



REPUBLIC OF KENYA

MINISTRY OF FINANCE

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KENYA GOVERNMENT GUARANTEE OF A REHABILITATION LOAN TO THE
EAST AFRICAN PORTLAND CEMENT COMPANY LTD BY TOMEN CORPORATION
OF JAPAN.

1. In accordance with the provision of the Guarantee (Loans) Act Cap. 461 of the Laws of Kenya the following information is laid before the National Assembly relating to a guarantee by the Government in respect of the additional Loan to E.A. Portland Cement Company Ltd.
 - (a) Tomen Corporation of Japan is prepared to lend E.A. Portland Cement Ltd. a Loan of Yen 1,100,000,000 equivalent to KSh 703,037,500 at the official prevailing exchange rate on terms and conditions as set in the Loan Agreement dated 27th October, 1993. The Loan will carry a grace period of 3 years followed by repayment of 7 years, and a floating rate of interest equal to LIBOR Plus 2% per annum.
2. The E.A. Portland Cement Company Limited was registered in February, 1933 as a private Company and in 1974 the Government of Kenya acquired controlling rights of the Company by buying 52% of it's shares.

At present the Company ownership is:-

Government of Kenya (Treasury)	25%
National Social Security Fund	27%
Blue Circle Industries, U.K.	14%
Cementia Holdings, Switzerland	14%
Trading at Nairobi Stock Exchange	20%

Blue Circle Industries together with Cementia Holding are the majority shareholders of Bamburi Portland Cement Company Limited at Mombasa. The Company's main business is manufacture of Cement and it currently produces 320,000 tonnes per year. It owns big pieces of Land from where it obtains raw materials and on the same Land it keeps beef and dairy cattle.



REPUBLIC OF KENYA

MINISTRY OF FINANCE

- 2 -

3. NEED FOR REHABILITATION

The Current production equipment at the Company's Athi River factory is just over 35 yrs old and it has gone beyond economic repair. Also the production technology used is very expensive in terms of fuel consumption. The factory runs on a wet process while the modern technology operates on a dry process which consumes half the fuel used on wet process. Realising that something has to be done about the aging plant, the company started looking into the best way of doing it way back in 1986. In 1987 the Government of Japan through the Ministry of Energy offered to do a study of possible energy saving in the Kenya Cement industry. Athi River Case proved to be an interesting one for a follow up and under the sponsorship of the Government of Japan a feasibility study was launched which produced a report in 1988 stating that the best way to achieve increased production to meet the market demand and also achieve energy saving was to construct a new chinker making line which would operate on basis of modern technology. By this time the Company had embarked on the establishing of availability of adequate raw material of right quality to meet the increased production.

Following the appraisal mission the Japanese Government made available Japanese Y 7.674 billion on basis of soft Loan which was guaranteed by the Kenya Government, and approved by the National Assembly in March, 1990.

4. As at June 1993 the East African Portland Cement Company Ltd. had out standing foreign Loan of K£ 234,440,700.
5. The National Assembly is required to approve the guarantee of Loan of Yen 1,100,000,000 equivalent to KShs 703,037,500 from Tomen Corporation of Japan (at exchange rate of 100 Yen = 63.925)
6. The guarantee is being supported on the following grounds:-
 - (a) The East African Portland Cement Company Limited is among the strategic Companies which will remain in Public domain.



REPUBLIC OF KENYA

MINISTRY OF FINANCE

- 3 -

- (b) The project when completed will generate foreign exchange.
 - (c) The E.A. Portland Cement Company Ltd has been servicing its debt without any recourse to the Treasury and it will be expected to service its future debt service obligations.
 - (d) The rehabilitation will considerably reduce fuel consumption. This in turn will save foreign exchange for the country and also financial Savings to the Company which will subsequently stabilize Cement price.
 - (e) Without rehabilitation the present production capacity will be lost due to the old age of production equipment.
7. The current total contingent of the Government of Kenya in respect of guarantees given under Section 3(3) of the guarantees Loans Act (other than those specified in the schedule of the Act) amount to K£ 3,500,820,265 and with the guarantee of KShs 703,037,500 equivalent to K£ 35,151,875 which is proposed in this Sessional Paper, the aggregate amount will be increased to K£ 3,535,972,140 of which K£ 40,163,044 for Local guarantees fall within paragraph
- (a) and £ 3,460,657,221 for external guarantee fall within paragraph
 - (b) of Section 3(3) of the Act.

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MINISTER FOR FINANCE