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## MINISTRY OF FINANCE

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SESSIONAL PAPER NO. 3 OF 1988

GOVERNMENT GUARANTEES OF LOANS TO NZOIA SUGAR COMPANY LIMITED BY THE EXPORT IMPORT BANK OF THE GOVERNMENT OF THE UNITED STATES OF AMERICA, THE NATIONAL BANK OF KENYA AND THE EAST AFRICAN DEVELOPMENT BANK FOR THE FINANCING OF THE COMPANY'S REHABILITATION AND EXPANSION PROJECT UNDER THE GUARANTEE (LOANS) ACT, (CAP. 461).

1. In accordance with the provisions of the Guarantee (Loans) Act, (Cap. 461) of the Laws of Kenya, the following information is laid before the National Assembly for consideration and approval.

2. The Government proposes to guarantee the following three Loans:-

- a) A loan in United States dollars amounting to Nineteen Million Nine Hundred Ninety Two Thousand (\$19,992,000) equivalent to approximately Kenya Pounds Sixteen Million, Nine Hundred Ninety Three Thousand Two Hundred Pounds (K£16,993,200) at the current rate of exchange, to be made available to Nzoia Sugar Company by the Export/Import Bank of the Government of United States of America. The loan will carry an interest rate of 7.4% p.a. and will be repayable in twenty equal half-yearly instalments becoming due in 1990.
- b) A loan in Kenya Shillings amounting to Ninety Five Million (KShs.95,000,000) to be made available to Nzoia Sugar Company Limited by the National Bank of Kenya. The loan will carry an interest rate of 14% p.a. and will be repayable in ten half-yearly instalments becoming due in 1990.



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- c) A loan in Special Drawing Rights amounting to Two Million Five Hundred Thousand (SDR 2,500,000) equivalent to approximately Kenya Pounds Two Million Nine Hundred Ninety Eight Thousand Eight Hundred (K£2,998,800) to be made available to Nzoia Sugar Company Limited by East African Development Bank. The loan will carry an interest rate of 12½% p.a. and will be repayable in sixteen half-yearly instalments becoming due in 1990.

3. Nzoia Sugar Company was commissioned in October 1978 with an authorised share capital of KShs.210 million. The majority shareholding in the company (95%) is by the Government of Kenya through Treasury. At the time of commissioning, the factory's rated capacity was 2000 tons of cane per day (tcd) sufficient to yield 50,000 tons of sugar annually. This level of operation has never been achieved due to production technical bottlenecks in the factory resulting into non-attainment of the rated crushing capacity. This failure to attain the rated capacity has had over the years a negative impact on the company's financial performance.

The company employs 2,300 employees on a regular basis and an additional 6,000 on seasonal basis (contract workers). Nearly fifteen thousand farmers and their families, who cultivate sugar-cane in the area, rely on the company for the sale of their cane.

In order to resolve existing problems and also to cater for the increased level of sugarcane farmers, who supply more than 70% of the company's sugarcane needs and who have been adversely affected by the Factory's state of under capacity utilization over the years, Nzoia Sugar Company is in the process of implementing a comprehensive rehabilitation and expansion programme aimed at the elimination of the existing bottlenecks. The proposed



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rehabilitation will raise the factory's crushing capacity to 2,000 tcd and expand the rated capacity of 2,000 tcd to 3,000 tcd.

4. Nzoia Sugar Company has entered into a supply Contract with Arkel International Inc. of the United States of America for a total sum of United States of America Dollars 23,520,000 for this project. The cost of this project is to be financed in the manner provided under paragraph 2 above.

5. The Government has agreed and decided that Nzoia Sugar Company should obtain the loans it requires for the implementing of the Rehabilitation and Expansion Project and the loans are subject upon the provision of Guarantees by the Government under the Guarantee (Loans) Act.

6. By this paper, the National Assembly is requested to approve and agree that the Kenya Government may guarantee the loans spelt out under paragraph two of the paper.

7. The current contingent liabilities of the Government in respect of guarantees under section 3 of the guarantees (Loans) Act (other than those specified in the schedule to the Act) amounts to KES568,085,776 and with this guarantee of a sum equivalent to KES24,744,000 the aggregate will be increased to KES592,829,776 of which KES541,165,279 will fall within paragraph (b) and KES51,664,497 within paragraph (a) of section 3(3) of the Act.



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