

GOVERNMENT GUARANTEES FOR THE
CHEMELIL SUGAR COMPANY

1. INTRODUCTION:

The Chemelil Sugar Project has been described in detail in Sessional Paper No.3 of 1966. It is part of the Government Sugar Development plan to increase sugar production to 145,000 tons per annum by 1970. Of this the Chemelil Sugar Company is due to produce 60,000 tons sugar. Over 2,000 small holders are participating in this Project and will supply sugar cane to the factory worth £500,000. Apart from bringing prosperity to a difficult farming area and effecting considerable savings in foreign exchange, the Scheme will create at least 3,000 new jobs.

2. PROGRESS OF THE PROJECT:

The Chemelil Project has now been operating for 2 years and considerable progress can be reported. Already 10,500 acres of sugar cane have been planted of which 5,300 acres were planted on the farms of small-holders. This has already transformed the area to one of the more advanced areas in the country. Good progress can be reported from all other departments of this project. The construction of the factory is proceeding well and is up to schedule. The greater part of the machinery for the factory has been manufactured. Some of this has already arrived and the balance is on the way. The Chemelil Sugar Company is checking constantly to ensure that the construction of the Sugar Factory is up to schedule, and according to the latest information the factory should open on June 1968, as planned.

At the same time an efficient sugar cane harvesting and transport organization is being assembled. It will be ready for trial by the end of this year and will have several months to gain experience by harvesting existing cane on the Chemelil Nucleus Estate before the factory goes into production.

The Kenya Government has negotiated a 5,300,000 Dollar (approx. £1,900,000) World Bank loan for the construction of roads in the Miwani, Chemelil, Muhoroni Sugar areas necessary for the transport of the cane, and construction has already commenced.

3. GUARANTEES SOUGHT FROM THE KENYA GOVERNMENT:

The Kenya Government has already given guarantees covering this project in August 1966. At the time these guarantees were granted, there were a number of expenditure items concerning the construction and equipping of the factory which could not be evaluated until construction was well advanced.

These costs to be incurred by the Chemelil Sugar Company with G.H.F. have now been ascertained and are in respect of:-

- (a) local costs - mainly transport of factory components from Mombasa to Chemelil DM 1 million (approx. £90,000);
- (b) Stock of spare parts and additional equipment, such as factory water supplies and water purification plants, DM2,865,700 (£258,000);
- (c) in addition, the price of the whole factory has increased.

The price increase is in accordance with the escalation clause in the contract between the suppliers Messrs. Gute Hoffnungs Hutte Sterkrade Aktien Gesellschaft of West Germany and the Chemelil Sugar Company Ltd. and amounts to DM1,184,454 - approx. £106,700 - about 4% of the original estimated contract price.

The total supplementary provision is £454,000 of which 2½% is payable in cash, 12½% is repayable in 18 months' time and 85% on medium term credit (10 years at 7% interest). These latter items require guarantees for £57,000 and £385,000 respectively. The guarantees are required by the supplier in order to obtain finance from the West German Government to manufacture and erect the Sugar Factory for the Chemelil Sugar Company on credit.

The Government is satisfied with the progress of the Chemelil Project. Examination of the latest financial projection from the Chemelil Sugar Company Ltd. confirms that it is financially viable and should be able to meet its commitments. The Government therefore proposes to give the additional guarantees requested by Messrs. Gute Hoffnungs Hutte Aktien Gesellschaft Sterkrade and Parliamentary approval is sought in accordance with the Loans (Guarantee) Act. They are detailed in the Parliamentary Motion, a copy of which is attached as an Appendix to this

The approval of the guarantee will facilitate the completion of the construction of the factory on schedule. This is important for cane farmers who have timed their cane planting to coincide with the completion of the factory and for the financial success of the Chemelil Sugar Company in which the Kenya Government holds considerable financial interests (Government and Government agencies owns a substantial shareholding and the project is 85% underwritten by the Government).

It is to be stressed that unless Government guarantees are obtained, credit cannot be obtained from the suppliers and shipment may be substantially delayed.

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24-7-1967.

APPENDIX

In accordance with the provisions of the Loans (Guarantee) Act, I beg to give notice of the following motions:-

- (a) That this House approves the proposal of the Kenya Government to guarantee repayment over a period of ten years from April 1968 to October 1977, together with interest thereon in the meantime at the rate of 7% per annum of a loan of 4,292,708 Deutschmarks (being the equivalent of approximately £385,000 sterling at the current rate of exchange) to be made by Gutehoffnungshutte Sterkrade Aktiengesellschaft of the Federal Republic of Germany to Chemelil Sugar Company Ltd. towards the cost of the financing the Chemelil Sugar Project.
- (b) That this House approves the proposal of the Kenya Government to guarantee the payment over a period of up to 18 months from the present time to Gutehoffnungshutte Sterkrade Aktiengesellschaft of 631,281 Deutschmarks (being the equivalent of approximately £57,000 sterling at the current rate of exchange) towards the cost of financing the Chemelil Sugar Project.

27-7-1967.

(J. Odera-Jowi)