

Hon. Chris Obure, Minister for Finance accompanied by Messrs: M. Mwachofi, Permanent Secretary, E. Koimett, Investment Secretary, Prof. Migot-Adholla, permanent Secretary Ministry of Agriculture, D. Mwasoga, Deputy Secretary, Ms. M. Onyango, Financial Secretary



Services Co-ordinator appeared before the committee to clarify some issues relating to the Restructuring of AFC.

The Minister tabled the following documents:-

- (i) A list indicating loans given by Category.
- (ii) A list indicating loans written off (1989) amounting to Ksh.817.3 million.
- (iii) A list of loans proposed to be written off.

The Minister gave the breakdown of the loans to be written off as follows:-

- Seasonal Crop Credit	=	Kshs.2,081,792,172
- Ranch Loans	=	Kshs. 200,746,276
- Land Purchase Loans	=	Kshs. 26,480,800
- Development loans	=	Kshs. 343,843,630
- Unsecured loans	=	Kshs. 284,925,979
		<hr/>
	Total =	<u>Kshs.2,937,888,857</u>

The Minister further explained that the Sessional Paper also seeks authority to write off an amount of Kshs.7,732,000 which comprises of a Principle of Kshs.1,638,700 and interest amounting to Kshs.6,093,400 which had been given to AFC to loan to farmers over the years.

Establishment of a New Board

The Minister undertook to establish a new Board and a new Professional Management after the restructuring.

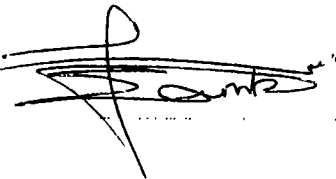
Sessional Paper to Write Off Loans to Small Scale Coffee Farmers

The Minister undertook to introduce a Sessional Paper to write off loans issued under the small scale coffee improved project – SCIP I and SCIP II

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MINUTE NO.9/02 ADJOURNMENT

And the time being ten minutes past One O'clock Mr. Chairman adjourned the meeting until a date to be decided upon later.

Confirmed:  22/10/02

