

GOVERNMENT GUARANTEE OF LOAN TO THE COTTON LINT AND SEED MARKETING BOARD (CLSMB) FROM A CONSORTIUM OF LOCAL BANKS FOR FINANCING THE COTTON PROCESSING AND MARKETING PROJECT

THE GUARANTEE (LOANS) ACT (CAP.461)

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 relating to a guarantee by the Government of the Republic of Kenya of the obligation of the Cotton Lint and Seed Marketing Board in respect of a long-term overdraft facility of up to KShs. 160,000,000 (one hundred and sixty million) from a consortium of local banks. The Government guarantee is a condition precedent for the World Bank funding of a major portion of the costs of the Cotton Processing and Marketing Project (hereinafter called the Project) negotiated in December, 1981 by the Government.

The Project is to extend for 4½ years with effect from 1982/83 financial year and will provide the following:-

- improved buying system centring on C.L.S.M.B.
- transportation vehicles and equipment,
- storage facilities in the field and at the ginneries,
- rehabilitation and expansion of ginneries owned by the Board and co-operatives,
- strengthening of Board and Co-operative's Management,
- additional marketing capital for the Board,
- technical assistance training, and assistance in auditing, legal matters, and marketing.

The cost of the Project will be US \$33.4 million of which US \$ 22 million will be provided by the World Bank through a Credit from an affiliate of the World Bank, the International Development Association, on the following terms:-

- grace period of 10 years
- a repayment period of 40 years
- no interest rate
- a service charge of 0.75% per year on funds drawn and 0.5% on funds undrawn.

Both the cash flow and Economic Analysis indicate that the project is viable. It is anticipated that when the project is implemented there will be improvement in buying, transportation, storage and ginning of seed cotton within the cotton industry. In addition, management of the Board and co-operatives will be strengthened in order to regulate the cotton industry for the benefit of not only the cotton producers but the nation as a whole.

The Cotton Lint and Seed Marketing Board (hereinafter called the Board) is a statutory body corporate established by Section 3 of the Cotton Lint and Seed Marketing Act (Cap. 335) of the laws of Kenya. The Board is charged with the function of processing, marketing, promoting and fostering the development of cotton.

The consortium of banks has agreed to provide the long-term overdraft facility of KShs. 160,000,000 to the Cotton Lint and Seed Marketing Board for financing of the Board's working capital requirements.

The terms of the overdraft include that the facility shall be renewable annually and shall be repaid in total not later than three years from date of commitment and/or latest date of renewal. Interest will initially be charged at the rate of 14% per annum and will be subject to periodic review by the Banks. Interest will be calculated on daily balances and charged monthly.

The current liabilities of the Board in respect of overdraft facilities not guaranteed by the Government is on an annual basis of KShs. 131 million. It will require additional working capital, especially as cotton from Bura Irrigation Settlement Scheme becomes available. It is for such additional working capital that the Government of Kenya guarantee of KShs. 160 million is proposed.

The overdraft is conditional upon the provision of a guarantee by the Government under the Guarantee (Loans) Act covering all payments of fees, interest, and principal due from the Board under the overdraft agreement.

The Government has decided and proposes to guarantee the overdraft so that the Board can borrow the funds it requires for the purchase of seed cotton and to finance other non-capital items.

The approval of the National Assembly is sought under the Guarantee (Loans) Act to Government guaranteeing the repayment of the overdraft which is the subject of this paper.

The current total contingent liability of the Government of Kenya in respect of guarantee given under section 3 (3) of the Guarantee (Loans) Act (excluding liability under collateral and those specified in the Schedule to the Act) amount to K£301,537,555. With the Guarantee of K£ 8 million proposed in this sessional paper, the aggregate will be increased to K£309,537,555 of which K£20,585,582 will fall within paragraph (a) and K£288,951,973 within paragraph (b) of section 3(3) of the Act.



ARTHUR KINYANJUI MAGUGU
MINISTER FOR FINANCE

10th April, 1982

