SESSIONAL PAPER NO. 14 OF 1975

Government Guarantee of a Loan to the Mumias Outgrowers Company Limited from the Commonwealth Development Corporation

THE GUARANTEE (LOANS) ACT, CAP. 461

In accordance with section 5 of the Guarantee (Loans) Act, the following information is laid before the National Assembly in connection with a proposed guarantee by the Government of a loan of £460,000 sterling to be made to the Mumias Outgrowers Company Limited by the Commonwealth Development Corporation, of the United Kingdom ("CDC").

2. The Mumias Outgrowers Company Limited ("the Outgrowers Company") was formed to represent and promote the interests of growers of sugar-cane supplied to the sugar factory at Mumias of the Mumias Sugar Company Limited ("the Sugar Company"). The members of the Outgrowers Company will be in two classes -

- Founder Members, being the Government of Kenya, the Sugar Company and CDC;
- Grower Members, being all farmer-growers in the Mumias Outgrowers Area who have cane supply contracts with the Sugar Company.

3. The Outgrowers Company will negotiate with the Sugar Company the terms and conditions on which the Sugar Company will provide to growers all services necessary for the preparation of the growers' land and the planting, tending, fertilizing, harvesting and transport of their sugar-cane, including the supply of the necessary planting materials and fertilizer at the most economic cost.

4. The Outgrower Company will also provide the financing of growers' production costs, by way of reimbursing the Sugar Company for those costs as incurred under the arrangements mentioned in the preceding paragraph. The growers will repay such financed costs out of their sugar-cane supply proceeds.

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5. The Outgrower Company will have no share capital (being a company whose members' liability will be limited by a winding-up guarantee of nominal amount) and will obtain its funds for the financing of growers' of its members, initially from two loans of -

- the £460,000 sterling (equivalent approximately to £400,000) loan advanced by CDC; and
- a £240,000 Kenya loan advanced by Kenya Government.

6. The CDC loan of £460,000 sterling which is sought to be guaranteed by Government will bear interest at 5% per annum and will be repaid by twelve equal annual instalments commencing on 31st December 1977.

7. The Government loan will be interest free and repayable as may be determined by Government but not before the whole of the CDC loan has been repaid.

8. The advances for the financing of growers' production costs as above mentioned will be charged interest at the rate of 8% per annum or such other rate as the directors of the Outgrower Company may determine, calculated from the date the Outgrowers Company reimburses such costs to the sugar Company until the date such costs are recovered from the grower by deduction from his sugar-cane supply proceeds.

9. The administrative costs incurred by the Outgrowers Company will be met partly through the interest rates differentials mentioned in paragraphs 6 & 8 and partly through levies made by the Outgrowers Company on its members on a sugar-cane supply tonnage basis.

10. The Outgrower Company will be controlled by a board consisting of four grower members, three government representatives, one CDC representative and one Sugar Company representative. When the CDC loan is paid off, its representative will cease to be a member of the Outgrowers Company board. In the meantime the Founder members control the voting strength in the Company, but the Articles of Association of the Company

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forbid the payment of any dividend or other distribution of money or assets to any Founder Member.

11. The significance of the C.D.C. loan to the Outgrowers Company and the risks, if any, to the Government of Kenya, should be seen in the light of the overall Mumias Sugar Schemes and the involvement of the four main parties i.e. the Government, CDC, the Sugar Company and the Outgrowers Company in all aspects of the scheme.

12. The Sugar Company is financed as follows:-

	Equity capital in K£	Loan Capital in K£
1. Government	K£2,000,000	2,250,000
2. CDC	350,000	-
3. Kenya Commercial Finance Co. Ltd.	250,000	500,000
4. East African Development Bank	150,000	-
5. Booker McConnell Ltd.	150,000	-
Total	2,900,000	2,750,000

Grand Total K£5,650,000

13. Initially the investors agreed on a larger loan total, but the success of the scheme has been such that the estimated loan level of K£3,650,000 could be reduced to the actual level of K£2,750,000.

14. CDC's interest in smallholder development was evidenced from the onset of the Scheme. Their interest in the Sugar Company further emphasized the importance of their involvement in the Outgrowers Company since the supply of cane from members of the Outgrowers Company ensures the success of the Sugar Company, while the successful operation of the Sugar Company ensures a demand for the growers' cane.

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15. So far, Sept 1975, the Sugar Company is receiving about sixty per cent of its cane from outgrowers while producing the balance from its nucleus estate.

16. In future the outgrower area will cover 20,000 acres, while the nucleus estate will contain about 8,000 acres of cane. The total number of outgrowers will increase from the present 4,800 to an estimated 5,000. In addition the factory and nucleus estate complex employs about 2,600 workers.

17. The loan from C.D.C. to the Outgrowers Company of £460,000 sterling is needed to cover their operating expenses for smallholders, and the administrative expenses of the Company. The Government of Kenya is supplying an additional fund level of K£240,000.

18. It is estimated that by the time the C.D.C. loan is paid off, i.e. December 31st 1988 the total operating capital required to run the Outgrowers organization will be in excess of K£1.5 million, which will have been contributed by the Outgrowers themselves. All funds will then be owned by the growers. The magnitude of the loan is therefore small compared to the overall capital requirement to run the Company.

19. The approval of the House is accordingly sought under the Guarantee (Loans) Act to Government guaranteeing a loan of £460,000 sterling by CDC to the Mumias Outgrowers Company together with the interest thereon.

20. The current total contingent liabilities of Kenya Government in respect of guarantees given under the Guarantee (Loans) Act (other than those specified in the schedule to the Act) amount to the equivalent of K£185,965,494. With the above proposed loan guarantee of K£400,000 equivalent, the aggregate will be increased to K£186,365,494, of which K£105,762,662 will fall under paragraph (a), and K£80,602,832 under paragraph (b), of section 3 (3) of the Act.

Minister of Agriculture

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