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KIBO PAPER INDUSTRIES LIMITED

UNIDO

CONTRACT NO. 93/225
PROJECT NO. US/UT/RAF/91/173

PROJECT DOCUMENT FOR RESTRUCTURING OF KIBO PAPER INDUSTRIES LIMITED DAR-ES-SALAAM - TANZANIA

BANGALORE - INDIA JULY 1994

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A. CONTEXT

1. BACKGROUND

1.1 BACKGROUND OF THE TANZANIAN ECONOMY

A. DEMOGRAPHIC OUTLINE

The United Republic of Tanzania is made up of the former Republic of Tanganyika and the People's Republic of Zanzibar. Tanzania is the largest country in East Africa with an area of 945,000 sq.km. of which 6% is covered by lakes and rivers. Major lakes include lake Victoria in the north-east and lake Tanganyika in the east.

In 1991, the population of Tanzania was estimated to be 25.2 million (including the 0.7 million inhabitants of Zanzibar). Average annual growth in population is estimated at 2.8 %. The population density stands at 26 people per square kilometre.

The World Development Report (1992) ranks Tanzania as the second poorest country in the world (after Mozambique) with GNP per capita of $ 110. UNDP's Human Development Index, using a broader measurement of development which includes adjusted real GDP per capita, life expectancy and the level of education attained, ranks Tanzania higher than 33 other countries.

Life expectancy rose by 5 % and access to primary health care and safe water improved in both rural and urban areas. Disparities in net income were narrowed through a rationalised tax structure and an adjustment in public sector salaries.

The economic crisis of the 1970s and 1980s affected the country constraining government's capacity to deliver social services and eroding the gains that had been achieved.

B. STRUCTURE OF THE ECONOMY

The annual growth in GDP of 5.5 % between 1973 and 1978, fell to 0.4 % per year between 1978 and 1982. From 1979 onwards, accelerated inflation resulted in a deterioration of the national fiscal structure. Budgetary deficits averaged 16 % of GDP, and both imports and exports declined sharply. By 1982 the import volumes fell 32 % below that in 1978. As a result, growth of GDP in real terms fell from 5.1 % in 1987 to 2.5 % in 1991 and is estimated at 4 % in 1993.

Agriculture constitutes 58.2 % and manufacturing 5.1 % of the total GDP of TSh. 625 million in 1991. Growth in agriculture was at 6 % while industrial output declined by 5 % in 1993 but is estimated to grow by 6 % in 1994. Inflation averaged 22.3 % in 1991 and continued at 25 % in 1993.

The Foreign Exchange Act, 1992 was passed by the National Assembly on March 16, 1992 following which a common exchange rate has been introduced. Rapid unification of the official and established exchange-bureau rates has been achieved.

Recognising the need for timely adjustments in foreign exchange rates to restore profitability for exporters, the Government has followed an active exchange rate policy aimed at controlling the overvaluation of the Tanzanian shilling.

The table overleaf shows the variations in the exchange rate between November 30, 1991 and September 30, 1993.

Changes in the exchange rate of TSh. to US$
(TSh. per US$)

	Nov.30 1991	Dec.31 1991	Jan.31 1992	Sept.30 1993
Official rate	234	234	247	---
Exchange Bureau rate	420	425	420	470
Apparent over-valuation (%)	79	79	70	---

Source: EIU Country Report No. 4, 1993

As the exchange rate adjustment proceeded, the government progressively dismantled quantitative restrictions and switched to tariffs and other indirect levies to influence the level and pattern of foreign trade. A reform of the tariff system was carried out, simplifying the schedule of rates and reducing the number of exemptions.

The Tanzanian government has welcomed private investment to rehabilitate 100 % government-owned public sector enterprises. This was first done in the leather industry and has recently been extended to other commercial enterprises.

1.2 BACKGROUND OF KIBO PAPER

A. BRIEF HISTORY

KIBO Paper was established in 1965 as a private enterprise. The Company declared bankruptcy in 1969 and was nationalised the following year. The National Development Corporation (NDC) acquired 76 % of the Company's share-holding, The National Milling Corporation 14 % and The Worker's Development Corporation the balance 10 %. On January 1, 1979 NDC's controlling interest was transferred to Tanzania Karatasi Associated Industries (TKAI). TKAI now holds 95% of the shares of KIBO Paper.

Between 1971 and 1980, KIBO Paper was managed by Packages Ltd. of Pakistan. During their tenure a strong work ethic was developed leading to significant operational improvements and reducing losses. To build KIBO Paper into a fully integrated packaging Company a Paper Mill was commissioned in the late 1970s and new products like multi-wall bags and gummed packing tapes were introduced.

The Company's head office and packaging division are located at Changombe while the paper mill and corrugator plant are situated at Pugu Road, six kilometres away.

B. PRODUCTS AND TECHNOLOGY

The paper mill produces three types of paper boards:

- Fluting board: grammage ranging between 125 - 150 gsm
- Test liner board: grammage ranging between 150 - 200 gsm
- Duplex board: grammage ranging between 240 - 450 gsm

In 1993, the paper mill produced 1,750 tonnes of paper boards (against an installed capacity of 9,000 tonnes per annum), all of which was used in-house for the manufacture of packaging products.

PRODUCTION STATISTICS 1992 and 1993
FOR PAPER & PACKAGING PRODUCTS
(x 1000 tonnes)

Items	1992 Plan	1992 Actual	% of Actual to plan	1993 Actual
Paper board and corrugated products	2.10	1.63	77.5	1.75
Packaging materials	1.05	0.33	31.5	0.25
Multi-wall bags	3.10	1.25	40.5	1.45
Gummed Tapes	0.05	0.05	100.0	0.07
	6.30	3.26	51.7	3.52

C. MANAGEMENT AND MANPOWER

At present KIBO Paper is managed by a General Manager, who reports to the Board of Directors. The Company employs 526 persons. At the time of writing, vacancies for department heads in production, marketing and finance had been filled while a manager for the human resource development department was yet to be recruited.

D. FINANCIAL CONDITION OF THE COMPANY

During the course of the diagnostic study it was found that the Company's credit lines had been fully utilised. Loans exceeding TSh. 1.20 billion were outstanding with the East African Development Bank (EADB) and the Tanzanian Investment Bank (TIB). In fact, in mid 1992 EADB had refused to consider the Company's requests for additional working capital and later had threatened foreclosure of the Company. However, by December 1993 EADB had rescheduled the repayments, granted a moratorium on repayments till June 1995, reduced the rate of interest on pending loans from 14 % to 12 % per annum and agreed to extend a further short term loan of TSh 200 million for import of spares, paper and plant rehabilitation (a copy of EADB's letter is attached overleaf since these concessions have considerable bearing on the survival of the Company).

FINANCIAL ANALYSIS

The financial statements presented in Annexure 1 clearly indicate the Company's declining performance. KIBO Paper faces serious financial problems as it has negative net worth.

EAST AFRICAN DEVELOPMENT BANK eadb

Head Office

Our Ref: PS/16F/43/I

15th November 1993

Kibo Paper Industries Limited
P.O. Box 2557
DAR ES SALAAM
Tanzania

Dear Sirs

RESCHEDULING OF EADB LOAN

We are pleased to inform you that the Board of Directors of East African Development Bank during its last meeting on 4th November 1993 granted your request to reschedule the EADB loan on the following terms:

i) A waiver of all penalty interest amounting to about SDR 164,192.

ii) Converting interest on interest amounting to about SDR 155,524 into a local loan at an interest rate of 25% per anuum.

iii) Capitalization of interest in arrears and together with principal in arrears and outstanding from a new loan to be rescheduled as follows:

- Loan Amount: SDR 2,132,160
- Repayment: 14 semi-annual instalments beginning June 1, 1995.
- Interest: 14% per annum on reducing balance.
- The reschedule should be conditional upon TIB also accepting to reschedule their loan.
- The Company be compelled to make accelerated payments whenever the cash-flow position allows (i.e. it should be compelled to start repayment even before the expiry of the one-year grace period).

iv) At an opportune time (i.e. when all has been set for continuous production in terms of sufficient utilities supplies) the Bank/consider /will providing a short term (working capital funds) loan.

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Kampala Uganda
Tel 230021/5
Tx 61074

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P.O. Box 47685
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Tanzania Office
NIC Investment House
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Dar es Salaam Tanzania
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4 Nile Avenue
P.O. Box 7180
Kampala Uganda
Tel 259761
230021/5
Tx 61074

15th November 1993

Kibo Paper Industries Limited
P O Box 2557
DAR ES SALAAM
Tanzania

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v) The Bank to consider to reduce and charge an interest rate of 12% per annum (from 14%), if the Company improves its performance and exhibits progress towards utilizing its capacity at reasonable levels.

An agreement containing the above conditions together with any other conditions acceptable to the Director General to be executed by the parties.

Please sign and return to us the enclosed copy of this letter to signify your acceptance to the above terms. Failure to do so may result into the above offer lapsing.

Yours faithfully
EAST AFRICAN DEVELOPMENT BANK

David Mulira
SECRETARY/DIRECTOR OF SERVICES

cc: Resident Manager (T)
EADB, DAR ES SALAAM

cc: Director of Finance
EADB, KAMPALA

terms of the Loan Rescheduling as provided above.

....

Authorised Signatories.

....

An analysis of raw materials and finished goods inventories and receivables from customers revealed that a total of TSh. 464 million was blocked in these three assets as on November 15, 1992. (Note: TSh. 250 million worth of raw materials were sufficient for four months production, at the minimum monthly production rate prevalent at that time.)

E. RAW MATERIALS

The pulp making process - Pulp is manufactured from both waste paper and virgin fibre. Paper and board requirements for corrugated box/board production is met entirely by the adjacent paper plant at Pugu Road. 70 gsm Test Liner Board (TLB) paper is used to produce gummed tape. This line has an installed capacity of 1.2 million metres (equivalent to 82 tonnes of TLB), per year.

The most expensive raw material used by KIBO Paper is the imported sack kraft paper. Some printing paper and glazed duplex boards are imported either from Sweden or Germany. In December 1993 KIBO had stock of 200 tonnes of paper procured from Europe, 200 tonnes of paper from URILINK was in transit and Southern Paper Mills, which had commenced production, was holding over 600 tonnes of paper awaiting collection by KIBO. Other requirements of paper and board are procured either from the Company's own paper mill or from Southern Paper Mills, Mufindi.

Consumables used in the process of printing and forming of cartons (printing inks, flexographic printing rubbers, adhesives, copper staples, fuel oil and chemicals) are all imported.

Landed cost as of December 1993 of some important raw materials is given below :

LANDED COST OF RAW MATERIAL - December 1993

	T SH / ton
Sack kraft local	3,19,250.00
Sack kraft imported	4,12,456.64
Label paper	7,81,640.10
Unbleached pulp - local	1,78,250.00
Bleached pulp	3,73,792.31

KIBO had a shortage of imported raw materials in December 1993 which included:

1) Unbleached kraft pulp	500 Tonnes
2) Bleached kraft pulp	200 Tonnes
3) Aluminium sulphate (Alum)	50 Tonnes
4) Rosin sizer	20 Tonnes

F. DIAGNOSTIC STUDY

In October, 1992, United Nations Industrial Development Organization (UNIDO) embarked on a project entitled "Rehabilitation of Industrial Enterprises in East Africa". The study was sub-contracted to Messrs. Amarnath Kamath & Company (Bangalore, India). The main objective of the study was to prepare a diagnostic report after studying selected money losing units. KIBO Paper was one of the eight units selected for study under this programme.

G. MAJOR EFFORTS OF DIAGNOSTIC STUDY

Consultants' efforts on-site between November 1992 and March 1993 were aimed at maintaining production levels in spite of labour unrest, severe power shortages and shrinking markets due to high inflation and recession prevalent in November, December 1992 and upto March 1993. The marketing department was restaffed internally. The practice of calling on important customers for orders was revived. EADB & TIB managers were contacted and requested to give KIBO Paper a chance at rehabilitation by not precipitating matters relating to the large outstanding loan. A monthly sales target of TSh. 78.30 million was set for February - April 1993 covering 12 existing products. This target was exceeded in March (TSh. 104 million) and April (TSh. 82 million) 1993. The General Manager and the Consultants assisted marketing personnel by initiating efforts to win back former customers by personally visiting them.

With encouragement from Consultants, the managers and technicians at KIBO Paper designed and developed special sacks for sugar bagging, making the Company the only manufacturer of multi-wall sugar bags in Tanzania. Orders are under negotiation with Kilombero Sugar Co. KIBO Paper also began to strengthen its position as the largest manufacturer of multi-wall sacks for the cement industry, by improving customer service to existing customers and through effort at bringing back large customers it had lost.

Reorganising the management structure

A reorganisation of the management structure at KIBO Paper was necessary to encourage and foster growth, both in the sales of each product line as well as in production output to meet the increased demand. The Company is headed by a General Manager who is fully responsible for the running of the Company. The GM is assisted by:

a. Managers in charge of administration, finance and accounts, internal audit, marketing, quality control, purchase, engineering and security reporting to the GM as one team.

b. Four plant managers, each in charge of one of the plants below, reporting to the GM as a team:

- the paper mill
- the corrugated products plant
- the packaging material & printing plant

2. HOST COUNTRY STRATEGY

2.1 RESTRUCTURING THE GOVERNMENT

The Government of Tanzania is already committed to the process of economic liberalisation and restructuring of the industry sector to encourage private sector investment. In order to cut losses retrenchments are being carried out by several state owned agencies. The Tanzania Harbours Authority (THA) has announced plans to retrench 3,000 employees and the national railway, Tanzania Railways Corporation (TRC) plans to reduce its work force of 11,233 people by 846 in the first of a series of annual lay-offs due to continue until 1996.

From the Government's own payroll, a further 20,000 are to lose their jobs in the current 1993/94 fiscal year, and in June 500 employees of the state owned National Bank of Commerce (NBC) volunteered to take early retirement; in May the bank had made 1,170 employees redundant. In late September the Bank of Tanzania (BOT) confirmed its plans to make 700 employees redundant by the end of November 1993. In a statement the BOT claimed that its own redundancy programme had been delayed because it had to oversee the restructuring of the banking system first.

2.2 PARASTATAL REFORM AND PRIVATISATION POLICY

The parastatal sector reform policy was first announced as a national policy by the Government in January 1992. Its fundamental objective was to give a sharper focus to the Government's traditional role of maintenance of law and order and provision of economic and social infrastructure, ensuring a level playing field for efficient economic competition and balancing of economic and social activities.

Tanzania's Parastatal Sector Reform Programme is set firmly in the context of the broader policy changes initiated in the late 1980s. As the second economic recovery programme (1989/90) was coming to a close the Government drew up a comprehensive policy framework to guide the country's development in the 1990's. Under the policy framework paper (PFP) the three year programme (1991-92 to 1993-94) aims at restoration of macroeconomic equilibrium with objectives of

* an economic growth rate in excess of 4% p.a.;
* reduction of the country's extreme dependence on external assistance;
* reduction of inflation and protection of the vulnerable in society and
* protection of the environment.

The PFP recognises that substantial resources have been invested in the country, financed from domestic savings as well as from abroad, without bringing adequate returns. This is especially true in the parastatal sector. The policies adopted under the PFP to address these issues are:

* Liberalisation of interest rates, foreign exchange transactions, food and crop marketing.

* Promotion of market competition and the private sector in general.

* Expansion of the tax base.

* Redirection of expenditure towards rehabilitation and maintenance of infrastructure, plus improvement of expenditure monitoring and control.

* Restructuring of the agricultural and industrial sectors and of railways, roads, ports and other sectors.

* Rehabilitation of the commercial banks, plus development of financial institutions.

The choice of divestiture methods which are not necessarily mutually exclusive include:

Trade sales: This together with joint ventures represent the most widely used method of privatisation in countries without developed capital markets. These may be by sale of shares or of assets to another company and can be carried out by direct negotiation, tender or auction.

Joint ventures: These combine components of other methods, typically a combination of trade sales and management contracts. A joint venture partner would be expected to bring significant expertise in production, marketing, management and the capacity to expand the business.

Public share offers: While shares can be sold without a stock market, the latter is important both to tap savings and to provide buyers with liquidity.

Public auction: This provides a quick mechanism for the rapid privatisation of small enterprises. Sales are usually of assets rather than shares.

* Buy outs by management and/or employees.

* Liquidation.

Improving investment climate

The Tanzanian President announced that the Government was revising the Company ordinance and related laws, making available foreign exchange and removing cumbersome trade restrictions to help create a favourable climate for boosting investment.

The President also enumerated steps taken by the Government to support the agricultural sector including liberalisation of marketing and transportation of food grains. Steps had also been taken to allow greater private sector participation in the sale of traditional crops. Other measures were also being taken in cotton ginning and marketing wherein the government had already approved investment in cotton ginning by private companies. It is hoped that all these liberalisation measures will create a conducive environment for increased production in the agricultural sector.

One of the obstacles in the reform process of the parastatal sector was lack of adequate private resources for buying shares in companies which have been earmarked for sale to private sector. The Government is currently working on a legislation for the establishment of a capital markets authority to oversee the setting up of capital and securities markets in the near future.

3. PRIOR OR ON-GOING ASSISTANCE

The rehabilitation package for KIBO Paper is an integral element in the UNIDO approach to industrial rehabilitation in Africa. This is a continuation of the special studies on industrial rehabilitation prepared by UNIDO/PPO/IPP/REG in several African countries (among them Tanzania) and PPP/R.36 (May 1990) report titled "UNIDO Industry Sector Programming Mission to Tanzania". Subsequently, in October, 1992 the project for "Rehabilitation of Industrial Enterprises in East Africa" with No US/UT/RAF/91/173 in Tanzania, Uganda and Zambia was subcontracted to Messrs. Amarnath Kamath and Company (Bangalore, India). The main objectives under this programme were:

Select 3 money losing units in Tanzania (of which KIBO was one) for study.

Complete external and internal audit of all managerial functions and prepare a diagnostic report;

Develop and implement (partly in the time frame) a rehabilitation package which would include financial restructuring and direct technical and managerial inputs.

During the study provide direct managerial and technical assistance to improve material management, financial management, maintenance of machinery and human resource management.

4. INSTITUTIONAL FRAMEWORK

The institutions involved in the rehabilitation of KIBO Paper will be UNDP, Ministry of Industries and Trade, Financial Institutions (mainly EADB & TIB) and TKAI Limited (the holding company). The Ministry of Industries and Trade in Tanzania along with the supporting departments (namely the privatisation agency) will play a key role in this project.

B. PROJECT JUSTIFICATION

1. MAIN ONGOING PROBLEMS NEEDING URGENT ATTENTION

1.1 PAPER MILL REHABILITATION

The existing rewinder machine is very old and is inefficient when used for slitting the reel into two or three reels of smaller width. This rewinder also has a disadvantage since it still uses a heavy rewinder shaft (about 100 Kgs.). Modern rewinders do not have a shaft and the operator can work faster since he does not have to lift the shaft. The Paper Mill is facing a shortage of spare parts. A few machines require overhaul as they have been in operation for over 10 years. Some of the spare parts can be obtained locally but a majority of them are to be imported.

Coating plant for improvement of quality of duplex board:

In order to improve the quality of Duplex board a coating plant is required. The smooth coated board will shine after the process. This board can improve printing quality. As there is no other company in Tanzania and surrounding countries having a coating plant, KIBO will have a ready market for coated board.

Weigh bridge

A weigh bridge has to be set up in the paper plant premises to simplify weighing of waste paper, finished paper reels, etc. This will improve the efficiency of waste paper collection. At present KIBO is forced to spend money for using weigh bridges at a neighbouring factory.

1.2 SALES TAX LIABILITY (T.SHS. 125.4 MILLION)

KIBO's appeal to the Treasury to waive the Sales tax penalty amounting to T.Shs. 45 million and to grant time to it to pay the balance Sales tax of Shs. 80.4 million in two years, or to convert the said balance into equity is still pending.

1.3 DISPOSAL OF FIXED ASSETS

Fixed assets rendered surplus have been identified and have been advertised for sale in the news papers. Disposal of such assets is being carried out in phases.

Two bidders quoted for the corrugator machine:

1. Tanzania Printing Services	-	T. Shs.	535,000
2. Commercial Printing Work	-	T. Shs.	2,750,000

As the bids were very low it was decided that the tender be floated again by inviting foreign bidders.

1.4 CERTAIN CUSTOMERS SWITCHING TO SOURCES OTHER THAN KIBO

It was found that some customers had opted to buy goods from other sources including imports from Kenya since KIBO's prices were too high as compared to those offered by competitors. KIBO's prices are being carefully revised to curb the situation.

1.5 DEBT COLLECTION

As of June 1993 total receivables were T. Shs. 164.23 million. By September 30, 1993 receivables stood at T. Shs. 160.74 million. KIBO started taking legal action against customers whose debts were outstanding for over one year. However, constant efforts are required to collect the outstandings.

1.6 BANKING FACILITIES

National Bank of Commerce, Foreign Branch has agreed to increase the overdraft facility from TShs 50 million to TShs 130 million. Letter of Credit & guarantee facilities remain unchanged at TShs 200 million and TShs 0.125 million respectively. These facilities are to expire on Sept. 6, 1994.

1.7 COST REDUCTION EXERCISE

Cost reduction exercises have been taken up by KIBO. To start with KIBO has started screening the manpower level requirement to match the current capacity utilisation of the machines. Thereafter, the cost centres will be revised to determine realistic and bearable expenses in line with the present business environment.

1.8 OPTIMUM NUMBER OF EMPLOYEES

The Company has started determining the optimum number of employees. This will be in line with the cost reduction exercise whereby each division will be restricted to optimum manpower level bearing in mind the capacity utilisation of the machines.

1.9 REVALUATION OF FIXED ASSETS

Valuation of the Company's fixed assets was done by M/s. Property Consultancy & Services Limited, Dar-es-Salaam. The purpose of the valuation was to review and update the values of all assets owned by the Company for accounting, insurance and other purposes like provision of these assets as collateral security to bankers.

2. EXPECTED END-OF-PROJECT SITUATION

For KIBO Paper when the rehabilitation programme is implemented it is expected that:

A bankable project document along with a business plan will be submitted to the East African Development Bank for funding the immediate requirements of the plant;

The marketing, finance, paper plant and maintenance departments will be restructured to handle the increased volume of output and also the higher level of market competition;

Plant utilisation levels should reach at least 65 % on a daily basis.

3. TARGET BENEFICIARIES

The direct beneficiary of the rehabilitation assistance will be KIBO Paper and the holding company TKAI. Higher production levels will bring down the cost of production and ultimately consumer prices. This should reduce imports of sack craft and packaging material from Kenya.

4. PROJECT IMPLEMENTATION STRATEGIES & INSTITUTIONAL ARRANGEMENTS

Industrial rehabilitation has become a priority problem area as underlined in UNIDO's Medium Term Plan as also by the Government of Tanzania. Rehabilitating a unit till it generates its own profits and becomes economically viable is extremely important.

The turn-around strategy would involve a multipronged approach over a limited period of time. Full cooperation from the Government, financial institutions a l banks would be necessary.

The strategies to be adopted would be:-

Phase 1

Formulation of a rehabilitation strategy.

Finalisation of an investment cum business plan with KIBO, TKAI, Ministry of Industries and Trade, EADB, TIB and Bankers

Implementing schemes not requiring large financial inputs.

Phase 2

Rescheduling outstanding financial liabilities.

Providing KIBO employees with training in management and technical areas.

Locating and ordering plant, machinery, consumables and spares.

Locating competent and trained manpower for getting the management team into operation.

Setting up proper management information system and financial controls.

5. REASONS FOR ASSISTANCE FROM UNIDO

KIBO Paper is the largest packaging manufacturing unit in Tanzania. The product, at the present selling prices, has sufficient margins, provided the plant can be run continuously at rated capacities. The rehabilitation package should considerably improve the plant reliability. The financial projections in Annexure 3 indicate viability only at higher capacity utilisation.

6. SPECIAL CONSIDERATIONS

Special attention will have to be paid by the project team to select appropriate plant and machinery with the help of the plant engineer. Spare parts for the machinery will also have to be selected carefully. The system of energy management and effluent control is not adequate and has to be improved.

7. CO-ORDINATION ARRANGEMENTS

The Ministry of Industries and Trade (in association with the privatisation agency) should be the coordinating agency and they should designate an official at the appropriate level to assure coordination.

8. SUPPORT ACTIVITIES

The Government of Tanzania will support the rehabilitation through the coordinator mentioned above. The Government should exempt the customs duty on import and other taxes on plant and machinery, spares, vehicles and consumables imported under this scheme in order to allow a higher purchasing power on the grant given.

C. DEVELOPMENT OBJECTIVES

To accelerate industrial growth and specifically the packaging industry in Tanzania and thereby contribute to the country's socio-economic development via increasing the productivity of installed capacity in KIBO Paper and improving its efficiency.

D. REHABILITATION OBJECTIVES, OUTPUTS & ACTIVITIES

The main rehabilitation objectives are:-

Bring the plant to 100% capacity utilisation by addition of balancing equipment and replacing all outdated equipment.

Strengthen the marketing set up for distribution and sale of the increased production.

Improve the overall profitability of the unit so that it can generate funds to service borrowings.

PROJECT OBJECTIVES

As stated earlier the main objective of this project package is to rehabilitate the unit by removing the roadblocks, deficiencies/ weaknesses and solve the problems identified. The rehabilitation programme will target at:

Reassessment of existing plant and machinery through design checks.

Scrapping equipment which cannot be repaired.

Disposal of fixed assets not necessary for the unit.

Ordering balancing plant and machinery and essential spares for improving production to capacity levels.

Revamping management/engineering team to sustain the running of the unit.

Revamping marketing set-up.

Setting up quality control facilities and strengthening quality control department.

Improving effluent treatment of the waste generated by the paper mill.

Preparing a restructured loan repayment package for approval by EADB in order to reduce the financial burdens caused by earlier misfortunes.

Outputs

The main outputs from the rehabilitation project would be:

* Improved output of paper plant by adding balancing equipment like rewinders, coating plant, weigh bridge and other smaller equipment.

* Improved quality of paper produced by using better quality of raw materials.

* Reduced cost of production at paper plant & packaging plant.

* Improved quality of art work and printing after training staff and adding minor additional equipment.

* Reduced prices to users consequent to proper cost control and resulting reduction in imports.

* Improved marketing methods to broaden customer base.

* Exports to PTA countries.

* Trained manpower in quality assurance, maintenance and productivity.

* Improved financial systems and cost control systems.

* Improved over-all profitab ty.

Activities

* Formulation of short and long term rehabilitation strategies.
* Finalisation of an investment cum business plan in association with KIBO, TKAI, Ministry of Industries and Trade, EADB, TIB and Bankers
* Implementing schemes not requiring large financial inputs.
* Negotiating increases in the overdraft and letter of credit facilities with the present bankers.
* Rescheduling outstanding financial liabilities.
* Implementing cost reduction exercises. The cost centres should be revised to determine realistic and bearable expenses in line with the business environment.
* Moving the Treasury for waiver of the sales tax penalty of T.Shs. 45 million and for grant of time to pay the balance sales tax of T. Shs. 80.4 million or to convert it into equity.
* Disposal of fixed assets rendered surplus.
* Intensifying collection of trade debts especially those outstanding for over one year.
* Procuring essential spare parts for the paper mill.
* Procuring a coating plant for improving the quality of duplex board & a rewinder to improve the winding operations.
* Setting up a weigh bridge in the paper plant premises to simplify weighing of waste paper, finished paper reels, etc.

* Lowering of prices to meet competition from imports and small units.

* Optimising manpower levels bearing in mind the capacity utilisation of the machines.

* Restructuring the marketing, finance, paper plant and maintenance departments to handle the increased volume of output.

* Locating competent and trained manpower for completing the management team.

* Providing employees with training in management and technical areas.

* Setting up proper management information systems and establishing suitable financial controls.

E. INPUTS

1. INPUTS FROM THE TANZANIA GOVERNMENT

Designate one Senior official either from the Ministry of Industries and Trade or from the privatisation agency to be the coordinator for this project.

Clear the import of all equipment, spares and consumables for this project free of duty during the implementation period.

2. INPUTS FROM KIBO PAPER INDUSTRIES LIMITED

KIBO Paper will have to assist UNIDO and the project team in arranging timely releases of funds for the project. The Company will also have to provide communication facilities at their cost, for hastening implementation of the project.

3. INPUTS FROM UNIDO

UNIDO will have to coordinate with the Ministry of Industries and Trade for the smooth operation of the project. UNIDO should also be involved in clearing project budgets and its representative should attend project implementation meetings. UNIDO will have to coordinate for timely release of country/UNDP grants for this project.

F. RISKS

The project has assumed exemption from import duties and other taxes for items considered necessary for this project. If the Tanzanian Government does not give this specific exemption the project cost may have to be increased by almost 30 %. Though the range of products manufactured by the Company have a fairly good market considerable amount of marketing inputs would be necessary to reduce market risks especially from cheaper imports. The start of the project may be delayed due to the non availability of suitable grant funds over and above the amount that may be sanctioned by EADB. Procedural formalities for import of equipment/machinery and bottlenecks in civil and electrical works at site may delay the project. KIBO already has substantial loan and interest burden and a very low equity base. To reduce the risks from this high loan burden KIBO Paper and TKAI should look for a joint venture partner and increase the equity substantially.

G. PRIOR OBLIGATIONS AND REQUIREMENTS

Prior to starting the assignment the following should be ensured:

Specific concessions being granted by the Tanzania Government on customs duties and taxes for project imports and purchases should be spelt out.

UNIDO/Ministry of Industries and Trade should ensure that a Coordinator is appointed for follow up of the rehabilitation programme.

H. PROJECT REVIEWS, REPORTING AND EVALUATION

The project reviews will be held through the Project Evaluation/Implementation Committee which can hold its meetings at Dar es Salaam for reviewing progress and to sanction expenditure budgets. The committee will consist of the Technical team, National Coordinator, KIBO Paper rep... entative and UNIDO representative. KIBO will keep minutes and prepare fortnightly progress report which can be submitted to UNIDO/TKAI and Ministry of Industries and Trade. On the reaching of specific milestones as decided by the committee detailed reports should be prepared.

I. PROJECT IMPLEMENTATION COST

The project budget is listed in detail in Annexure 2, followed by a cash flow statement in Annexure 3 justifying viability of investment without taking into consideration the burden of the EADB loan. An outline of the project cost is given below:

US$ 1 = T. SH. 470

ITEM OF INVESTMENT	US $	MILL.T.SH.
VALUE OF ADDITIONAL MACHINES	391,000	183.77
Q.C. EQUIPMENT FOR PAPER PLANT	89,000	41.83
SPARES FOR PUGU ROAD PLANT	365,000	171.55
CIVIL WORKS	55,000	25.85
COMPUTERS & OFFICE EQUIPMENT	20,000	9.40
TRAINING & DEVELOPMENT	30,000	14.10
PROJECT IMPLEMENTATION COST	50,000	23.50
TOTAL PROJECT COST	1,000,000	470.00

The plant & machinery values have been taken from various proposals received from equipment manufacturers in India. The cost of quality control equipment, civil works, computers & spares has been taken from the documents made available by Kibo Paper.

J. TERMS OF REFERENCE

The Terms of Reference and the implementation programme are given in Annexure 4.

ANNEXURE - 1

KIBO PAPER INDUSTRIES LTD.
BALANCE SHEETS

(Value in TSh.)

	As at 31.12.92	As at 31.12.91	As at 31.12.90	As at 31.12.89
Assets				
Fixed assets (net)	685,139,625	745,136,155	728,139,226	734,721,465
Current assets				
Stocks	470,363,129	339,652,200	294,759,853	252,212,512
Debtors & other advances	268,582,368	185,048,719	148,079,546	66,415,412
Cash & bank balances	2,014,196	504,386	201,848	115,475
Income tax recoverable	29,625,775	29,625,775	11,686,529	-
	770,585,468	554,831,080	454,727,776	318,743,399
Less: Current liabilities				
LC payable	78,591,608	-	-	-
Bank overdraft	43,900,090	43,192,414	26,366,224	9,365,464
Creditors & other liabilities	426,922,566	228,353,875	166,762,558	110,037,510
Current maturity of long term loan	304,005,798	256,443,205	142,566,221	108,672,364
Provision for taxation	-	-	-	22,113,503
Dividends payable	34,539,202	34,539,202	34,539,202	34,539,202
	887,959,264	562,531,696	370,234,205	284,728,043
Net current assets	(117,373,796)	(7,700,616)	84,493,571	34,015,356
Long term loans	(246,190,615)	(315,750,208)	(345,428,343)	(366,380,160)
Net assets	321,575,214	421,685,331	467,204,454	402,356,661
Represented by:				
Share capital	248,325,740	248,325,740	248,325,740	42,277,000
Advances towards share capital	247,279,929	247,279,929	120,338,350	234,214,427
Staff housing reserve	17,147,000	17,147,000	17,147,000	17,147,000
Fixed assets revaluation reserve	137,122,711	137,122,712	137,122,711	137,122,711
Accumulated losses	(328,300,166)	(228,190,050)	(55,729,347)	(28,404,477)
	321,575,214	421,685,331	467,204,454	402,356,661

ANNEXURE - 1 (Contd.)

KIBO PAPER INDUSTRIES LTD.

PROFIT & LOSS ACCOUNT

(Value in TSh.)

	For the year ended			
	Dec. 31, 1992	Dec. 31, 1991	Dec. 31, 1990	Dec. 31, 1989
Sales	752,897,532	741,514,289	789,761,298	697,256,776
Less: Cost of sales	521,398,658	649,384,757	614,337,674	594,903,999
Gross profit	231,498,874	92,129,532	175,423,624	102,352,777
Less: Operational expenses:				
Admin. & establishment expenses	186,787,887	167,286,751	121,733,144	96,925,772
Selling & distribution expen.	9,416,562	11,630,363	9,870,570	10,804,990
Financial charges	136,866,261	87,589,032	72,893,742	39,245,639
	333,070,710	266,506,146	204,497,456	146,976,401
Operating loss	101,571,836	174,376,614	29,073,832	44,623,624
Other income	1,461,720	1,915,911	1,748,962	8,299,057
Loss for the year	100,110,116	172,460,703	27,324,870	36,324,567
Sales in US $	2,151,135	3,223,976	4,045,908	3,768,956
Losses incurred during the period 1989 - 1992	336,220,256			

ANNEXURE - 2

KIBO PAPER INDUSTRIES LTD.
REHABILITATION INVESTMENT

1 $US = 470 TSH

Sl.	ITEM OF INVESTMENT	$ US	MILL.T SH
A.	ADDITIONAL MACHINES:		
1.	Slitter/Rewinder	40,000	18.80
2.	Coating machine	45,000	21.15
3.	Open mouth bottomer m/c	75,000	35.25
4.	Cutting creasing m/c for thicker boards	15,000	7.05
5.	Printer slotter	35,000	16.45
6.	Single color offset(A1 size)	50,000	23.50
7.	Folder gluer	15,000	7.05
8.	Phototype setting	25,000	11.75
10.	Photoengraving m/c	45,000	21.15
11.	Paper bags & sachet m/cs	20,000	9.40
12.	Other balancing m/c s	26,000	12.22
	TOTAL VALUE OF MACHINES	391,000	183.77
B.	Q.C. EQUIPMENT FOR PAPER PLANT:		
1.	L & W Crush Tester with attachment for ring crush (Lorentzen & Weitre)	13,500	6.35
2.	Curl & twist tester	64,200	30.17
3.	Analytical balance	5,800	2.73
4.	Bendtsen roughness tester	5,500	2.58
	TOTAL VALUE OF Q.C. EQUIPMENT	89,000	41.83
C.	SPARES FOR PUGU ROAD PLANT		
1.	Paper mill machinery	150,000	70.5
2.	Workshop, pumps & material handling equipments	125,000	58.75
3.	Drier section, boilers,water treatment & electrical system	75,000	35.25
4.	Spares for corrugator plant	15,000	7.05
	TOTAL VALUE OF SPARES	365,000	171.55
D.	CIVIL WORKS		
1.	Effluent control & borewells	40,000	18.80
2.	Civil repairs at Changombe	15,000	7.05
	TOTAL VALUE OF CIVIL WORKS	55,000	25.85
E.	Computers & office eqpt.	20,000	9.40
F.	Training & development	30,000	14.10
G.	Project implementation cost (including cost of international consultant)	50,000	23.50
	TOTAL PROJECT COST	1,000,000	470.00

ANNEXURE - 3

REPAYMENT SCHEDULE OF KIBO'S EXISTING & NEW LOANS

1 SDR = 635 TSH VALUE IN MILL. TSH

LOAN AMOUNT - SDR 2,132,160 (NOV. 1993) @ 12%/ANNUM INTEREST

YR.	OPENING BALANCE	REPAYMENT	INTEREST	BALANCE	TOTAL
94	1385.51	0.00	166.26	1385.51	166.26
95	1385.51	98.97	160.32	1286.55	259.29
96	1286.55	197.93	142.51	1088.62	340.44
97	1088.62	197.93	118.76	890.69	316.69
98	890.69	197.93	95.01	692.76	292.94
99	692.76	197.93	71.25	494.83	269.19
00	494.83	197.93	47.50	296.90	245.43
01	296.90	197.93	23.75	98.97	221.68
02	98.97	98.97	5.94	0.00	104.90

CONVERSION OF INTEREST ON INTEREST AS LOCAL LOAN

LOAN AMOUNT - SDR 155,524 (NOV. 1993) @ 25%/ANNUM INTEREST

YR.	OPENING BALANCE	REPAYMENT	INTEREST	BALANCE	TOTAL
94	102.87	0.00	25.72	102.87	25.72
95	102.87	7.35	24.80	95.52	32.15
96	95.52	14.70	22.04	80.83	36.74
97	80.83	14.70	18.37	66.13	33.07
98	66.13	14.70	14.70	51.44	29.39
99	51.44	14.70	11.02	36.74	25.72
00	36.74	14.70	7.35	22.04	22.04
01	22.04	14.70	3.67	7.35	18.[illegible]7
02	7.35	7.35	0.92	0.00	8.27

TANZANIAN INVESTMENT BANK LOAN

LOAN AMOUNT - 150 MILL. TSH @ 12% /ANNUM INTEREST

YR.	OPENING BALANCE	REPAYMENT	INTEREST	BALANCE	TOTAL
94	150.00	0.00	18.00	150.00	18.00
95	150.00	10.71	17.36	139.29	28.07
96	139.29	21.43	15.43	117.86	36.86
97	117.86	21.43	12.86	96.43	34.29
98	96.43	21.43	10.29	75.00	31.71
99	75.00	21.43	7.71	53.57	29.14
00	53.57	21.43	5.14	32.14	26.57
01	32.14	21.43	2.57	10.71	24.00
02	10.71	10.71	0.64	0.00	11.36

ANNEXURE - 3 (Contd.)

NEW REHABILITATION LOAN
LOAN AMOUNT – 470 MILL. TSH @ 12%/ANNUM INTEREST

YR.	OPENING BALANCE	REPAYMENT	INTEREST	BALANCE	TOTAL
95	470.00	0.00	56.40	470.00	56.40
96	470.00	33.57	54.39	436.43	87.96
97	436.43	67.14	48.34	369.29	115.49
98	369.29	67.14	40.29	302.14	107.43
99	302.14	67.14	32.23	235.00	99.37
00	235.00	67.14	24.17	167.86	91.31
01	167.86	67.14	16.11	100.71	83.26
02	100.71	67.14	8.06	33.57	75.20
03	33.57	33.57	2.01	0.00	35.59

TOTAL LOANS,REPAYMENTS AND INTEREST BURDEN
VALUE IN MILLION TSH

YR.	OPENING BALANCE	REPAYMENT	INTEREST	BALANCE	TOTAL
94	1638.39	0.00	209.98	1638.39	209.98
95	2108.39	117.03	258.88	1991.36	375.91
96	1991.36	267.63	234.37	1723.73	501.99
97	1723.73	301.20	198.33	1422.53	499.53
98	1422.53	301.20	160.27	1121.34	461.47
99	1121.34	301.20	122.22	820.14	423.42
00	820.14	301.20	84.17	518.94	385.36
01	518.94	301.20	46.11	217.74	347.31
02	217.74	184.17	15.56	33.57	199.73
03	33.57	33.57	2.01	0.00	35.59

ANNEXURE - 3 (Contd.)

FORECAST OF OPERATIONS OF KIBO PAPER
YEAR ENDING 31 DECEMBER
MILLION TSH

YEAR	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
NET SALES REVENUE	890.00	1023.50	1177.03	1412.43	1694.92	2033.90	2440.68	2684.75	2953.22	3248.54	3573.40
MATERIAL EXPENSES (50%)	445.00	511.75	588.51	706.22	847.46	1016.95	1220.34	1342.37	1476.61	1624.27	1786.70
DIRECT EXPENSES											
Direct labour	50.00	59.40	71.30	85.60	89.88	94.37	99.09	104.05	109.25	114.71	120.45
Electricity	96.50	115.80	138.90	166.70	200.04	240.05	288.06	316.86	348.55	383.40	421.75
Water	13.10	15.70	18.90	22.70	27.24	32.69	39.23	43.15	47.46	52.21	57.43
Fuel	36.70	44.00	52.80	63.30	75.96	91.15	109.38	120.32	132.35	145.59	160.15
Repair & Maintenance	19.10	21.00	25.30	30.30	36.36	43.63	52.36	57.59	63.35	69.69	76.66
General production expenses	10.00	11.00	13.20	15.90	19.08	22.90	27.48	30.22	33.24	36.57	40.23
TOTAL DIRECT EXPENSES	670.40	778.65	908.91	1090.72	1296.02	1541.74	1835.93	2014.57	2210.82	2426.44	2663.35
MANUFACTURING OVERHEADS											
Factory staff salaries & wages	29.00	34.70	41.60	50.00	52.50	55.13	57.88	60.78	63.81	67.00	70.36
Depreciation	78.90	54.20	65.00	78.00	78.00	78.00	78.00	78.00	78.00	78.00	78.00
Other overheads	24.90	27.40	32.90	39.50	41.48	43.55	45.73	48.01	50.41	52.93	55.58
TOTAL MANUFACTURING O.H.	132.80	116.30	139.50	167.50	171.98	176.67	181.61	186.79	192.23	197.94	203.94
COST OF SALES WITH INTERNAL TRANSFER	803.20	894.95	1048.41	1258.22	1467.99	1718.41	2017.54	2201.36	2403.05	2624.38	2867.29
Less internal transfer	138.60	152.46	167.71	201.25	241.50	289.80	347.76	382.53	420.78	462.86	509.15
ACTUAL COST OF SALES	664.60	742.49	880.71	1056.97	1226.50	1428.62	1669.78	1818.83	1982.27	2161.52	2358.14
GROSS PROFIT	225.40	281.01	296.32	355.46	468.42	605.28	770.90	865.92	970.95	1087.02	1215.26

ANNEXURE - 3 (Contd.)

FORECAST OF OPERATIONS OF KIBO PAPER
YEAR ENDING 31 DECEMBER
MILLION TSH

YEAR	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
ADMINISTRATION EXPENSES											
Salaries and wages	23.50	28.20	33.90	40.70	42.74	44.87	47.12	49.47	51.94	54.54	57.27
Depreciation	4.00	4.00	4.80	5.40	5.80	5.80	5.80	5.80	5.80	5.80	5.80
Repair & Maintenance	12.60	12.60	15.10	18.10	19.01	19.96	20.95	22.00	23.10	24.26	25.47
Management fees	13.20	17.10	20.70	24.70	25.94	27.23	28.59	30.02	31.52	33.10	34.76
General Expenses	193.70	183.40	192.57	202.20	212.31	222.92	234.07	245.77	258.06	270.97	284.51
EXPENSES	247.00	245.30	267.07	291.10	305.78	320.78	336.53	353.07	370.43	388.66	407.81
SELLING & DISTRIBUTION	22.25	25.59	29.43	35.31	42.37	50.85	61.02	67.12	73.83	81.21	89.33
WORKING CAPITAL INTEREST	15.00	25.00	30.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00
TERM LOAN INTEREST	120.00	209.98	258.88	234.37	198.33	160.27	122.22	84.17	46.11	15.56	2.01
TOTAL OPERATING EXPENSES	404.25	505.87	585.38	595.78	581.48	566.90	554.77	539.35	525.37	520.43	534.16
NET OPERATING PROFIT	-178.85	-224.86	-289.06	-240.32	-113.07	38.38	216.13	326.57	445.58	566.59	681.10
OTHER INCOME	11.00	20.00	24.50	28.00	30.80	33.88	37.27	40.99	45.09	49.60	54.56
NET PROFIT BEFORE TAX	-167.85	-204.86	-264.56	-212.32	-82.27	72.26	253.39	367.56	490.67	616.19	735.67
TAX PROVISION(35%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	128.65	171.74	215.67	257.48
NET PROFIT AFTER TAX	-167.85	-204.86	-264.56	-212.32	-82.27	72.26	253.39	238.92	318.94	400.53	478.18
PROFIT BEFORE DEPRECIATION & INTEREST	35.05	63.32	64.12	105.45	199.86	316.33	459.41	535.53	620.59	715.55	821.48
TERM LOAN REPAYMENT	0.00	0.00	117.03	267.63	301.20	301.20	301.20	301.20	301.20	184.17	33.57
DEBT SERVICE COVERAGE RATIO	0.29	0.30	0.48	0.74	1.00	1.34	1.80	2.17	2.65	4.50	24.03

NOTE:
1) 15% GROWTH RATE IN SALES TILL 1995 CONSIDERED, 20% TILL 1999 AND 10% LATER
2) FROM 1996 THE PAPER PLANT CAN WORK AT HIGHER CAPACITY AFTER THE PROPOSED INVESTMENTS

ANNEXURE - 4

TERMS OF REFERENCE

1. Project title:

Rehabilitation of Kibo Paper Industries Limited, Dar-es-Salaam, Tanzania.

2. Background information:

As outlined in the rehabilitation diagnostic carried out by US/UT/RAF/91/173 for Kibo Paper Industries Limited, the Company is in urgent need of rehabilitation.

3. Objectives:

The main rehabilitation objectives are:

Bring the plant to maximum capacity utilisation by balancing the equipment and replacing all outdated equipment.

Strengthen the marketing set up for distribution and sale of the increased production.

Improve the overall profitability of the unit so that it can generate funds to service borrowings.

4. Outputs:

The outputs required for successfully implementing the rehabilitation programme are listed below.

4.1 Output 1:

A complete technical and financial feasibility report based on the proposed investment using forecast of increased output.

Activities for Output 1:

a. To fix production targets based on markets.

b. In association with the General Manager (i) assess the viability of modernising the existing paper and printing plants, (ii) list new equipment required as necessary, (iii) prepare estimates of costs.

c. To collect details of suppliers, obtain quotations and delivery schedules.

d. To prepare a detailed project report based on final prices.

e. Select vendors for supply of equipment, spares and consumables in consultation with General Manager and UNIDO Country Director (UCD), Dar-es-Salaam.

f. Assess financial releases required for implementation. Budget approvals should be taken from UCD.

4.2 Output 2:

Procurement, inspection, delivery and erection/commissioning of equipment and completion of civil work.

Activities for Output 2:

a. The international consultant in association with the local consultant, General Manager and Engineering Manager will form a committee for selection of suppliers, placement of orders, release of advances and inspection of and certification of equipment. Equipment should be accepted only after inspection and satisfactory trial runs.

b. The consultant team will provide direct assistance to the factory management during the erection and commissioning period.

c. On erection of equipment and during commissioning/test production period the international consultant should prepare an implementation report. An inspection at this stage by UNIDO is recommended.

4.3 Output 3:

Stabilising production, improving management information systems and developing a strong finance and marketing team.

Activities for Output 3:

a. The international consultant will work with factory production / engineering staff for stabilising production.

b. The international consultant will work with the marketing staff for improving distribution and marketing efforts. Funds management will also have to be controlled in association with the Finance Manager. Training of production staff should be included.

5. Background of consultants:

* The international consultant should have managerial background preferably in the paper, printing and packaging industry and expertise in turn-around and rehabilitation of sick industries.

* The local consultant should preferably be an engineer with experience in paper and packaging industry with special reference to maintenance/project experience.

6. Duration of the project:

The duration of the project is estimated at 100 days.

The international consultant will spend (a) 40 days in the factory at the time of ordering of machinery, revamping of buildings, revitalisation; (b) 30 days at home office on rehabilitation follow up work and (c) 30 days at the factory at the time of installation and re-commissioning of the plant.

The local consultant will spend 100 days at the factory assisting in the rehabilitation programme.

7. Duty station: Dar-es-Salaam, Tanzania

8. Language: English