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GOVERNMENT GUARANTEE OF BANK LOAN  
FACILITIES TO BE EXTENDED TO THE NATIONAL  
CEREALS AND PRODUCE BOARD BY A CONSORTIUM  
OF BANKS, COMPRISING KENYA COMMERCIAL BANK  
LTD, BARCLAYS BANK OF KENYA LTD, STANDARD  
BANK plc AND NATIONAL BANK OF KENYA LTD  
GUARANTEE (LOANS) ACT, CAP.461

1. In accordance with the provision of the Guarantee (Loans) Act (cap 461) the following information is laid before the National Assembly in connection with a proposed guarantee by the Kenya Government of a bank loan facility in the amount of K£ 25.0 million which has been extended to the National Cereals and Produce Board by a consortium of commercial banks, as follows:

Kenya Commercial Bank Ltd	K£ 7.0 million
Barclays Bank of Kenya Ltd	K£ 7.0 million
Standard Bank plc	K£ 7.0 million
National Bank of Kenya Ltd	K£ 4.0 million
<u>TOTAL</u>	<u>K£25.0 million</u>

2. The National Cereals and Produce Board is responsible for the procurement and distribution of maize and wheat, on behalf of the Government. The 1981/82 and 1982/83 national grain harvests have been exceptionally good, leading to greatly increased purchases by the Board. Self-sufficiency in maize has been re-attained and the stocks of the Board have reached record levels. While this improvement in the food supply situation is to be welcomed, it has strained the financial capacities of the government institutions concerned with the production and marketing of grains. To maintain the momentum of grain production, it is vital that farmers continue to be provided with an assured market for their grain and be paid promptly.

3. On the 1st January 1983, the NCPB owed farmers £4.35 million, of which £1.2 million was for maize deliveries and £3.15 million for beans and other produce. An amount of £1.05 million was owed to other sundry creditors on the same date. In addition, the Board owed some £5.91 million to the Commercial banks. Total

outstanding non-government creditors at January 1st, 1983, were thus owed a total of £11.29 million. This was partly offset by £7.80 million owed to the Board by its outstanding debtors, giving a net liability of £3.49 million.

4. To finance the bulk of its purchasing programme, up to May, 1983, the Government released K£7.1 million to National Cereals & Produce Board and allowed the Board to borrow £25 million for the purpose. With this amount at its disposal the Board has been able to clear payments to the farmers which had been outstanding. By the end of June 1983, the Board's loan requirement will have been reduced by K£9.7 million, to a projected K£15.3 million. At this time, the Board's stocks of maize, beans, paddy and rice are projected at K£81.3 million, some K£25 million more than their level at January 1st, 1983.

5. As at mid-May, 1983, the National Cereals & Produce Board held stocks of 8.3 million bags of maize. This is well above the 4 million bags which the Government requires the Board to hold as a strategic reserve. Although the Board continues to sell to millers, its intake currently exceeds its sales. The reduction in maize stocks to 4 million bags would yield over K£30 million, part of which would be used to repay the K£15.3 million outstanding on 30th June, 1983 and the interest thereon. To maintain the confidence of farmers in the production of maize and other foodstuffs, the Board obtained a loan facility of K£25.0 million from a consortium of commercial banks. This loan was released during March, 1983, and has enabled the Board to continue to purchase the 1982/83 planted crop.

6. The K£25.0 million loan which will be guaranteed by the Kenya Government is for a period of 2 years from the date of drawdown or the 31st March, 1983, whichever is the earlier. The rate of interest on the loan will float at the maximum rate which the Commercial Banks are permitted to charge on term loans, currently 16 percent. Thus, the Kenya Government's total contingent liability under the proposed guarantee will be K£25.0 million plus the interest thereon. The loan is to be repaid to the consortium of banks listed above on or before 31st March, 1985.

7. The National Assembly is now requested to give approval for the Kenya Government to extend to the said consortium of Commercial Banks the required guarantee regarding the repayment of the principal sum and interest and other charges thereon in respect of this loan of five hundred million Kenya Shillings (KSh500,000,000) to the National Cereals and Produce Board.

8. 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 KSh355,509,582 of which KSh327,424,000 is in respect of covenants expressed in foreign currency and KSh28,085,582 is in respect of covenants expressed in Kenya currency, With the proposed overdraft guarantee of KSh25.0 million above mentioned, the aggregate will be increased to KSh380,509,582 of which KSh53,085,582 will fall within paragraph (a) and KSh327,424,000 within paragraph (b) of section 3(3) of the Act.



A. K. MAGU M. P.

MINISTER FOR FINANCE