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SESSIONAL PAPER

No. 6 of 1971

THE KENYA TEA DEVELOPMENT AUTHORITY

( Tea Factory Companies )

KTDA/PROC/11.

Ministry of Agriculture.

23rd July, 1971.

SESSIONAL PAPER NO. 6 OF 1971

Government guarantee of moneys lent and subscribed to four tea factory companies established by the Kenya Tea Development Authority.

THE GUARANTEE ( LOANS ) ACT, CAP. 461

In accordance with the provisions of the Guarantee ( Loans ) Act, the following information is laid before the National Assembly relating to the Government's proposed guaranteeing of moneys lent and subscribed to the Tegat Tea Factory Company Limited, the Kebirigo Tea Factory Company Limited, the Imenti Tea Factory Company Limited and the Ikumbi Tea Factory Company Limited, by the Commonwealth Development Corporation, James Finlay and Company Limited, Eastern Produce ( Holdings ) Limited and Brooke Bond Liebig of Kenya Limited.

The Kenya Tea Development Authority came into being in 1964 as a successor to the former Special Crops Development Authority - this latter body having been established in 1960. The K.T.D.A. was established for the purpose of promoting, financing and controlling the development of tea to be grown by small-holders. The Order setting up the Authority, provides, as one of its functions, that K.T.D.A. will " establish, acquire and operate processing factories, to enter into agreement for the establishment of factories, and to promote and subscribe for shares in any Company incorporated in Kenya for the purpose of processing or marketing tea ". In pursuance of this objective the K.T.D.A. has to-date established six tea processing factories, in Kisii, Kericho, Kiambu, Kirinyaga and Nyeri Districts of the Republic and the funds used for financing the establishment of these factories have been guaranteed by Government.

From its inception, the Authority, with loans from the Commonwealth Development Corporation, the World Bank and other lenders, has expanded tea growing by small-holders from a small acreage of 8,400 in 1962/63 to 48,000 acres in 1970. In 1970 the value of tea exports was £12,704,544 making it the second largest export earner after coffee. Production of tea by small-holders has increased from 1.4 million Ibs in 1963/64 to slightly over 16 million Ibs in 1969/70, and this increase is expected to gain momentum in future as a result of expanded and accelerated planting programmes now being undertaken.

When the Authority came into being in 1964, only about 18,300 small-holders were growing tea in the country, and during its first year of operation produced an income of £147,923. To date, the number of small-holders growing tea under the Authority, has increased to 54,500 growers, who produced made tea to earn them £1,713,200 last year.

The Authority is now establishing four additional factories in Kericho, Kisii, Murang'a and Meru Districts for the processing of small-holder grown tea.

In respect of each of the tea factories, a company has been formed to build, own and operate the factory by means of finance in the form of equity capital and loans. The equity capital is in the form of "founders" shares and "Growers" shares, the founders' shares being taken by K.T.D.A. and the loan lenders, and the Growers' shares to be allotted to growers in terms of the Articles of Association of each Company, which undertakes to pay dividends of at least 8% on its issued share capital. Much of the greater portion of the finance comes from the loans now to be made to each factory company, which are to be secured by first debenture charges on the company's assets and all of which carry interest at ~~8%~~ per centum per annum and are repayable to over seventeen or eighteen years by (unequal) half-yearly instalments starting in 1973-74 and finishing in 1990-1992.

The financing agreements for each tea factory company provide that upon the loan lenders becoming entitled to appoint a receiver under the debenture security (that is, upon the tea factory making default under the debenture), the Government will, if so required by the lender, purchase the lender's debenture and shares at par value together with any interest and dividends

respectively accrued or in arrear.

The respective tea factory companies and lenders, and the amounts of the lenders' shares and loans, are as follows:-

1. Tegat Tea Factory Limited, Kericho District.

	<u>Loan</u>	<u>Shares</u>
Lenders: C.D.C.	sterling £116,667	K. Shs. 50,000/-
James Finlay & Co. Ltd	" £116,667	" 5/-

Estimated factory cost K. Shs. 4,100,000/-

2. Kebirigo Tea Factory Limited, Kisii District.

	<u>Loan</u>	<u>Shares</u>
Lenders: C.D.C.	sterling £116,667	K. Shs. 50,000/-
James Finlay & Co. Ltd	" £116,667	K. Shs. 5/-

Estimated factory cost K. Shs. 4,100,000/-

3. Imenti Tea Factory Limited, at Kathera in Meru District.

	<u>Loan</u>	<u>Shares</u>
Lenders: C.D.C.	sterling £155,555	K. Shs. 50,000/-
Eastern Produce (Holdings)	" £ 77,778	nil

Estimated factory cost K. Shs. 4,312,000/-

4. Ikumbi Tea Factory Limited, at Kigumo in Murang'a District.

	<u>Loan</u>	<u>Shares</u>
Lenders: C.D.C.	sterling £115,500	K. Shs. 50,000/-
Brooke Bond Liebig Kenya Ltd.	K. Shs. 1,980,000	" 5/-

Estimated factory cost K. Shs. 4,310,000/-

Each factory company has an authorised capital of K. Shs. 200,000/- divided into 20,000 shares of Shs. 5/- each; K.T.D.A's shareholding in each case approximately equals that of the above lenders, the balance of the shares being available for issue to growers.

The total contingent liability of the Government under all of the above tea factory loan and share guarantees is the equivalent of

K. Shs. 16,160,740 plus any interest and dividend arrears, for which the approval of the Assembly is now sought.

The current total contingent liability of Kenya Government in respect of all guarantees given to date under section 3 of the Guarantee ( Loans ) Act ( other than those specified in the Schedule to the Act ), amounts to K. £66,655,960. With the guarantee of K. £808,037 equivalent proposed by this Sessional Paper, the aggregate will be increased to K. £67,463,997 of which K. £25,296,883 falls within paragraph (a), and K. £42,167,114 within paragraph (b), of section 3 (3) of the Act.

Minister for Agriculture

23rd July, 1971.