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DIAGNOSTIC STUDY

OF

BLENDERS UGANDA LIMITED
KAMPALA, UGANDA

FINAL REPORT

BANGALORE - INDIA JUNE 1993

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UNIDO CONTRACT NO. 92/081

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REHABILITATION OF INDUSTRIAL ENTERPRISES IN EAST AFRICA

FINAL REPORT ON

BLENDERS UGANDA LIMITED

KAMPALA, UGANDA

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DATE OF REPORT: JULY 1993

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SYNOPSIS

Blenders Uganda Limited (BUL) in Kampala, Uganda was one of the enterprises selected for study in consultation with the Ugandan Ministry of Commerce, Industries & Cooperatives. After 30 man-days of study and rendering direct assistance as needed, Amarnath Kamath & Co., Management Consultants (AKC) recommend that immediate steps be taken to privatise BUL.

BUL is one of the companies already selected for 100 % dis-investment under the Ugandan Government's programme for divestiture of its holdings in parastatals. The Government should act soon in order to avoid any further deterioration in the affairs of the Company.

RECOMMENDED REHABILITATION STRATEGIES IN THE INTERIM PERIOD

A. Activities in the Short Term

1.0 Resolution of the issues relating to the ownership of the Company should be given priority. Brooke Bond (UK) are now in dialogue with the Government with a view to resolving disputed ownership issues. Only when this is resolved can the Company forge ahead with other issues relevant to its survival and growth.

2.0 BUL is under capitalised with a subscribed capital of only USh. 50,000 ($ 40). The Company is in a position to earn a healthy margin on sales (32%). A fresh infusion of capital would bolster the Company and help in renegotiating credit terms and working capital.

3.0 BUL is currently overstaffed. A review and revision of all job descriptions and wage structures is imperative and should be conducted as soon as possible.

4.0 The staff strength of the marketing department should be reduced to a maximum of 3. Using private dealers/distributors in the short term will save the Company USh. 50 million per year.

5.0 BUL should take steps to improve its market image. This should be done through improved packaging and a carefully planned advertising campaign.

6.0 Efforts should be made to repay the EADB loan taken in 1990 by selling excess stocks of resin glue and both the trucks and the pickup van.

B. Activities in the Medium Term

1.0 A strategy to dominate the local market should be implemented by increasing the network of dealers and distributors outside Kampala and a strategy for increasing exports should be worked out.

2.0 A program to upgrade and improve plant and machinery is necessary. Machinery maintenance schedules and the stocking of spares are important activities that should be encouraged.

3.0 A programme to develop management talent may be introduced. Professionals in marketing, brand management, distribution, human resource management and finance need to be trained, to manage the growth of the Company.

I. EXECUTIVE SUMMARY

Blenders Uganda Ltd. (BUL), earlier known as Brooke Bond Oxo Ltd., was nationalised in 1972. The Company held a monopoly on blending, packing and distributing tea in Uganda, till market restrictions were removed recently. There are now more than 50 companies actively marketing assorted brands of tea in Uganda.

The total market for packet tea in Uganda was estimated at 1,200 metric tonnes per year in 1991. Market sources indicate that demand is now falling. Through the programme of economic liberalisation, many former owners have repossessed their estates. Other investors have entered the industry, having perceived a potentially rewarding market. These conditions will foster increasing competition. BUL's market share has now fallen to a mere 5%, and may decrease even further.

Our inspection of plant and production facilities revealed no restrictions on plant capacity at present. Plant utilisation at present was estimated at 10% of rated capacity.

In June 1989, BUL obtained a loan of SDR 40,000 from EADB to buy a delivery truck and to import 10 M.T. of resin glue (estimated now, to meet ten years' production requirement). Servicing this loan with USh. 1.0 million per week has weakened the Company's financial position. Bulk tea suppliers and bankers will not extend further credit. The weak working capital position and poor trade credit rating, forces the Company to buy and process only small quantities of tea.

BUL employees are demoralised. Our Consultants noted this through the many written complaints received, each alleging mismanagement and corruption. Officials from tea gardens and banks confirmed the Company's poor image. The Senior Consultant (SC) held discussions with bank officials for possible future assistance, but was politely turned down.

Amarnath Kamath & Co. recommend that drastic action be taken in the interest of the Company. Two major recommendations are:

1. after conducting an in depth job analysis, to retrench extra workers and staff, and

2. through the sale of the truck and the excess resin glue proceed to repay as much of the EADB loan as possible.

On his return, the General Manager agreed to implement the first suggestion with effect from February 1, 1993 (see Appendix VI for Memo from GM to all staff/employees advising them to go on leave from February 1, 1993, on 50 % salary, while a restructuring of the Company takes place). The number of workers and junior staff have been reduced from 45 to 25 with further reduction planned.

Expenses on administration, conveyance and truck maintenance are high. A review and restructuring of purchase procedures should be done urgently.

BUL has a good margin on sales (32%) to make the business viable. Low volume production, high overheads and inefficiency through alleged corrupt practices erodes this healthy margin. An effective cost control programme, improved funds management, renegotiated loan and credit terms and a restructuring of the management team will improve the outlook for BUL in the near term.

A review of the relationship with Brooke Bond and a possible resolution of the ownership problems could give BUL much needed marketing strength. Should this not be feasible, then a joint-venture or association with a similar company should be welcomed. This may be studied along with proposals for planned divestiture.

II. PREAMBLE

INTRODUCTION

On October 9, 1992, Messrs. Amarnath Kamath & Co., Management Consultants, signed contract no. 92/081 with UNIDO, in Vienna, to provide services for carrying out a project entitled **"REHABILITATION OF INDUSTRIAL ENTERPRISES"** in the East African countries of Tanzania, Uganda & Zambia.

The objectives of the project are:

a) To advice the Government of each country and the selected enterprises, in short and medium term, on measures to rehabilitate them and to provide direct assistance during the diagnostic analysis.

b) To encourage and define possibilities and means for enterprise to enterprise co-operation between the industrial enterprises audited and similar enterprises in India for transfer of technology and technical assistance.

The following is the scope of work, objective-wise:

1. Objective (a)

i) Diagnostic reports to be prepared for the enterprises audited and extend adhoc direct assistance to them.

ii) Provision of direct assistance to improve management systems and productivity of manpower and equipment in the enterprises.

2. Objective (b)

A report to be prepared containing:

i) The approach and procedures for maintaining enterprise to enterprise cooperation between the industrial enterprises in East Africa and industrial enterprises in India.

ii) A list of opportunities of enterprise to enterprise cooperation identified during the implementation of the project.

A progress report and a draft final report have been submitted, documenting the activities of our consultants. This is the final report of the study undertaken by us in Blenders Uganda Limited, Kampala.

III. CONSULTING METHODOLOGY

Blenders Uganda Limited (BUL), a tea packaging and marketing company, was selected for study on December 14, 1992, by the Senior Consultant (SC) of Amarnath Kamath & Co. (AKC). The Team Leader, a Technical Consultant and the SC spent 30 man-days studying the unit including plant visits, market visits, meetings with tea plantation owners, bankers, union office bearers and staff members. The on site study continued till February 15, 1993.

Major problems were identified and studied in depth.

The General Manager and Accountant of the Company were abroad during the major part of the study. Proposals for rehabilitation were presented and discussed with union and staff members. The managerial staff in charge of BUL were not in a position to commit on the implementation of the suggested rehabilitation packages. However, during the last week of January 1993, suggestions for cost cutting were taken up by them.

Mr. A. Kamath, Chief Executive of AKC and the Team Leader returned to Uganda in May 1993. They presented the draft report prepared after their study to UNIDO and Ministry officials on May 17, 1993. They also visited BUL. The updates, observations and comments received from all concerned on the draft report prepared after the study have been incorporated in this final report.

The list of organisations and persons met during the study is given in Annexure - I. Minutes of important meetings with management and union office bearers for restructuring BUL are presented in Appendices I to VI.

IV. BACKGROUND

1.0 COUNTRY BACKGROUND - UGANDA

1.1 Demographic outline

Uganda is a landlocked country lying astride the Equator, more than 2,000 Kms. from the Indian Ocean. The total area of the country is about 241,000 square Kms. (roughly comparable with the size of U.K.), but this area includes about 44,000 square Kms. of inland water. Preliminary results from the 1991 census measured the population at 16.6 million. UN estimates point to a total of 18.8 million. in mid-1990. With a crude birth rate of about 49 per 1,000 and a crude death rate of 18 per 1,000, the annual growth rate exceeds 3 percent. Only about 11 percent of the population is classed as urban. Kampala dominates the urban hierarchy with a population of 773,400 followed by Jinja with about 60,000. Ugandan society is therefore overwhelmingly rural and population distribution tends to be a reflection of agricultural potential. Rural densities are generally less than 100 per square Km. and they fall as low as 12 per square Km. in some areas, notably in the semi-arid Karamoja region in the north east. Most people are concentrated in a wide band around the shores of Lake Victoria, from the Kenyan border in the east to the Tanzanian and Rwandan borders in the south west where rainfall is the highest and most reliable. However, as a result of the unsettled conditions of recent years, thousands of people have been displaced, and some relatively fertile areas (such as the Luwerol region) have yet to be resettled.

1.2 Structure of the economy

The economy is dominated by the agricultural sector which accounted for around 50 per cent of GDP in 1988, over 95 per cent of exports, 40 per cent of government revenues and over 89 per cent of the working population. Most farmers are engaged in subsistence production on very small holdings with the total output from these holdings being greater than that in commercial agriculture. Official data on the sectoral origin of GDP divides the economy into a "monetary" and a "non-monetary" sector. The latter includes subsistence agriculture, forestry, fishing and hunting and part of construction. The non-monetary sector's share of GDP has started to decline; it fell from 48 per cent to 46 per cent between 1983 and 1988. Table 1 shows the sectoral origin of GDP at factor cost for 1983 and 1988. After agriculture, services at nearly 24 per cent (including government) came next in 1988. Manufacturing accounted for less than 5 per cent.

The results of a national manpower survey undertaken by the government with the financial and technical support of UNDP and ILO indicate that the formal sector of Uganda employed only 378,227 persons in January 1988. This represents only about 5 per cent of the total working population. About 53,000 persons are employed in industry.

Table 1: Sectoral origin of GDP at factor cost

(USh. millions and percentages, at 1987 prices)

	1983 USh. million	%	1988 USh. million	%
Monetary economy				
Agriculture	46794	27.3	49649	26.4
Forestry and fishing	1595	0.9	2007	1.1
Mining and quarrying	46	0.03	33	0.04
Manufacturing	7020	4.0	8267	4.4
Electricity	111	0.07	115	0.06
Construction	1550	0.9	1992	1.1
Commerce	18332	10.7	21571	11.5
Transport and communications	3818	2.2	5348	2.8
General Government	4121	2.4	4331	2.3
Miscellaneous services	422	0.2	536	0.3
Rents	3869	2.3	4780	2.5
Education and health	2047	1.2	3084	1.6
Total	89725	52.2	101713	54.1
Non-monetary economy				
Agriculture	76538	44.5	79456	42.2
Forestry, fishing & hunting	975	0.6	1546	0.8
Construction	235	0.1	269	0.2
Owner occupied dwellings	4455	2.6	5115	2.7
Total	82203	47.8	86386	45.9
GDP at factor cost	171928	100.0	188099	100.0

Source: Statistical Bulletin No. GDP/1, Gross Domestic Product Uganda 1982-88 (Statistics Department, Ministry of Planning and Economic Development, December 1989)

1.3 Currency

The value of the shilling was severely affected by the political instability and economic mismanagement during the Amin years and their aftermath. Between 1981 and 1986 the official exchange rate fell from USh. 78 = $ 1 to USh. 1,450 = $ 1, a devaluation of almost 2,000 per cent in only five years.

In May 1987 a new currency unit was introduced with an effective devaluation of 76 per cent. The new Ugandan shilling (NUSh.) has a domestic value of 100 old shillings (USh.). However, even at its initial rate of NUSh. 60 = $ 1 the currency was still considerably overvalued and further devaluations were forced upon the authorities, which progressively lowered the dollar value of the shilling to NUSh. 200 in March 1989. Since then, under pressure from the International Monetary Fund (IMF), the rate was being adjusted on a regular basis. Because of the acute shortage of foreign exchange there was a buoyant parallel/black market in hard currencies, with rates typically two or three times higher than the official rate. In June 1990, in an attempt to gain some control over this parallel market, the government introduced a system of authorised forex bureaux. By April 1991 the difference between the official and parallel rates had fallen to 30%.

Table 2: Average exchange rate (NUSh. per US$)

1983	1984	1985	1986	1987
1.54	3.60	6.72	14.00	42.80
1988	1989	1990	1991	1992
106.14	223.09	428.85	1300	1250

The NUSh was created in May 1987 and was equivalent to 100 old shillings. For the sake of comparability, all exchange rates in the table are shown in terms of the new currency.

Source: IMF, International Financial Statistics.

1.4 Macro-economic conditions generally

The Government of Uganda is committed to liberalizing the economy in the context of a structural adjustment programme agreed to with the IMF and the World Bank. Through its Economic Recovery Programme, the Government of Uganda has committed itself to three principal goals:

1. to bring about internal financial stability and lower the rate of inflation;

2. to reduce external account imbalances; and

3. to promote economic growth.

The Government has taken several steps towards these goals. In July 1990, the government legalized the parallel foreign exchange market by sanctioning private foreign exchange bureaux. The Government is moving toward a unified market determined exchange rate. In 1991 the Government passed the Ugandan Investment Code. The stated objective of the Code is to promote, facilitate and monitor both foreign and domestic investment in Uganda by rationalizing the various procedures for investment approval and introducing incentives for investors. A central feature of the Ugandan Investment Code was the establishment of the Uganda Investment Authority which was designed as a "one stop shop" for investors. The Uganda Investment Authority is charged with securing all licenses, authorizations and permits required on behalf of all investors, providing all requisite investment information to investors and assisting potential investors to identify and establish investment projects in Uganda.

1.5 Economic reforms

Taking the period of the economic reform programme as a whole, significant progress has been made in the battle against inflation. As measured by the year on year change in the Kampala Consumer Price Index, inflation fell from 243 percent in 1987/88 to 29 percent in 1990/91. As inflation fell, it became possible to restore positive real interest rates at relatively lower nominal rates. The impact of positive real interest rates on the structure of monetary assets holdings was remarkably strong, with time and savings deposits rising from 9.8 percent of broad money in June 1989 to 16.3 percent in June 1991. However, rising inflation during 1991/92 has led to some slippage in the policy of positive real interest rates.

The annual inflation rate is currently running at 63 percent per annum on year-on-year basis in June 1992, which compares with 25 percent in October 1991, 29 percent in November 1991, 32 percent in December 1991, 41 percent in February 1992, 49 percent in March 1992, 59 percent in April 1992 and 66 percent in May 1992 as measured by the Kampala Consumer Price Index. Signs of a downturn in inflation are apparent, with marked reductions in monthly price increases in Kampala. The monthly increase in the Consumer Price Index for Kampala has been 1.3 percent in October 1991, 3.9 percent in November 1991, 3.0 percent in December 1991, 6.1 percent in January 1992, 6.6 percent in February 1992, 8.1 percent in March 1992, 10.5 percent in April 1992, 4.8 percent in May 1992 and minus 0.5 percent in June 1992. This downturn is also reflected in the Consumer Price Indices for Jinja and Mbale.

The Uganda Investment Authority which offers one-stop services to the investors (local and foreign) has become fully operational. Progress in attracting investors has been very encouraging. Over the first eleven months of the Authority's operations to end May 1992, a total of 647 applications forms were issued, out of which 175 were returned to the Authority, duly completed. Of these roughly 40 percent were local, 20 percent joint venture and 40 percent foreign. Investment licenses were issued to 80 approved projects with a planned investment value of about US $200 millions. Half of these approved projects are already under implementation. The Authority has also carried out a number of investment promotion seminars locally in the districts of Kampala, Jinja, Mbarara, Kabale, Kasese and Kabarole aimed at creating investor awareness concerning the critical need for fresh investments.

1.6 Reform of public enterprises (PE)

The reform programme for industrial PEs must be seen against the background of a multiplicity of constraints facing the industrial sector that have built up since the onset of political instability and economic mismanagement in the early 1970's.

In the beginning, industrial enterprises suffered from a combination of mismanagement, equipment failures due to lack of foreign exchange to import spare parts and raw materials. Subsequently, the situation deteriorated even more seriously due to lack of skilled management.

To reverse the situation a recovery programme was introduced between 1982 and 1984 which gave special emphasis to rebuilding the industrial sector. The main focus of the programme was on physical rehabilitation of the industrial enterprises. Despite some degree of success and improvement in the economy as a whole, industrial activity continued to be slow and stagnant. Besides the lack of foreign exchange, the fundamental problem in this situation was the lack of technical and managerial capability. The poor performance could also be attributed to:

a. an organisation structure that embodies a multiplicity of ministries without the necessary competence and capacity to exercise effective control;

b. the failure of the recovery programmes to address the management problem;

c. and the slow and difficult process of improving the low morale.

The present enterprise reform programme is a departure from past attempts at outright physical rehabilitation and involves divestiture, privatisation and improvement of the organisation structure as well as the improvement of those industrial enterprises that will remain in the public sector.

1.7 PIES component in public enterprise project (PEP)

In 1988, Government realised the urgent need to restructure the Public Enterprise (PE) sector as part of its economic recovery programme. A Public Enterprise Project (PEP) consisting of Public Enterprise Secretariat (PES), Public Industrial Enterprises Secretariat (PIES) and Uganda Development Corporation (UDC) were set up with a three pronged objective:

1. To institute reforms in the sector policy and legislative framework and strengthen sector administration and enterprise management;

2. To initiate an overall program of rehabilitation and rationalisation of all PEs; and

3. To implement a programme of restructuring, divestiture and liquidation of selected PEs.

The specific purpose for setting up PIES was to meet the need for a top-level advisory body to the Ministry of Industry and Technology (MOIT) for implementation of reforms in the industrial parastatals (public sector undertakings). The MOIT had neither the staff nor the organisational capacity to properly assess the industrial sector in terms of identifying enterprises that have the potential economic and financial strength. Moreover, the implementation of a rationalisation and rehabilitation programme required a wide range of diverse skills and expertise that the MOIT did not possess.

2.0. BACKGROUND OF THE UGANDAN TEA INDUSTRY

2.1 Background

The Uganda Tea Authority (UTA) was formed in 1974 to centralise and coordinate the marketing and export of tea. It has since functioned as an umbrella organisation, involved in coordinating, monitoring, collecting and circulating statistical data, and in promoting the tea industry in general.

About 20,500 hectares of land is under tea cultivation in Uganda. Growers and producers are categorized as follows:-

i. Government owned tea estates and factories managed by Agricultural Enterprises Ltd (AEL). Formerly, a subsidiary of the Uganda Development Corporation, AEL now functions directly under the Ministry of Industry and Technology. It owns six estates, each equipped with factories and cultivates a total of 3,086 hectares of land.

ii. Small-holders (Outgrowers) are organised under the Uganda Tea Growers Corporation (UTGC) which was established in 1966 to mobilise small land holders and encourage them to form Co-operative Societies. A total of 11,070 registered outgrowers own 9,441 hectares of land under tea cultivation. UTGC operates five factories; three more are under construction.

iii. Joint Venture Companies: Two companies, Toro and Mityana Tea Co. Ltd. (TAMTECO) and Uganda Tea Corporation (UTC) were formed in 1980. The Ugandan Government owns a part of both companies jointly with the British Mitchell Cotts Group of England and the Asian Mehta Group of Bermuda, respectively. TAMTECO owns three factories and cultivates tea on 2,356 hectares of land. UTC has two factories and owns 898 hectares under tea cultivation.

iv. <u>Privately owned estates and factories</u> were developed by private non-citizen interests as early as 1930. 19 estates cover approximately 4142 hectares of tea. In recent years, the Government has returned many estates to their original owners who had abandoned them in 1972, eg. Mwera, Nakigalara, Moniko, Kakonde, Rutete, Victoria, Samaliya, Nyakitale, etc.

In line with Government policy, the tea industry is going through a restructuring programme: the Government is privatising by selling its shareholding in tea estates & companies.

The Uganda Tea Association, a voluntary organization, is a forum for tea growers and producers. The Uganda Tea Blenders, another voluntary organisation, provides a united voice for tea blenders. Packers Association provides united representation for tea packers.

2.2 Weather

The weather in all tea growing districts of Uganda is conducive to plant growth and high yields. The tea growing areas receive ample, distributed rainfall. Hailstorms are occasionally experienced in Bushenyl and Kabarole Districts during November and early December, every year.

2.3 Production, exports and sales

Table 3 : Production, Exports and Local Sales
1962 - 1992

Year	Production M.T	Exports M.T.	Value of Exports US $ (x 1000)	Local Sales M.T.
1961	5,116	4,215	-	901
1972	23,376	20,678	17,635	2,698
1980	1,533	526	322	1,007
1981	1,672	501	877	1,171
1982	2,376	1,198	1,599	1,139
1983	3,204	1,333	3,125	1,871
1984	5,223	2,446	1,485	2,599
1985	5,784	1,237	3,354	4,547
1986	3,334	2,792	2,795	3,201
1987	3,599	2,093	2,094	1,521
1988	3,546	3,078	3,078	1,501
1989	4,658	3,134	3,134	1,485
1990	6,740	4,740	3,566	1,230
1991	8,806 *	7,050	6,934	1,220
1992(Est.)	12,000	9,000	8,850	830

* Provisional as Samaliya, Mabira, Kibulala, Buzirasagama, have not submitted some returns. Estimated to bring the total figure close to 9,085 metric tonnes (M.T.).

Table 4: Production by estates (M.T.)

Estates	1988	1989	1990	1991	1992 (Est.)
TAMTECO	1,870	1,900	2,060	2,005	2,500
UTGC	579	996	1,863	3,060	4,208
UTC	506	764	1,372	1,861	1,900
AEL	132	408	720	1,248	2,159
MACO	389	445	307	341	400
PRIVATE	70	145	418	291*	833
Total	3,546	4,658	6,740	8,806	12,000

* Provisional

Table 5: Exports by estates (M.T.)

Estate	1989	1990	1991	1992
TAMTECO	1,195	2,073	1,496	1,865
UTGC	461	971	2,319	3,189
UTC	927	1,021	1,848	1,886
AEL	283	369	913	1,379
MACO	268	297	325	381
PRIVATE	-	9	149	300
Total	3,134	4,740	7,050	9,000

Table 6: Distribution of sales

Destination	1990		1991		1992	
	M.T.	%	M.T.	%	M.T.	%
Local sales	1,230	20	1,220*	15	830	11
Mombasa auction	1,770	30	3,569	43	2,663	36
London auction	175	3	351	4	401	6
Direct exports (Producers)	370	6	172	2	351	5
Direct exports (Local exporters)**	2,425	41	2,958	36	3,107	42
	5,970	100	8,270	100	7,352	100

* Includes barter trade exports
** 1991 local sales provisional

Table 7: Destination of exports

Buyer countries	Quantity (M.T.)	Value (US$)
Mombasa auction	3,569	3,808,301
London auction	351	497,475
Kenya (in transit)	806	669,567
Djibouti	196	208,820
U.S.A.	9	10,000
Middle East	536	460,520
United Kingdom	268	184,995
Egypt	120	120,280
Somalia	120	49,547
Geneva	643	642,947
Ethiopia	17	17,019
Sudan	415	264,838
Total 1991	7,050	6,934,309
Total 1990	4,740	3,566,586

NOTES:

1. Mombasa was the largest buyer of tea - 43% of the total tea sales for 1991 as against 30% of the total sales for 1990.

2. In 1990, all sales to local exporters were for barter trade but this reduced to 86% in 1991, the rest being cash sales.

2.4 Prices

Comparative prices per kilogram of tea from the countries of East Africa at the Mombasa auction during 1990 and 1991 were:

Country	1990 (US$)	1991 (US$)
Uganda	0.92	1.07
Kenya	1.44	1.45
Rwanda	1.33	1.14
Burundi	1.35	1.37
Tanzania	-	0.99
Zaire	0.97	1.01
Zambia	-	1.03
Total	1.20	1.15
Rate: 1 US$	23.72 K.Shs.	26.80 K.Shs.

2.5 The local market

At the end of 1991, 54 authorized packers were involved in blending and packing tea, mostly for the local market. Local consumption of tea accounted for 1,220 metric tonnes and 186 metric tonnes of packed teas were exported to Egypt, Sudan and Djibouti. Proper supervision of this market was greatly hampered by the fact that UTA did not have the necessary legal powers to stop unauthorized packers. As a result, organised packers operate at a disadvantage.

2.6 Problems and constraints

i. Under capitalisation

Almost all companies in the tea industry are under capitalised, leading to difficulties in purchasing essential items like agricultural inputs, tea leaf plucking machines and factory machinery and spares.

The World Bank and European Investment Bank conducted studies to consider possible intervention in the tea sector. However, the outcome of these studies is yet to be known.

The situation has worsened because of the slow pace of restructuring exercises in the various companies in the industry.

ii. Shortage of labour

Shortage of labour continues to hamper the performance of all large tea estates. Mechanisation, still in an experimental stage, has not been able to overcome the problems of costly field management and inferior leaf quality.

iii. Electrical power supply from the U.E.B.

Although at the time of writing this report, improvement in the supply of electrical power has been reported, U.E.B. power was generally unreliable during 1992. This resulted in additional processing costs on account of requirement of diesel for generators and furnace oil for heating.

iv. Feeder roads

Almost 70 Kms. of feeder roads in Kabarole District were resurfaced by GTZ. In Hoima District and Kayonza some roads were graded and put on the map by UTGC. However, most of the roads were in bad condition and were impassable during the rainy season, resulting in frequent breakdowns of trucks, tractors and trailers used in collecting tea leaves.

v. Lack of research

Preliminary assistance to rehabilitate the Tea Research Station at Rwebitaba by UTGC/EEC did not materialise due to lack of funds. The tea industry, therefore, continues without an important arm necessary for quality improvement.

vi. Lack of legislative powers

Liberalisation measures taken by the Government have resulted in clandestine exports of tea and Uganda has not been able tc realise the full foreign exchange on export sales. To ensure maximum foreign exchange earnings from the increasing number of private companies, minimal and up-to-date control measures should be put in place.

3.0 BACKGROUND OF THE COMPANY

Blenders Uganda Limited (BUL), located at 1A/B, I Street, Industrial Area, Kampala, formerly Brooke Bond East Africa, was formed by the parent company, Brooke Bond Liebig, London. Brooke Bond East Africa was incorporated in 1945 (with 100 % of the shares held by the parent company in London) to purchase manufactured tea and to blend, pack and market it, locally.

As the East African states gained independence, Brooke Bond Oxo Limited was incorporated in 1960, in which the Government of Uganda was a share holder. In 1972, the Company was declared a "Parastatal Body Corporate": all shares were vested with the Government of Uganda. The Company's name was changed to Blenders Uganda Limited and it was managed by Uganda Development Corporation until October 22, 1991. The parent company did not either voluntarily or legally surrender its interest in Brooke Bond Oxo Ltd., nor was it a party to the change of the Company's name to Blenders Uganda Ltd. This issue remains unresolved. The Company is presently managed by a General Manager, who does not have a Board of Directors to report to.

BUL's performance was good for a while, bolstered by its monopoly status for marketing almost all the tea produced in the country. BUL could freely avail credit from the tea companies under pool arrangements and could, therefore, achieve a large turnover both from local and export sales. From 1974, the Company's sales suffered due to economic, political and social upheavals. In 1984, the pool arrangements collapsed. The tea companies stopped extending credit and BUL was forced to purchase tea against cash payment, which meant larger working capital requirements. BUL's low share capital of only USh. 50,000 severely hampered its operations and affected its performance, resulting in:

1. The under utilization of installed productive capacity resulting in high overhead costs on low volume production;

2. Process inefficiencies arising from technical obsolescence brought about by its inability to replace machinery, equipment and other facilities and

3. A demoralised work force, employed for low remuneration, working under deteriorating physical conditions.

V. DIAGNOSTIC STUDY

1.0 Production and related activities

The Company's main products are:

(a) Gold Label Tea — 15% of total production

(b) Green Label Tea — 60% of total production

(c) Sifting Tea — 25% of total production

The factory's installed capacity to blend and pack various categories of tea is 1.5 million Kgs. per annum. The utilisation of plant capacity has averaged between 6 and 10%. The production report for September 1992 indicates that total tea packed was only 4,040 Kgs. against a target of 15,000 Kgs. Plant capacity utilisation was 27% of budget and only 4% of installed capacity.

Table 1: Production details for September 1992

BRAND	PACK SIZE Gms.	WEIGHT PACKED Kgs.
Gold label	500	-
Green label	500	588
Green label	250	992
Green label	100	569
Green label	50	573
Green label	25	933
Siftings	500	-
Siftings	100	212
Siftings	50	173
		4,040

Tea is purchased mostly from Agricultural Enterprise Limited (AEL) and Uganda Tea Growers Corporation (UTGC). The quantities of tea purchased from them are very small and not sufficient to run the factory for more than 1 day per week. The quantities of tea purchased from these two enterprises since October 1992 are given in Annexure - II.

Monthly production during the 5 years are shown in graphical form, overleaf. Production statistics for the last four years are:

Table 2: Production figures (Tonnes) 1988-1991

Month	1988	1989	1990	1991
January	16.97	9.73	6.36	15.63
February	10.83	11.62	9.55	14.33
March	17.07	15.31	12.72	14.49
April	12.69	12.89	6.02	11.92
May	9.58	13.45	11.57	10.02
June	11.84	15.75	10.55	17.12
July	6.36	8.04	16.38	14.38
August	7.86	12.32	14.97	9.86
September	7.11	13.47	10.50	11.46
October	9.04	6.83	12.96	12.65
November	10.86	7.10	12.03	9.01
December	13.46	7.80	9.75	8.42
Total	133.67	134.31	133.36	149.29

Other materials used in the production & processing of tea purchased either locally or imported from Kenya are:

i. Labels for tea packet

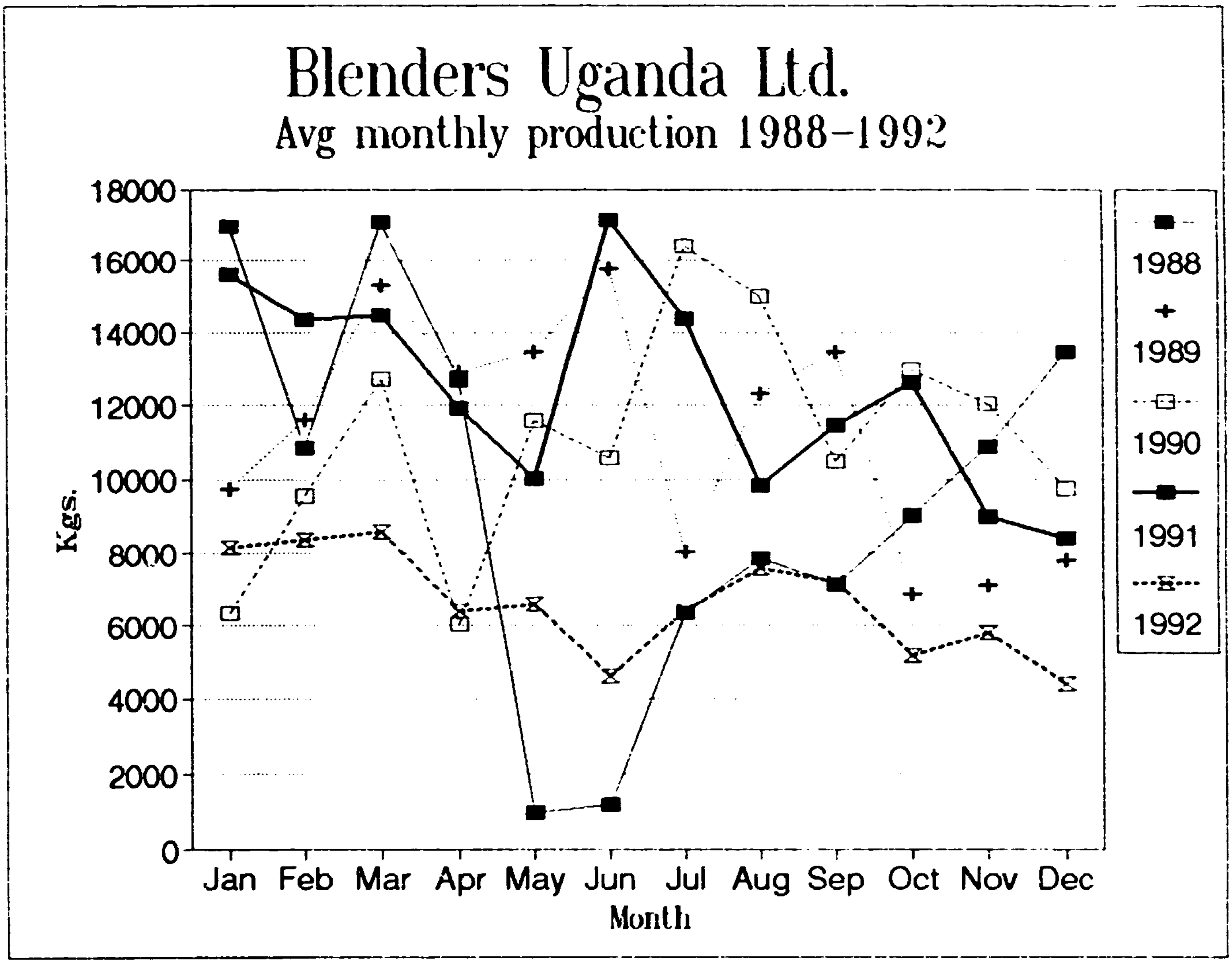
ii. Tea cartons for Gold Label Tea

iii. Polyethylene liners

iv. Wrappers

v. Glue

vi. Gum tape and cello tapes



Blenders Uganda Ltd.
Avg monthly production 1988-1992
18000
16000
14000
12000
10000
8000
6000
4000
2000
0
Kgs.
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
Month
1988
1989
1990
1991
1992

2.0 Manufacturing process

Different grades of tea are blended in a box. After filling this box to capacity with about 1 metric tonne of tea, the box is rotated 32 times, to ensure proper blending and is then unloaded. The tea dust which rises in the box is removed by a suction pump and collected through pipes in a dust collecting bag. The blended tea is conveyed to the packing line on the lower floor. Racks of magnets, located along the conveyor belt, remove any metallic particles in the tea. Quality checks are conducted both at the time of procurement and packing of tea. The packed tea is transferred to the despatch godown in the same building.

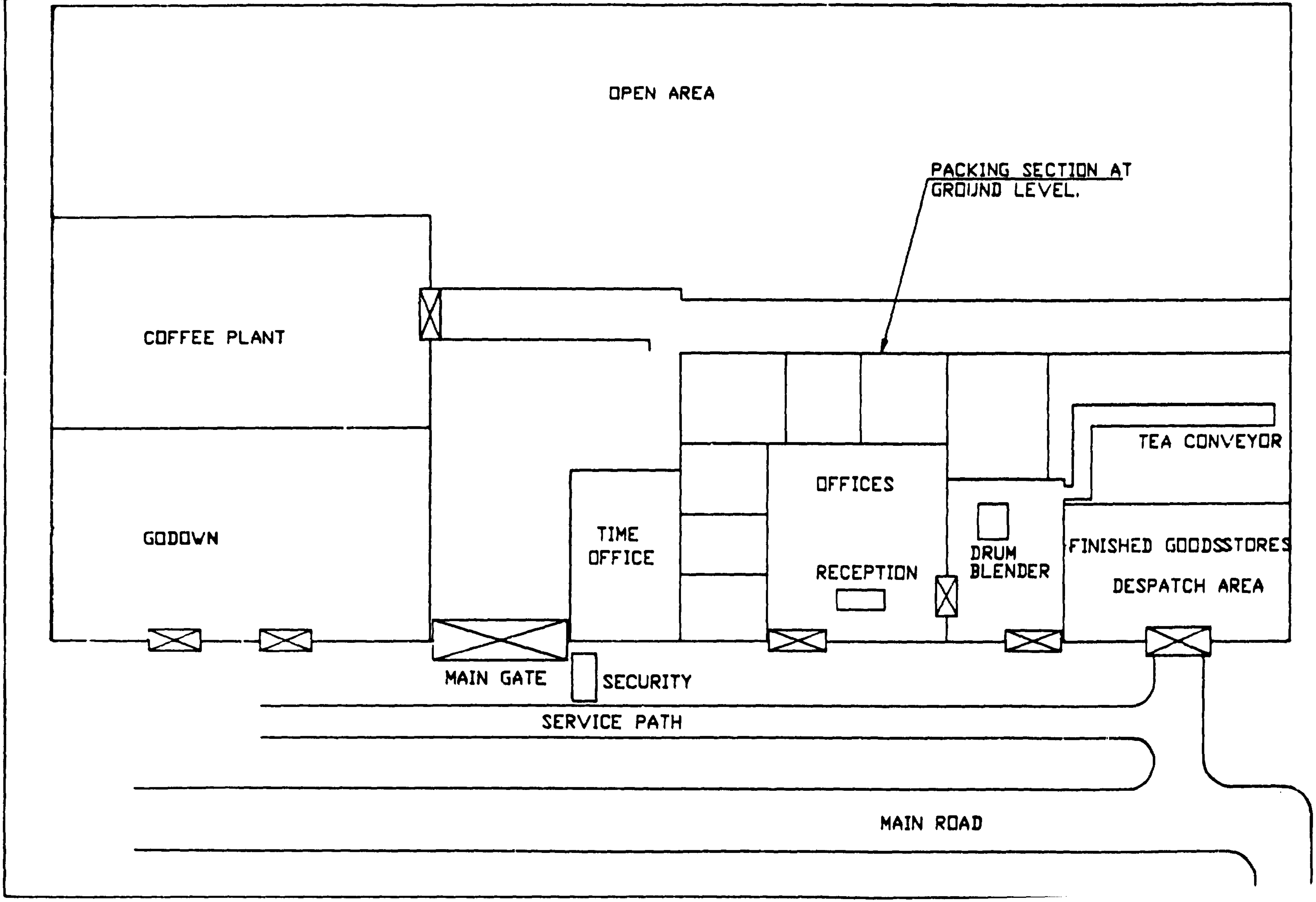
The packing machines are in good condition. Periodic servicing of machines is not done for want of spare parts and consumables, for e.g., it was noted that the clutch control of the blending drum was in need of immediate replacement.

Power and water are essential utilities in the tea making process. Power supply is not very reliable and the plant faces frequent power shut downs due to a cable fault in the industrial estate.

3.0 Transport

BUL owns 3 trucks. One is used for delivering small quantities of finished products while the other two are under repair. The pick up van also is grounded. One car is used by the General Manager. The Company spends a large amount on transportation and conveyance which is disproportionate to its level of business. Serious objections to this misuse were raised by the Consultants.

FACTORY LAYOUT OF BLENDERS (UGANDA) LTD. KAMPALA, UGANDA.



4.0 Labour

In October 1992 the factory employed 42 people.

Table 3: Details of labour force

	Male	Female	Total
Supervisors	3	-	3
Skilled clerks & mechanics	1	1	2
Tea packers	14	3	17
Paper folders	-	8	8
General laborers	2	1	3
Shamba man	1	-	1
Askaris	5	-	5
Office messenger	-	1	1
Tea blender	1	-	1
Casual laborer	1	-	1
TOTAL	28	14	42

Only 25 employees were attending the factory in March 1993.

5.0 Financial analysis

BUL is under capitalised with a share capital of only USh. 50,000 (US $40). At the time of its incorporation, the share capital was considered adequate but spiralling inflation has rendered this grossly inadequate. The low capital base has placed BUL in a very difficult position: it is not able to finance the buying of tea from the open market in direct competition with the other tea packers. As a result, scale of operations have been low during the last ten years. The financial statements of the Company from 1987-1992 are presented overleaf.

Since availing the EADB loan (details in Annexure - III) the Company has not been able to achieve profits. The financial ratio analysis demonstrates increasing employee overheads and distribution overheads which are not commensurate with turnover. The product information presented in Annexure IV shows a healthy margin of 18% on sales at the new selling prices.

BALANCE SHEET ANALYSIS

	As at 30.06.1987	As at 30.06.1988	As at 31.12.1989	As at 31.12.1989	As at 31.12.1990	As at 31.12.1991
	Shs.	Shs.	Shs.	Shs.	Shs.	Shs.
Fixed assets	30,665,586	29,975,488	253,192,264	261,124,008	261,051,684	250,830,873
Investments	96,767	215,277	-	-	-	-
Net current assets:						
Current assets:						
Stock, at cost	2,885,388	3,934,709	7,563,422	23,202,841	27,417,876	41,094,138
Trade debtors	157,802	81,072	81,072	1,123,669	74,420	241,318
Staff/Sundry debtors	80,978	281,877	509,528	1,087,040	2,325,110	7,687,803
Cash & bank balances	338,153	1,255,912	3,540,621	1,666,335	14,643,991	6,269,995
	3,462,321	5,553,570	11,694,943	27,079,885	44,461,397	55,293,254
Less:						
Current liabilities:						
Trade creditors	824,837	283,226	2,428,813	1,738,900	4,171,283	12,876,763
Other creditors	833,215	2,922,405	8,046,705	11,819,546	14,136,047	18,048,842
Taxation	61,104	1,226,372	1,874,806	3,526,376	4,000,130	1,615,742
EADB Loan	-	-	-	21,050,022	31,502,231	26,502,231
Uganda Commercial Bank Loan	1,980,943	1,085,526	-	-	-	
	3,700,099	5,517,529	12,350,324	38,134,844	53,809,691	59,043,578
	(237,778)	36,041	(655,381)	(11,054,959)	(9,348,294)	(3,750,324)
Net assets	30,524,575	30,226,806	252,536,883	250,069,049	251,703,390	247,080,549
Represented by:						
Share capital	50,000	50,000	50,000	50,000	50,000	50,000
Capital reserve	30,447,500	29,205,000	250,887,193	247,962,068	249,867,493	244,017,243
General reserve	1,400	1,400	1,400	1,400	1,400	1,400
Profit & loss account	25,675	970,406	1,598,290	2,055,581	1,784,497	3,011,906
	30,524,575	30,226,806	252,536,883	250,069,049	251,703,390	247,080,549

PROFIT & LOSS ANALYSIS

	For the year ended			For the period ended 31.12.89	For the year ended	
	30.06.1987	30.06.1988	30.06.1989		31.12.1990	31.12.1991
A. Income:						
Sales	5,653,973	37,106,260	97,274,550	61,891,825	201,935,192	258,039,396
Less: Cost of sales	2,452,725	20,028,227	58,376,052	40,137,051	122,881,519	158,425,966
Gross profit	3,201,248	17,078,033	38,898,498	21,754,774	79,053,673	99,613,430
Add: Other incomes	71,600	354,204	91,190	7,557,912	10,274,315	10,489,884
	3,272,848	17,432,237	38,989,688	29,312,686	89,327,988	110,103,314
B. Expenditure on -						
Marketing & administration	2,315,711	13,454,874	36,162,515	25,921,720	69,223,336	100,916,364
Finance	668,808	1,577,684	320,161	848,026	428,681	260,422
Provision for bad debts	62,399	175,000	330,417	434,079	4,741,092	5,215,461
Investment written off	15,625	53,576	215,277	-	-	-
Total expenditure	3,062,543	15,261,134	37,028,370	27,203,825	74,393,109	106,392,247
Profit (A) - (B)	210,305	2,171,103	1,961,318	2,108,861	14,934,879	3,711,067
Less: Foreign Exchange loss	-	-	-	-	14,152,209	-
Profit before taxation	210,305	2,171,103	1,961,318	2,108,861	782,670	3,711,067
Less Provision for taxation		1,226,372	1,233,434	1,651,570	1,053,754	2,483,658
Net profit		944,731	727,884	457,291	(271,084)	1,227,409
Difference		-	(100,000)	-	-	-
Balance of profit b/fd		25,675	970,406	1,598,290	2,055,581	1,784,497
Balance of profit c/fd		970,406	1,598,290	2,055,581	1,784,497	3,011,906

STATEMENT OF SOURCES & APPLICATION OF FUNDS

	For the period/year ended		
	31.12.89	31.12.90	31.12.91
	Shs.	Shs.	Shs.
SOURCES OF FUNDS			
Profit before tax as per accounts	2,108,861	782,670	3,711,067
Add: Depreciation as per accounts	434,079	4,741,092	5,215,461
Net decrease in working capital	8,748,008	-	-
	11,290,948	5,523,762	8,926,528
APPLICATION OF FUNDS			
Fixed assets purchased	11,290,948	2,763,343	844,900
Taxes paid	-	580,000	4,868,046
Net increase in working capital	-	2,180,419	3,213,582
	11,290,948	5,523,762	8,926,528

NET INCREASE/(DECREASE) IN WORKING CAPITAL

	As at 31.12.89	As at 31.12.90	As at 31.12.91
	Shs.	Shs.	Shs.
Increase in stock	15,639,419	4,215,035	13,676,262
Increase in debtors	1,619,809	188,821	5,529,591
Increase/(decrease) in creditors	(3,082,928)	(4,748,884)	(12,618,275)
Increase in short term loan (EADB)	(21,050,022)	(10,452,209)	5,000,000
Increase/(decrease) in liquid funds	(1,874,286)	12,977,656	(8,373,996)
Net increase/(decrease) in working capital	(8,748,008)	2,180,419	3,213,582

EXPENDITURE INCURRED ON STAFF

	For the year ended			
	December 31, 1990	%	December 31, 1991	%
	Shs.		Shs.	
Incurred towards:				
a. Direct factory expenses	8,758,340	31.7	14,266,295	30.3
b. Indirect factory expenses	5,655,477	20.5	4,680,314	10.0
c. Administration	10,211,877	37.0	20,345,618	43.3
d. Marketing & distribution	2,665,406	9.7	7,331,685	15.6
e. Director's remuneration	319,000	1.1	389,000	0.8
	27,610,100	100.0	47,012,912	100.0
As % of sales	13.7%		18.2%	
Paid as under:				
a. Salaries & wages	9,822,438	35.6	14,816,029	31.5
b. Housing	4,049,018	14.7	8,909,069	19.0
c. Medical	3,417,149	12.4	4,866,500	10.4
d. Company's contribution	224,253	0.8	266,145	0.6
e. Uniforms	410,000	1.5	172,000	0.4
f. Staff welfare	6,380,205	23.1	8,560,354	18.2
g. Transport	1,926,800	7.0	6,802,138	14.5
h. Terminal benefits	271,071	0.9	567,454	1.2
i. Annual leave expenses	258,561	0.9	839,605	1.8
j. Pension	28,155	0.1	115,068	-
k. Director's remuneration	319,000	1.2	389,000	0.9
l. Staff recruitment & training	503,450	1.8	709,550	1.5
	27,610,100	100.0	47,012,912	100.0

OPERATING RESULTS AT A GLANCE

	Unit	For the year ended 30.06.1987	For the year ended 30.06.1988	For the year ended 30.06.1989	For the period ended 31.12.89	For the year ended 31.12.1990	For the year ended 31.12.1991
Sales	Shs.	5,653,973	37,106,260	97,274,550	61,891,825	201,935,192	258,039,396
Cost of sales	Shs.	2,452,725	20,028,227	58,376,052	40,137,051	122,881,519	158,425,966
Gross profit	Shs.	3,201,248	17,078,033	38,898,498	21,754,774	79,053,673	99,613,430
Gross profit margin in terms of % to sales	%	56.62	46.02	39.99	35.15	39.15	38.60
Operating expenses	Shs.	3,062,543	15,261,134	36,813,093	27,203,825	88,545,318	106,392,247
Operating expenses in terms of % to sales	%	54.17	41.12	37.84	43.95	43.85	41.23

REVIEW OF AMOUNT SPENT ON REPAIRS & MAINTENANCE

	Unit	For the year ended 31.12.1990	For the year ended 31.12.1991
Amount spent on repairs & maintenance:			
Building repairs & maintenance	Shs.	2,601,370	2,889,300
Vehicle repairs & maintenance	Shs.	11,426,887	16,520,777
Factory repairs, spares & maintenance	Shs.	2,639,740	2,299,200
Other repairs & maintenance	Shs.	1,015,115	1,924,790
Total amount spent on repairs & maintenance	Shs.	17,683,112	23,634,067
% of amount spent on repairs & maintenance to sales	%	8.76	9.16
% of amount spent on repairs & maintenance to written down value of assets	%	6.77	9.42

REVIEW OF CAPITAL RESERVE CREATED

	For the yr. ended June 30, 1988	For the yr. ended June 30, 1989	For the pd. ended Dec. 31, 1989	For the yr. ended Dec. 31, 1990	For the yr. ended Dec. 31, 1991
	Shs.	Shs.	Shs.	Shs.	Shs.
Opening balance	30,447,500	29,205,000	250,887,193	247,962,068	249,867,493
Reserve created on revaluation of fixed assets	-	225,045,792	-	7,755,675	-
	30,447,500	254,250,792	250,887,193	255,717,743	249,867,493
Less: Amount reverted on account of increase in depreciation due to revaluation of fixed assets.	1,242,500	3,363,599	2,925,125	5,850,250	5,850,250
Closing balance	29,205,000	250,887,193	247,962,068	249,867,493	244,017,243

CONSOLIDATED STATEMENT FOR THE PERIOD

JULY 1, 1987 TO DECEMBER 31, 1991

	Shs.
Opening balance	30,447,500
Reserve created on revaluation of fixed assets	232,801,467
	263,248,967
Less: Amount reverted on account of increase in depreciation due to revaluation of fixed assets	19,231,724
Closing balance	244,017,243

REVIEW OF LIABILITIES & NET WORTH

	As at 31.12.90	As at 31.12.91	Represented by
	Shs.	Shs.	
Current liabilities			
Trade creditors	4,171,283	12,876,763	
Other creditors	14,136,047	18,048,842	
Taxation	4,000,130	1,615,742	
E.A.D.B. loan	31,502,231	26,502,231	
	53,809,691	59,043,578	
Net Worth			
Share capital	50,000	50,000	By 500,000 ordinary shares of Shs.0.01
Capital reserve	249,867,493	244,017,243	By revaluation reserve
General reserve	1,400	1,400	-
Retained earnings	1,784,497	3,011,906	By balance in Profit & loss account
	251,703,390	247,080,549	

RATIO ANALYSIS

Ratio	Basis	Unit	As at 31.12.1990	As at 31.12.1991
a. Return on equity	Net profit/Equity	%	Loss	2455
b. Return on assets	Net profit/assets	%	Loss	0.49
c. Debt to equity	Total debt/net worth	%	21.38	23.90
d. Current ratio	Current assets/Current liabilities	%	Negative	Negative
e. Earning per share	Net profit/No. of shares	Shs.	Negative	0.24
f. Asset turnover	Net sales/Net assets	%	77.35	102.87

TRAVELLING EXPENSES

	For the year ended December 31, 1990	For the year ended December 31, 1991
	Shs.	Shs.
Administrative expenses		
Travel by management & staff	976,560	1,292,400
Travel out	761,670	-
Travel by directors	10,000	10,000
Marketing & distribution expenses		
Travelling staff	788,200	-
Travelling on sales	5,528,080	8,652,404
	8,064,510	9,954,804
% of travelling expenses to sales	3.99	3.86

6.0 Marketing

BUL operates in a competitive environment, both in Uganda and abroad. A list of products and their latest prices is presented in Annexure V. Locally, a number of companies and individual entrepreneurs sell tea. The Company's current market share is only 5%. There are an estimated 54 tea packers operating in the market. (Details in Annexure - VI). Improvement in the cultivation of tea will improve its availability, locally. The total annual sale of loose tea has been estimated at 1,200 metric tonnes. This is likely to fall due to the decrease in net incomes of middle and lower middle class families. Increases in the prices of sugar has also restricted the growth in tea consumption.

At present BUL blends and markets low grade tea and fannings and has not been able to maintain a high market profile. As the Company cannot budget for an advertising programme, its product image is very low. The distribution network outside Kampala is not up to the mark due to insufficient availability of finished products as also inadequate godown facilities in the major towns.

BUL operates through wholesale and retail agents. BUL has three depots - one each in Kampala, Mbale and Jinja. The delivery trucks occasionally carry less than one tonne of tea to the Jinja depot. Due to erratic production schedules BUL has lost a number of distributors in the upcountry market. The details of local sales between the years 1988-1991 are given overleaf.

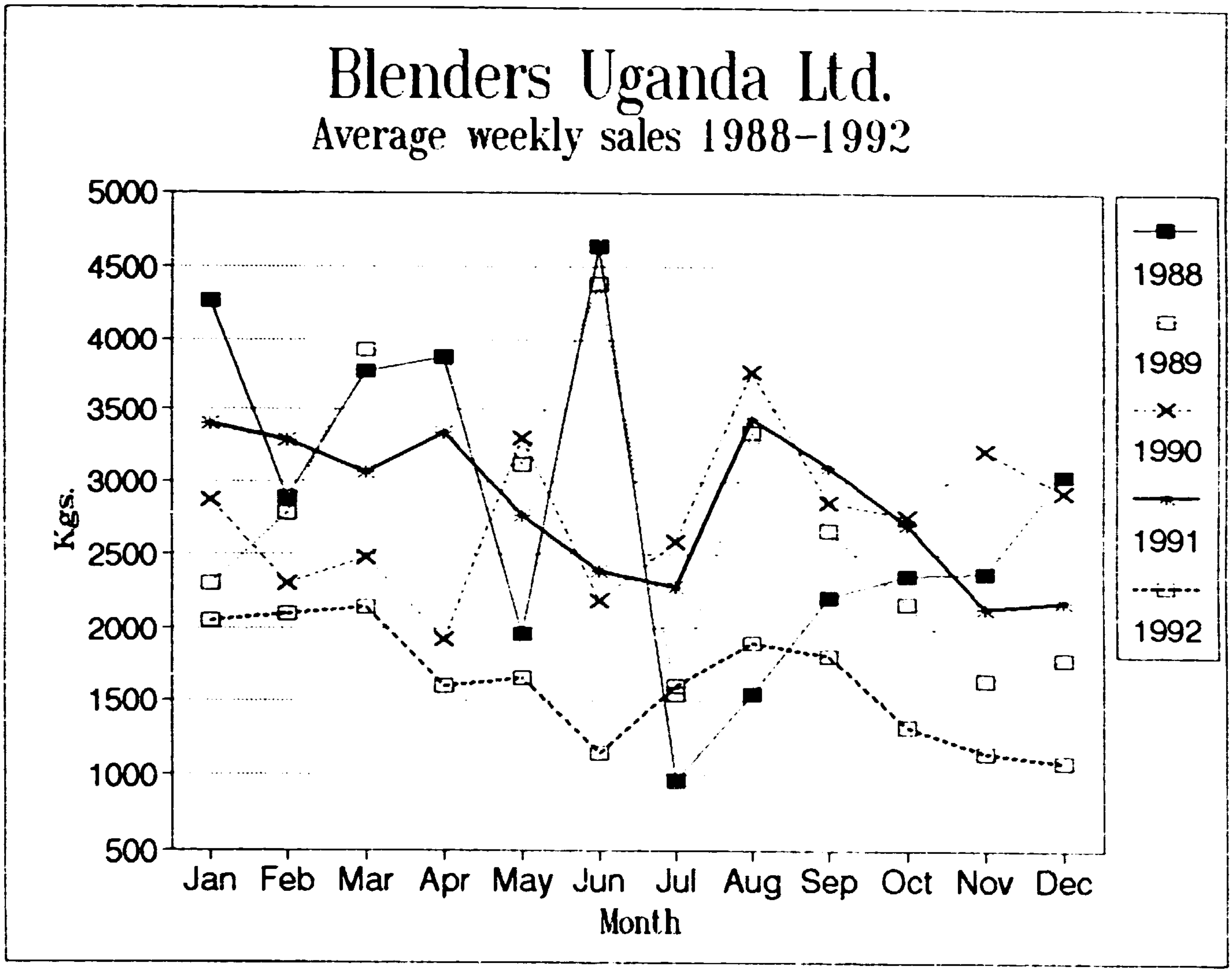
BLENDERS UGANDA LIMITED

Total sales during 1988-1991

(in M.T.)

Month	1988	1989	1990	1991
January	17.10	9.22	11.48	13.61
February	11.58	11.15	9.22	13.15
March	15.10	12.70	9.96	12.27
April	15.50	15.53	7.66	13.36
May	7.84	12.47	13.24	11.06
June	18.55	17.53	8.77	9.53
July	3.86	6.18	10.36	9.14
August	6.20	13.37	15.11	13.77
September	8.83	10.67	11.41	12.41
October	9.43	8.66	11.05	10.81
November	9.51	6.56	12.86	8.57
December	12.18	7.14	11.69	8.72
	135.68	131.18	132.81	136.40

The graph of weekly sales for the last five years is given overleaf.



Blenders Uganda Ltd.
Average weekly sales 1988-1992
5000
4500
4000
3500
3000
2500
2000
1500
1000
500
Kgs.
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Month
1988
1989
1990
1991
1992

7.0 Human resources

A detailed organisation chart is given in Annexure - VII. The details of labour force for production department have been given in para 4.0 of this chapter. The break-up of management staff and labour as of December 1992 is given below:

Cadres	No. of persons
Top management	4
Senior staff	17
Sales staff	9
Office staff	11
Tea packers	12
Packet folders	13
General labourers	9
	75

BUL is currently overstaffed. The workers are paid very low wages. There have been complaints of ghost workers on the rolls of the Company.

VI. REHABILITATION PACKAGE

1.0 Identification of weaknesses

The diagnostic study has demonstrated that the enterprise is mismanaged. The main areas of weakness indicated from the study were:

Marketing	-	High distribution costs
		Unproductive marketing overheads
		Very low market coverage
		Poor quality of packaging
		Increasing competition & shrinking market
Financial	-	Poor funds management
		Loan servicing
Production & maintenance	-	Lack of spares for maintenance
		Low labour productivity
Procurement	-	Low volumes of raw materials purchase
		Corrupt and inefficient purchase management

To resolve the problems of overstaffing and poor financial management, a series of meetings were held with the managerial staff (in the absence of the General Manager and the Chief Accountant who had gone abroad for training). The details of discussions in these meetings are given in Appendices I to III. Appendix II gives the details of the discussions held with Agricultural Enterprises Ltd. (AEL) in the matter of extension of credit to BUL. However, the General Manager of AEL refused to extend any further credit to BUL. Similarly, an unofficial meeting was held with the banks to request them to enhance working capital finance to BUL. The banks refused on the grounds that BUL had been selected by the Industries Department for divestiture. On the General Manager's return, further meetings were held with the management of BUL on 27th and 29th of January, 1993 details of which are given in Appendix IV & V. A decision was taken to send the excess staff and workers on leave with 50% pay. The Memorandum sent by BUL management to staff is given in Appendix VI.

On February 1, 1993 all the staff and labour were asked to proceed on leave and they were informed that they would be called to work depending on the needs of the Company. Details are given in Appendix - VI.

2.0 Marketing

It was stated during the discussions that the total market for packaged tea was shrinking. Packaged tea smuggled in from Kenya is further eroding the tea market. BUL has to improve its distribution network and promotional activities if it has to survive in the market.

The total selling and distribution costs budgeted for 1992 including salaries for sales staff comes to UShs. 74.42 million. This constitutes 13.7% of the net sales of tea which has been projected at UShs. 541.3 million. However, it is felt that the Company may not even achieve sales of UShs. 270 million. As overhead costs would remain almost the same, irrespective of sales, costs related to sales would increase to 26%. The largest component of sales overheads is the expenditure on trucks which is totally UShs. 40 million (55% of the sales overheads). It has been suggested that the Company can do away with this expenditure by selling the trucks (both Tata and Fiat) and distribute tea either by using public transport or by hiring private transport.

Similarly, the sales staff strength can be reduced to 2 or 3 and private dealers/distributors appointed. This will save the Company almost UShs. 50 million per year.

The printed packaging paper is bought locally and is of very poor quality. This does not protect the tea flavour and there are quite a few cases of tea being returned on account of the package opening up.

3.0 Financial control

The EADB loan taken in 1990 was unnecessary and the Company should take steps to recover funds which have been locked up due to the loan. The following suggestions have been made to raise funds:

- Sell the unused resin glue
- Sell both the trucks and the pick up van
- Dispose the coffee blending and roasting machine
- Rent out godowns in Jinja and Mbale
- Reduce labour and staff overheads
- Privatise marketing
- Take deposits from dealers/distributors
- Reduce all perquisites to senior staff members till such time the enterprise turns around.

A new piece rate system was proposed for the workers as per details given overleaf.

PIECE RATE SYSTEM

CHARGES FOR FOLDING PACKETS

1. 25 gm. or 50 gm. packets

   The target is to fold 1600 packets per day worked.

   1600 x 22 days x 8 people = 281,600 packets

   Wages for 8 packet folders = 181,600 USh.

   Cost of folding one packet = 65 cents

2. 100 gm. packets

   The target is to fold 1400 packets per day

   1400 x 22 days x 8 people = 246,400 packets

   Wages for 8 packet folders = 181,600 USh.
   Cost of folding one packet = 74 cents

3. 250 gm. or 500 gm. packets

   The target is to fold 1200 packets per day

   1200 x 22 days x 8 people = 211,200 packets

   Wages for 8 packet folders = 181,600 USh.

   Cost of folding one packet = 86 cents

N.B.:Housing allowance has not been included in the wages.

The profitability with the proposed piece rates is given overleaf:

PROFITABILITY STATEMENT FOR A STANDARD MIX OF 1000 Kgs.

In USh.

	25 gm	50 gm	100 gm	250 gm	500 gm
Cost per packet:					
Cost of loose tea	40.00	80.00	160.00	400.00	800.00
Cost of packets	10.00	13.50	20.00	40.00	60.00
Cost of labels	2.60	2.70	2.70	4.00	4.00
Cost of glue	0.40	0.80	1.55	3.90	7.80
	53.00	97.00	184.25	447.90	871.80
Overhead	6.86	13.72	27.45	68.60	137.20
Administration & finance	9.73	19.45	38.90	97.25	194.50
Selling & distribution	13.72	27.45	54.90	137.25	274.50
	83.31	157.62	305.50	751.00	1478.00
Selling price per pkt. @ 3,600/kg.	90.00	180.00	360.00	900.00	1800.00
Profit	6.69	22.38	54.5	149.00	322.00
No. of packets	10,000	7,000	2,500	400	100
Profit	66,900	156,660	136,250	59,600	32,200

The minimum profit would be USh. 451,610 per 1000 Kgs sold.

4.0 Production and maintenance

The tea blending and packing machines are in good order. However, a critical list of spare parts which are urgently needed is given below:

1. 50 meter Conveyor belts for blending system
2. 80 Beam switch contacts long WA9330
3. 80 Beam switch contacts light weight WA9332
4. 50 Relay contacts WA 8451
5. 8 Agitator rollers SS 322/3
6. 20 Agitator roller pins SS 218/5
7. 10 Clutch operating tipping solenoids AA 18273

8. 30 Feed magnets assembly XA 8457
9. Resisting pots
10. 10 Tipping fork springs bottom with felt insert W8607/7/8/9
11. 10 Tipping fork springs top W8606
12. 10 Cradle steady link-top W8606
13. 10 Pan steady link WA9056
14. 10 Broke strap assembly
15. BSI-5361-170 Volts magnet - XA8457

(Available from Driver Southall Limited, Tame Bridge, P.O. Box 86, West Bromwich Road, Walsall, U.K.)

The labour employed on the shop floor is very high and this has to be reduced drastically. Action has already been taken by the General Manager as mentioned in the earlier paragraphs.

5.0 Procurement

It has been pointed out by various staff members that the General Manager takes unilateral decisions on all purchase matters. This has landed the Company in serious difficulties. Some of the erroneous decisions taken are:

- The purchase of 10 tonnes of Henkel resin glue which is sufficient to meet the Company's requirements for the next 10 years.
- Giving the Fiat truck for engine repairs knowing fully well that funds to pay for the repair were not readily available.
- Quality of tea procured not matching the prices paid.
- Lack of control on the quantity of tea ordered and that being finally delivered.

VII. CONCLUSIONS

1.0 BUL can be run as a profitable unit as it is located near the main market, namely Kampala and there is still a fairly good margin on sales. Even though BUL has lost a major part of its market share to smaller units in the organised and unorganised sector it can still recover its premium position through proper marketing. The main problem of the unit is gross mismanagement and corruption because of which BUL has a very poor image with the tea suppliers as well as with the bankers. The cost of operation is high while the employee morale is very low. Capacity utilisation is only 5 to 8%.

2.0 The consultants have suggested urgent action, which includes reducing labour and staff, reducing overheads costs drastically, selling excess stocks of resin glue and the two trucks, privatising marketing and introducing a regular audit of purchases. The management has taken action on the first recommendation and retrenched most of the labour and staff on 50% salary basis. This will improve the margins on the sales and the details are given in Annexure - IV.

3.0 The unit has been identified for divestiture by the Public Enterprises Reform & Divestiture Board. The Government should investigate the corruption in the unit, punish the offenders and put up the unit for sale. With the present attitude of the management the unit can never recover since there will be no support either from the bankers, or the financiers or the tea suppliers. However, it should be pointed out that during discussions the union (workers and staff) were ready to make the necessary sacrifices provided corrupt practices were controlled.

ACKNOWLEDGEMENTS

There are a few persons whose unstinted support throughout the course of the diagnostic study has been of immense value, without which it would not have been possible to complete the study within the prescribed time schedule. We wish to place on record the services rendered by -

Mr. David Kakaire - General Manager and

Mr. Mika Simatimba - Sales Manager & Acting General Manager

Our gratitude is also due to the members of staff and workers of Blenders Uganda Ltd., who gave their time and assistance whenever required.

Our sincere appreciation, for the continuous guidance and encouragement given by the UNIDO Country Director, Mr. George Tabah.

Grateful thanks are due to many of the officials in Government and financial institutions whose cooperation and assistance has contributed significantly in compiling information required for the preparation of this report.

July, 1993

AMARNATH KAMATH & CO.

ANNEXURES

LIST OF ANNEXURES

ANNEXURE-I

LIST OF PRINCIPAL ORGANIZATIONS, COMPANIES AND PERSONS CONTACTED BY M/S AMARNATH KAMATH & CO.

Organization/Company	Person(s) met
Ministry of Finance Planning, and Economic Development	Mr. E. Tumusime-Mutebile Permanent Secretary
	Mr. George Okutu Deputy Secretary
Ministry of Commerce, Industry and Technology	Ms. Kinalwa Permanent Secretary
Ministry of Commerce, Industry Co-operatives & Marketing	Mr. T. Langoya Commissioner for Industry
	Mr. Martin Onyach-Olaa Senior Industrial Officer
UNDP/UNIDO	Mr. T. Teshome Resident Representative
	Mr. George Tabah Country Director
	Mr. Koenraad Goekint Programme Officer
Blenders Uganda Ltd. Kampala	Mr. D.W. Kakaire General Manager
	Mr. Ronald Lukanda Chief Accountant
	Mr. Mika Sematimba Sales & Ag. General Manager
	Mr. Henry Mayanja Production Manager
	Mr. Fred Bamweyana Ag. Chief Accountant
	Mr. Francis Ochen Accountant
	Mr. Musoke David Union Member
	Mr. Sulaman Kiggombu Union Member
Agricultural Enterprises Ltd., Kampala	Eliyah R. Kaahwa General Manager
	Elias B. Kanzaka Marketing Manager

ANNEXURE II

TEA PURCHASES FROM 22.10.1992 TO 28.01.1993 BY BLENDERS (U) LTD.

	Kgs.	Total for the month
22.10.1992	1,000	
26.10.1992	1,000	October 2,000 kgs.
02.11.1992	1,520	
06.11.1992	500	
11.11.1992	2,080	
18.11.1992	275	
17.11.1992	220	
20.11.1992	505	
26.11.1992	495	
30.11.1992	495	November 6,090 kgs.
07.12.1992	400	
11.12.1992	500	
14.12.1992	550	
17.12.1992	630	
18.12.1992	45	
21.12.1992	976	
24.12.1992	990	
28.12.1992	400	December 4,491 kgs.
04.01.1993	410	
06.01.1993	985	
12.01.1993	280	
14.01.1993	425	
15.01.1993	625	
19.01.1993	1,165	
20.01.1993	360	
28.01.1993	450	January 4,700 kgs.

ANNEXURE III

DETAILS OF EADB LOAN TO BLENDERS (UGANDA) LIMITED

1. Year of sanction : 1989
2. Date of disbursement : June 8, 1989
3. Quantum of loan sanctioned : SDR.40,800
4. Quantum of loan disbursed : SDR.39,647
5. Details of loan utilisation :

Henkel Glue (10880 kgs) US$ 22,915.60 @ $1.24639 / SDR	= SDR.18,386
Tata truck US$ 26,500 @ $1.24639 / SDR	= SDR.21,261
Total	SDR.39,647

6. Loan dues as of 05.11.92

Currency	Principal	Interest
SDR (A)	34,748.66	2,908.07

7. The exchange rate when the loan was disbursed was 249.278 USh. per SDR.
8. Principal and interest are proposed to be repaid on weekly basis @ USh. 1,000,000 per week.
9. Monthly repayment is USh. 4,000,000.
10. Purpose of the loan:

    The loan was for the purchase of some machine spares, 5HP Motors for driving shaft (20), gum/cello tapes, Henkel glue and a van for distribution. However, only Henkel glue and a Tata truck were purchased.

11. Present position:

    The Company's working capital is negative. Inflation and devaluation of the Ugandan shilling has further inflated the value of the loan.

ANNEXURE IV

COSTING SHEET FOR A PACKET OF TEA WEIGHING 500 GMS.

	Cost (Shs)	% on sales price
Cost of loose tea	800.00	44.44
Cost of packet	60.00	3.33
Cost of end label	2.00	0.11
Cost of parcel label	2.00	0.11
Cost of 1.9 gms of glue	7.80	0.44
Other direct costs	55.70	3.09
Indirect costs	29.00	1.61
Other factory overheads	52.50	2.92
Total cost of production	1,009.00	56.05
Administrative & finance cost	194.50	10.81
Marketing cost	274.50	15.25
	1,478.00	82.11
Recommended selling price/packet	1,800.00	100.00
Margin on sales	322.00	17.89

ANNEXURE V

TEA PRICE LIST OF BLENDERS (UGANDA) LIMITED

Pack		Wholesale price per kilogramme	Recommended maximum retail price per packet
Gold label	500 gms	4,000	2,500
Green label	500 gms	3,600	2,200
Green label	250 gms	3,600	1,100
Green label	100 gms	3,600	450
Green label	50 gms	3,600	250
Green label	25 gms	3,600	150
Siftings	500 gms	3,400	2,000
Siftings	100 gms	3,400	400
Siftings	50 gms	3,400	200

ANNEXURE VI

LIST OF UGANDA TEA BLENDERS/PACKERS AS OF NOVEMBER 30, 1992

I. KAMPALA

1. Kampala Tea Packers (Tasty Tea)
2. Jagwe Tea Packers (Kilo J.B. Tea)
3. Pine Enterprises (Jimbo Tea)
4. Hitra Tea Packers & Enterprises (Karibu Tea)
5. Satrass Enterprises (King B.B.)
6. K.N.K. Agricultural Co. Ltd. (Crane Tea)
7. Mawa Enterprises Ltd (Mawa Tea)
8. Food Pax Ltd. (Falcon Tea)
9. J.K.B. Enterprises (Continental Brand Tea)
10. Nezikokolima Fabrics Industries (Cock Brand)
11. Blenders (U) Ltd (Gold label, Green label, Simba & shiftings)
12. Bwebukya General Suppliers (Green Safari Tea)
13. Sittankya & Family Co. (Table Pride Tea)

II. UGANDA AREA

Mpigi Dist:

14. Wofunira Trading Co. (Mukisa Tea)
15. M. Michael & Co. (Crescent Super Tea)
16. Sparrow Tea Packers (Sparrow Tea)
17. Mwera Tea Estates Ltd. (Madhvani Tea)

Luwero Dist:

18. Universal Tea Packers and Food Products (Bwavu Mpologoma T.P)
19. Lukalidde Wholesalers & Transport Services Ltd. (Green & White Top Tea)
20. Naluvule Mixed Farm (Rain Bow Tea)

Mukono Dist:

21. Tusubira Enterprises (Wren Tea)
22. Sebowa Fancy Store (Sparrow Tea)
23. Three Saints Tea Company (Three Saints)

III WESTERN AREA

Mbarara Dist:

24. Gaco International Ltd. (Golden Tea)
25. Kifunjo Mixed Farms & General Agencies (Kifunjo Brand Tea)

Bushenyi Dist:

26. E.M. Baharanganah (Highland Tea)
27. Diamond Tea Association
28. Bushenyi Farm Supply Tea Packers

Rukungiri Dist:

29. Mpororo Tea Packers (Tim Tea)
30. Alberta Projects (Upland Brand Tea)

Masindi Dist:

31. Mubaraka Tea Packers (Mubaraka Tea)

Hoima Dist:

32. Magezi Estate Ltd. (Hoima Tea)

Kabale Dist:

33. Akas Enterprises (Ugandan's Pride)

Kabarole Dist:

34. Dume Tea Packers (Bull Chai)
35. Ekrin Enterprises (Ekrin tea Chai)
36. Kajumagi Tea Estate Co. Ltd (Mt. Rwenzori Sunset Tea)
37. West Land Tea Packers (West Land Tea)
38. Toro Tea Packers (Mawenu Ship)

IV. EASTERN AREA

Jinja Dist:

39. Eagle Investments (Garden Tea)
40. Uganda Super Tea Packers (Uganda Super Tea)
41. Ruby Enterprises (Uganda Diamond Tea)
42. Busambira Tea Packers (Busambira Tea)
43. Walukuba Super Tea Packers (Leopard Shiftings Tea)
44. Bravan General Packers (Bravan Tea)
45. Wanyama Road Services (Musa Tea)
46. Namaira Tea Packing Co-operative Group (Namaira Tea)
47. Nyange Tea Packers (Nyange Tea)
48. Muguluka Traders (Muguluka Super Tea)
49. Gabula Consolidated Properties Ltd (Buck Tea)

Tororo Dist.

50. Gambetta Merchants (Rabbit Tea)

V. NORTHERN AREA

Gulu Dist:

51. Lucaci Supplies Ltd (Gold Leaf Super Brew Tea)

Arua Dist:

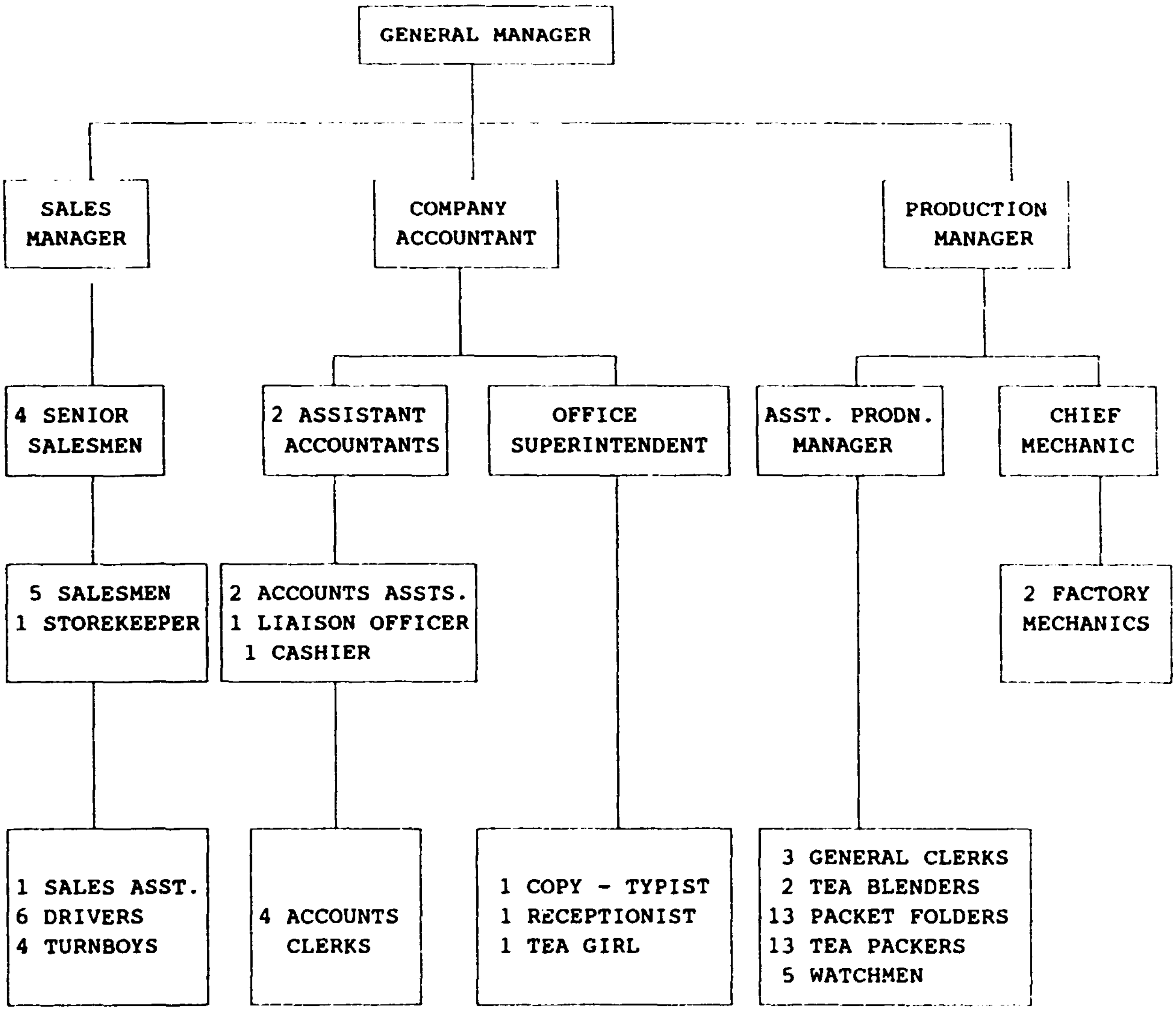
52. North Nile Tea Packers (N.N. Tea)
53. Arua Family Tea Packers (Family Tea)

Nebbi Dist:

54. Aroma Tea Division of Rich (Aroma Tea)
55. Jacwi Jaberu Co. Ltd (Umua Upland Tea)
56. Silver Enterprises (Silver Tea)

ANNEXURE VII

ORGANISATION CHART BLENDERS (UGANDA) LIMITED



ANNEXURE VIII

OBSERVATIONS OF THE STAFF MEMBERS OF BLENDERS (UGANDA) LIMITED

1. PURCHASES

A purchase committee should be formed with members consisting of all departmental heads. The purchases are presently totally controlled by the General Manager and decisions are taken without any consultation. There have been excessive purchases of packing materials and resin glue (10 tonnes). Tea is being purchased at prices higher than those prevailing in the market.

2. EXPENDITURE

The General Manager is the only employee using the Company car. There is no budget limit on car expenses. The car is being used for private business. Market sources indicate that the General Manager is marketing his own brand of tea. Part of the tea purchased by the Company is being diverted for this business. Similarly, vehicle maintenance bills are inflated and there is no limit on re-imbursements. Company vehicles along with drivers and sales boys are being mis-used.

3. STAFF LOANS AND I.O.Us.

All staff loans should be stopped. The total staff loans outstanding as of December 31, 1992 amounted to 2,676,922 USh of which the amount due from Mr. D.W. Kakaire, the General Manager, itself was 1,165,000 UShs.

4. CONSULTATION WITH STAFF MEMBERS

The General Manager does not consult the staff members in any of the matters pertaining to the Company. He authorised the overhauling of the Fiat truck engine against staff advice. Till date (after 5 months) the engine has not been repaired due to lack of funds. The Company has to pay parking fees and all good parts will probably be stolen by the time the repairs are done.

5. RECRUITMENT

There are a number of ghost workers on the company's rolls. The General Manager recruited a Company Accountant from his own tribe without following proper procedures.

6. EXPENSE CLAIMS

Expense claims of the General Manager are very high and the amounts are paid from the finance department without any questions being raised since the Company Accountant is in league with him.

Note: These are only the observations passed on to us by various staff members of the Company and are not our own observations.

APPENDICES

LIST OF APPENDICES

APPENDIX I

MINUTES OF THE MEETING HELD WITH THE MANAGEMENT AND THE UNION OF BLENDERS UGANDA LIMITED BY THE CONSULTANTS ON MONDAY, JANUARY 4, 1993 AT 9.30 A.M. IN P.I.E.S. CONFERENCE ROOM

PRESENT :		
	Mr. P.D. Shenoy	-Senior Consultant
	Mr. T.P. Pai	-Technical Consultant
	Mr. Mika Sematimba	-Marketing Manager
	Mr. Henry Mayanja	-Senior Accountant
	Mr. Musoke David	-Union Member
	Mr. Sulaman Kiggombu	-Union Member

The meeting took place in a very cordial atmosphere. Mr. Mika Sematimba agreed to give copies of questionnaires issued by the consultants earlier to the union.

The Senior Consultant made the following suggestions:

1. The workers/union should agree to work 40 hours per week, for making good the loss of manhours due to electricity failure during the previous week.

2. Some of the workers/staff may be laid off for a period of two months during which period they will be paid 50% wages/salary and they can take up other work.

3. Some staff/workers may offer to work as salesmen to sell tea on bicycles.

The union leaders welcomed the suggestions and wanted some time to communicate their acceptance and views.

Accordirgly it was decided to hold the next meeting at 11 a.m. on January 11, 1993 at P.I.E.S.and the same persons were requested to attend.

APPENDIX II

MINUTES OF THE MEETING HELD WITH THE AGRICULTURAL ENTERPRISES LIMITED AND THE MANAGEMENT OF BLENDERS UGANDA LIMITED BY THE CONSULTANTS ON MONDAY, JANUARY 4, 1993 AT 11.30 A.M. IN P.I.E.S CONFERENCE ROOM

PRESENT : Mr. P.D. Shenoy -Senior Consultant
Mr. T.P. Pai -Technical Consultant
Mr. Mika Sematimba -Marketing Manager,BUL
Mr. Henry Mayanja -Production Manager
Mr. Elijah R. Kaahwa -General Manager AEL
Mr. Ellias B. Kaizuka -Marketing Manager AEL

The Senior Consultant made a request to the General Manager of Agricultural Enterprises Ltd. (AEL) to give 10 tonnes of tea on credit to Blenders Uganda Ltd. after considering the following:

a. Uganda Tea Exports are coming down as borders with Kenya are closed. Hence, Ugandan tea cannot be sold at Mombasa auction.

b. Blenders Uganda Ltd. is running at 8% capacity utilisation and hence it needs support from AEL to improve the same.

Mr. Kaijuka, Marketing Manager of AEL made certain suggestions. The General Manager felt that they could give tea on cash basis only. Their Board, he said, objected to credit sales. However, he agreed to re-examine the possibility of credit sales. One tonne of tea costs approximately 1.45 Million UShs. Blenders Uganda could buy one tonne of tea at a time, on cash basis, the General Manager suggested.

APPENDIX III

MINUTES OF THE EXECUTIVE MEETING HELD ON JANUARY 11, 1993 AT BLENDERS UGANDA LIMITED WITH THE CONSULTANTS

PRESENT :	Mr. Mika Sematimba	-Chairman
	Mr. W. Fred Bamweyana	-Accountant
	Mr. Henry Mayanja	-Production Manager
	Mr. Francis Ochen	-Secretary
	Mr. P.D. Shenoy	-Senior Consultant
	Mr. T.P. Pai	-Technical Consultant

Agenda

1. Raw materials

   a. Tea
   b. Packing material
   c. Glue

2. Financial management

   a. Balance sheet & profit & loss a/c for 1992
   b. Budget for 1993
   c. Working capital arrangements
   d. EADB loan

3. Marketing management

   a. Agents
   b. Depots
   c. Sales staff
   d. Vehicles

4. Human resources management

   a. Officers
   b. Staff
   c. Workers
   d. Productivity

5. Machinery

   a. Tea Blending Drum
   i. Maintenance
   ii. Repairs

   b. Coffee roasting machinery

The meeting commenced at 3.00 p.m. and the Chairman welcomed the Consultants. He thanked them for having spared their valuable time to come and share ideas with the officials of Blenders Uganda Ltd.

1. Raw materials

The Senior Consultant wanted to know who the main suppliers were and the problems faced when procuring loose tea.

The Acting Production Manager stated that loose tea was being purchased from Uganda Tea Growers Corporation (UTGC) but due to non payment of their dues of about 18 million USh. they were no longer supplying loose tea, on credit.

The Acting Company Accountant stated that the failure to pay UTGC dues was due to liquidity crisis caused by poor planning. He said that payments had been made to other creditors who had supplied the Company with packing materials which could last for 3 months. In addition, the EADB loan repayment was a strain on the Company's limited resources.

The Senior Consultant commented that due to poor planning the Company had over stocked packing materials which used up a large part of the working capital. He observed that part of the money could have been used for purchasing loose tea to generate income.

The Acting Factory Manager said that there was a problem with the local printers who usually delayed printing. The Senior Consultant observed that if the delay was being caused by the printers then the solution was to find another printer.

The Senior Consultant suggested that the Company should not, in future, order packing materials required for more than two months. This would save funds for other purchases.

The Senior Consultant questioned the rationale for purchase of glue in large quantities. The Factory Manager said that the intention was to sell some of the glue. The Senior Consultant wondered whether the Company's initial objective was to sell glue or to buy only for its internal use. He suggested that 75% of the glue be sold by inviting tenders.

The Acting Company Accountant said that bankers were no longer willing to give loans to the Company due to the divestiture exercise.

2. <u>Financial management</u>

The Senior Consultant asked whether the Balance Sheet, Profit and Loss accounts for 1992 were ready. Mr. Ochan answered that they were not ready as the statements were prepared usually once a year and not on a monthly basis.

The Senior Consultant asked whether the Company would be making profits in 1992 after charging interest on EADB loan, taxation, depreciation and other liabilities. The Acting Company Accountant said that the Company was most likely to report a loss for 1992.

The Senior Consultant further asked if the accounts for 1991 had been audited. The Accountant informed the members that the accounts were under scrutiny and would be finalised, soon.

The Senior Consultant also requested that the 1989 Final accounts which had already been submitted to the Board be sent to him for review. He also suggested that the Company should dispose off some of the assets not in use in order to raise funds to increase the working capital. He suggested that the Coffee Roasting Plant be advertised for sale. He further suggested that the Tata truck could be leased out in order to raise funds. As for the EADB loan, the concerned officials should be approached to reschedule payments over a longer period, after freezing the exchange loss.

3. Marketing management

The Acting General Manager/Sales Manager informed the meeting that the Company had 67 agents.

The Sales Manager said that, at the moment, the Company had only three depots, one each in Kampala, Mbale and Jinja. The Jinja depot was not in operation for want of packed tea. The area was being served directly from Kampala and Mbale depot. The other depots had been closed due to security problems and for want of packed tea.

The Sales Manager also mentioned that, at the moment, there was only one supply vehicle, the Tata lorry, which was being used for supplying tea all over the country. The pick-up van and the Fiat truck were under repair.

The Senior Consultant observed that the sales and production staff were grossly under utilised.

4. Human resource management

The Senior Consultant inquired about the employee strength. The Acting General Manager said that this information would be given to him later. The Senior Consultant inquired if the management could reduce the number of employees by 50% by introducing a voluntary retirement scheme. He further suggested that those laid off on temporary basis be given 50% of their salaries and wages. The Management said they would look into the matter seriously.

5. Machinery

The Senior Consultant suggested that the Blending drum should be properly maintained in order to improve its productivity. All machinery should be properly maintained so as to reduce the cost of production. The Acting Factory Manager stressed that the main problem was power failure otherwise machines were being serviced on a weekly basis by the Chief Mechanic, he said.

APPENDIX IV

MINUTES OF THE EXECUTIVE MEETING HELD ON THE JANUARY 27, 1993 AT BLENDERS UGANDA LIMITED WITH THE TECHNICAL CONSULTANT

PRESENT : Mr. D.W. Kakaire -Chairman
Mr. Ronald Lukanda
Mr. Ochan Francis
Mr. T.P. Pai -Technical Consultant

There was no written agenda for the meeting but issues which were raised and exhaustively discussed in the meeting were as follows:-

The Technical Consultant started by stressing on the need for reduction of the staff by 50% in various departments; to start with in administration and marketing and then in production. Further, he suggested that the Company should adopt the piece rate method to compensate labour as it would reduce cost due to better utilisation. He suggested that workers be laid off temporarily by paying 50% of their salaries and wages. Later, if the Company's activities picked up, they could be called back to work but on changed terms, namely piece rate.

These suggestions were appreciated by the members present.

The question of granting staff loans was discussed. The Company Accountant suggested that a proper policy be laid down for grant of staff loan/salary advance so as to minimise the outstandings.

The Technical Consultant wondered why the Company had acquired a Tata truck as also excess glue while production was so low. He was told that the truck was for collecting loose tea from the estates as they were very far. The General Manager explained that the glue was purchased in large quantity so that it could later be sold to generate income for the Company. Unfortunately, the glue could not be sold as expected as it was not thick enough. The Technical Consultant suggested that Henkel Company be contacted to find out if they could locate customers for the excess glue. As the cost of glue had subsequently increased it was felt that the Company may be able to realise some profits.

Mr. Lukanda proposed that packing materials be imported in order to reduce the cost of production.

Mr. Lukanda wanted to know about the assistance UNIDO could provide to the Company. The Technical Consultant explained the role of the mission, in detail.

APPENDIX V

MINUTES OF THE MANAGEMENT MEETING HELD ON JANUARY 29, 1993 AT BLENDERS UGANDA LIMITED

PRESENT : Mr. D.W. Kakaire -Chairman
Mr. Ronald Lukanda
Mr. Sematimba Mika
Mr. Mayanja Henry
Mr. Bamweyana
Mr. Ochan Francis -Secretary
Mr. Byenkya

There was no written agenda followed but the Chairman thanked members for attending and gave a feed back of their journey to Netherlands and then read the previous minutes.

On the subject matter, he said, the purpose of the meeting was just to pass on what had already been decided by the management. In the process, the Union representative would convey the same message to the rest of the employees.

The decision that had been made by the management was of sending the entire staff/employees on a general leave for a short time till the management mobilises funds to turn around Blenders which is financially ill and almost operating at a loss.

In this process,therefore, while workers are on leave, they would be paid 50% of their basic salary and full housing allowance. With time, if the Company picks up, they will be called back to resume work. This means that workers should leave their contact address with their heads of departments.

For security reasons, security staff including the shamba man were to remain guarding the premises. Salesman were to collect all the outstandings and submit their returns and if production is back to normal they would be called back.

On the above proposals, Mr. Byenkya, the Union representative expressed his concern about whether the employees would really agree to the 50% pay. To clear his doubt, the Chairman said that, the management had decided to declare a general leave which he felt was a better solution than laying off which calls for full pay even when the Company's income is very low. On the other hand, he explained, the Company may still need to call all its people back when normalcy is restored.

The Chairman revealed to members present that, with time, improved income and production the Company intends to buy a tea bag machine.

To ensure proper dissemination of the information/message concerning the general leave, Mr.Lukanda, the Company Accountant, suggested that Heads of Departments be asked to explain the proposal to their people properly.

Thereafter, it was decided that the coffee processing plant be rented out to generate more income to the Company.

APPENDIX VI

MEMORANDUM

FROM : GENERAL MANAGER
TO : ALL COMPANY STAFF/EMPLOYEES
SUBJECT : PLANS FOR RESTRUCTURING/
TURNAROUND OF BLENDERS UGANDA LTD.

DATE : 29th JANUARY 1993

The undersigned together with the Company Accountant have been on a three months Management Course at Maastrich, Netherlands, aimed at finding ways and means of turning around sick organisations like Blenders Uganda Limited. This was a Government authorised course.

One of the moves recommended after a careful study of Blenders Uganda Limited was to reduce costs and try to raise working capital. In view of this, Management has decided that the entire staff of the Company goes on leave for a short time, while funds are being mobilised.

This proposal becomes effective from 1st February 1993 and will be regarded as leave.

While you are on leave, you will be paid 50% of your salary and full housing allowance, payable at the end of the month.

As soon as a reasonable amount of funds is realised, we shall call you back. This means that you should leave your contact address with your Head of Department.

We hope that you will appreciate that this is a better option than closing the Company.