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SESSIONAL PAPER NO. 1. OF 1983
KENYA GOVERNMENT GUARANTEE OF AN OVERDRAFT TO
THE PYRETHRUM BOARD OF KENYA FROM THE
BARCLAYS BANK OF KENYA LTD.
THE GUARANTEE LOANS ACT (CAP. 461).

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1. In accordance with the provisions of the Guarantee (Loans) Act

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Chapter 461) the following information is laid before the National Assembly in connection with a proposed guarantee by the Kenya Government of a bank overdraft facility amounting of K£ 7.5 million which has been extended to the Pyrethrum Board of Kenya by Barclays Bank of Kenya Ltd.

2. Kenya is the world's major producer of pyrethrum, accounting for over three-quarters of world export supply. The Pyrethrum Board of Kenya purchases and processes all pyrethrum grown in Kenya. In 1981/82 the Board exported pyrethrum products worth K£ 11,483,122.

Pyrethrum is a labour intensive high value crop which provides an important source of cash income for some 200,000 farmers in high attitude areas.

3. Purchases by the Board have expanded rapidly over the past two years, as growers responded to large increases in the producer prices for flowers made between 1977/78 and 1979/80. Purchases in 1981/82 were a record 18,719 tons of flowers. Exports by the Board on the other hand, have been limited by the global recession and by competition from synthetic substitutes which were developed in the late 1970's. Exports in 1981/82, although 23 percent above those of 1980/81, were equal to only 8,465 tons of flower equivalent.

4. The excess of purchases over sales has resulted in a rapid accumulation of stocks by the Board, which on 30th September, at the end of the 1981/82 crop year, stood at 19,967 tons of flower equivalent. This stock was financed in part through a K£ 3.5 million overdraft facility which the Board has with Barclays Bank of Kenya Ltd., but primarily by growers, who were owed K£ 10.8 million by the Board for delivery made since November, 1981.

5. To solve the financial problems faced by the industry, the Board is now pursuing a programme of production adjustment and vigorous sales promotion. The aim of this is to reduce stocks to manageable levels and to bring annual purchases and sales into equilibrium by 1986/87.

6. To maintain the confidence of farmers in pyrethrum growing, the Board, on 8th December 1982, extended its overdraft facility with Barclays Bank of Kenya Ltd. to K£ 7.5 million. This enabled it to pay farmers in December, 1982 for deliveries made in the months of December, 1981 to February, 1982.

The £ 7.5 million overdraft facility which it is proposed be guaranteed by the Kenya Government is for a period of 4 years and 24 days, from 8th December 1982 to 31st December, 1986 and will carry an interest of 16 percent per annum plus a 1 percent initial commitment fee. Thus, the Kenya Government's total contingent liability under the proposed guarantee will be K£ 7.5 million and the interest thereon. The loan is to be repaid to Barclays Bank of Kenya Ltd. as follows:

K£ 500,000 by 31st December, 1983

K£ 2,250,000 by 31st December, 1984

K£ 2,250,000 by 31st December, 1985

K£ 2,500,000 by 31st December, 1986

7. The approval of the National Assembly is required under the Guarantee (loans) Act for the overdraft which is the subject of this paper.

8. The current total contingent liability 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) amount to the equivalent of K£ 414,028,448 of which K£ 393,442,866 is in respect of covenant expressed in foreign currency and K£ 20,585,582 in respect of covenant expressed in Kenya Currency. With the proposed overdraft guarantee of K£ 7.5 million now proposed the aggregate will be

increased to K£ 421,528,448 of which K£ 28,085,582 will fall within paragraph 3 (a) and K£ 393,442,866 within paragraph 3 (b) of section 3 of the Act.



A.K. MAGUGU

MINISTER FOR FINANCE