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SESSIONAL PAPER

No. 5 of 1970

THE CHEMELIL SUGAR COMPANY LTD.

PROJ/SUG/3A

Ministry of Agriculture.

19th May, 1970.

1. The Chemelil Sugar project was first established in 1965. It is one of the biggest projects of any description ever attempted in Kenya and it owes its existence to Government initiative. Sugar cane planting and the construction of the factory commenced in 1966 and the completed factory was opened by H.E. the President in 1968. It is the biggest factory in Kenya and the most modern in East Africa. Since 1966, 20,000 acres of sugar cane have been planted in addition to that already in existence. Of this, 9,000 acres have been established on smallholdings.

This project answers in every way the most important development requirements in Kenya. These are the creation of income especially for the small farm sector, the creation of employment, the development of rural areas and the saving of foreign exchange. Although still in its early stages of development the Chemelil project answers these criteria to a marked degree. It is a major industrial project in a comparatively undeveloped rural area. The project has generated 4,000 jobs and as it expands so the employment opportunities will increase. In its first year of operation the factory produced 33,000 tons of sugar worth K£1,518,000. This represents a considerable saving in foreign exchange. Over the next two years production is scheduled to increase to 55,000 tons per annum worth K£2,530,000. The smallholder participants to the project sold 150,000 tons of cane during the last 12 months worth £345,000 and in future the value of smallholder produced cane will rise to £600,000.

2. During the course of operations of the project it has become clear that the financial structure of the company would have to be reorganised in order to provide the company with more reasonable interest and repayment terms in respect of the loan capital invested in it and to enable the company to maintain a substantial balance of cash in hand especially to meet unforeseen emergencies such as drought, fire or industrial unrest. In order to achieve this the various investors in consultation with the Government have negotiated a new capital structure for the company. This will replace the arrangements outlined to the House in Sessional Paper No. 3 of 1966.

3. The following proposals arising out of the reorganisation of the capital structure of the Chemelil Sugar Company Ltd. require a Government guarantee and the covenants, the due performance of which are to be guaranteed by the Government under the Guarantee (Loans) Act, are :

- a) The repayment by Chemelil Sugar Company Ltd. to Kreditanstalt fur Wiederaufbau over a period of 10 years from December 1972 of a loan of DM 27,257,515 (being the equivalent of £2,659,788.74 at the current rate of exchange), together with interest thereon at the rate of $6\frac{1}{4}\%$ per annum accruing from 1st June 1970.
 - b) The repayment by Chemelil Sugar Company Ltd. to National & Grindlays Finance and Development Corporation over a period of ten years from 30th June 1972 of a loan of 172,279 pounds sterling (being the equivalent of £147,668 at the current rate of exchange) together with interest thereon at the rate of $8\frac{1}{4}\%$ per annum.
 - c) The repayment by Chemelil Sugar Company Ltd. to National and Grindlays Bank Ltd. of all monies from time to time due in respect of overdraft facilities afforded up to a maximum sum of 15,500,000 shillings at one time together with interest thereon at a rate not to exceed $1\frac{1}{4}\%$ per annum over the minimum commercial rate applicable in Nairobi in respect of balances due on overdraft, such guarantee to extend for the period up to 30th June 1972 only unless renewed with the approval of this House.
- 4.a) With regard to the first covenant, a loan of DM 27,257,515 (equivalent to K£ 2,659,788 - 74) provided by a German company G.H.H. for supplying and erecting the sugar factory will be transferred to the German Development Bank, KfW. With this transfer, the original amount is reduced from DM 27,449,220 (equivalent to K£2,678,486) to DM 27,557,515 (equivalent to K£2,659,788.74) the interest rate will be reduced from 7% to $6\frac{1}{4}\%$ and the repayment period will be extended from 10 years commencing April 1968 to 10 years commencing December 1972. This transfer will result in savings due to lower interest rates and the change in the repayment period will enable the Chemelil Sugar Company Ltd. to build up cash balances at an early date instead of continuing to rely on expensive bank overdraft facilities. The Government is required to guarantee the loan now provided by KfW to

replace the similar guarantee provided to G.H.H. by Sessional Paper No. 3 of 1966, Sessional Paper No. 3 of 1967, and the partial transfer of the credit to KfW described in Sessional Paper No. 8 of 1969.

- b) With regard to the second covenant, a loan of £ Sterling 150,000 (K£ 128,572) provided by the National & Grindlays Finance and Development Corporation will be increased to £ Sterling 172,279 (K£ 147,688) by capitalising interest earned by the original loan for 2 years. The repayment period will be extended from 30th June 1977 to 30th June 1982. The interest rate will remain $8\frac{1}{4}\%$ as before. The rescheduling of repayment and capitalisation of interest will further assist the Chemelil Sugar Company Ltd. to build up a cash balance at an early date. The second resolution replaces the Government guarantee given in respect of this loan and described in Sessional Paper No. 3 of 1966.
- c) With regard to the third covenant, the Government guarantee on overdraft facilities to a maximum of K£ 250,000 provided by the National & Grindlays Bank and described in Sessional Paper No. 3 of 1966 expired on 31st December, 1969. The company still requires considerable overdraft facilities to enable it to meet loan and interest repayments and at the same time have working capital. It is proposed to replace the guarantee which has expired with a fresh guarantee for an amount not exceeding £ 775,000 until the end of the 1971/72 financial year. It is considered necessary to extend these facilities in the light of operating experience gained so far and because of the need to cope with unforeseen hazards which face such an agricultural enterprise in the form of major droughts, cane fires and industrial unrest.

5. The amount now being guaranteed is the equivalent of K£3,057,058 at the current rate of exchange. With the satisfaction of the GHH guarantee for an amount of DM 27,449,220 (equivalent to K£ 2,678,486) and the granting of a guarantee to KfW for an amount of DM 27,257,515 (equivalent to K£2,659,789); with the increase in the amount guaranteed to the National and Grindlays Finance and Development Corporation from £ Sterling 150,000 (equivalent to K£ 128,572) to £ sterling 172,279 (equivalent to K£147,688) and with extension of the overdraft guarantee given to

National and Grindlays Bank from K£250,000 to K£775,000 the Government's contingent liability is reduced by K£ 3,057,058 and increased by K£3,582,477 resulting in an overall increase in the contingent liability by K£525,419.

With this report the total amount now guaranteed under Section 3 of the Act is K£17,107,674 guaranteed under Sub-section 3(a) and K£39,943,000 guaranteed under Sub-section 3(b) of the Act.

