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SESSIONAL PAPER NO. 1 of 1974

GOVERNMENT GUARANTEE OF MONEYS LENT AND SUBSCRIBED TO  
TEA FACTORY COMPANIES ESTABLISHED BY THE KENYA TEA  
DEVELOPMENT AUTHORITY:

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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 a Commonwealth Development Corporation (CDC) loan being the capital cost of three factories at Nyasiongo, Kambaa and Kanyenyaini.

The Order which set up the Kenya Tea Development Authority for the purpose of promoting, financing and controlling the development of the tea to be grown by smallholders provides that KTDA will acquire, operate or establish or enter into agreement for the establishment of tea processing factories; it will promote and subscribe for shares in any company incorporated in Kenya for ~~the purpose~~ of processing and marketing of tea. KTDA is a successor of the Special Crops Development Authority which had been established in 1960. In pursuance of this objective, KTDA with aid of loans from Commonwealth Development Corporation, the World Bank and other lenders, has already established tea factories in the Republic's Districts of Kisii, Nandi, Kericho, Kirinyaga, Muranga, Kiambu, Nyeri, etc.

From its inception the Authority has expanded the smallholders' tea area from 8,400 in 1962/63 to 64,600 in 1972; increased production from 566,801 in 1963/64 to 13,316,861 kilograms in 1972; increased the number of smallholders from 18,300 in 1963/64 to 66,900 in 1972. The number of growers will increase to 100,000 during the Fourth Development Plan to be implemented during 1973/78. Funds for financing the factory and the field sectors of the KTDA projects have been guaranteed by the Government.

As in the existing tea factories, there will be formed three factory companies to build, own and operate the new factories with the help of finances to be made available by the C.D.C. in the form of equity and loan capital.

The shares will be allocated to growers in terms of the Articles & Memorandum of Association of each factory company which undertakes to pay dividends of at least (8%) eight per centum on its issued share capital. Most of the finance comes from the loan now to be made available by C.D.C. direct to the factory companies and to KTDA, which are to be secured by first debenture charges on company's assets, all of which carry interest at (7½%) seven and a half per centum per annum and are repayable over (20) twenty years by half-yearly equal instalments starting in 1976 and finishing in 1995.



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The financial agreements for the tea factory companies provide that upon the lender becoming entitled to appoint a receiver under the debenture security (that is, upon the tea factory company making default under the debenture) the Government will, if so required by the lender, purchase the lender's debenture and shares at par value.

The contribution to loan and share capital by KTDA and lender will be as follows:-

THREE NEW TEA FACTORIES

|   |            | <u>LOAN</u> | <u>SHARES</u>  |
|---|------------|-------------|----------------|
| 1. Direct C.D.C. lending to three factories at (7 $\frac{1}{2}$ %)  | - Sterling | 466,855     | Sterling 8,645 |
| 2. 5% Interest on loan from CDC to KTDA for on-lending to factories | - Sterling | 466,855     | Sterling 8,645 |
| Estimated cost for three factories                                  | - Sterling | 1,000,000   |                |

The factory companies will each have an authorised capital of Kshs. 200,000/- divided into 20,000 founder shares of Kshs. 5/- each carrying 41 votes and 20,000 growers shares of Kshs. 5/- each carrying one vote. Provision exists for increasing growers shares so that when the loans are repaid in full, the growers will own the factory company.

The total contingent liability for the Government under the above tea factory loan and share guarantees is the Sterling equivalent to K£825,000 (Sterling 951,000 at an exchange rate of Kshs. 17.35 = £ Sterling) such rates being subject to alteration - plus any interest and dividend *arrears* areas, for which the approval of the National Assembly is now sought.

The current total contingent liability of the 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 - amount to K£108,356.5, with the guarantee of K£825,000 equivalent proposed in this sessional paper. The aggregate will be increased to 109,181,595.5 of which K£35,721,623.5 falls within paragraph (a) and K£73,459,972 within paragraph (B), of section 3(3) of the Act.



J.J.M. NYAGAH  
MINISTER FOR AGRICULTURE

22nd February, 1974





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