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BREAD LIMITED

UNIDO

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

PROJECT DOCUMENT FOR RESTRUCTURING OF BREAD LIMITED, JINJA - UGANDA

BANGALORE - INDIA JULY 1994

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1. BACKGROUND

1.1. BACKGROUND OF UGANDAN ECONOMY

Uganda is a landlocked country along the equator 2,000 kms. away from the Indian Ocean. The total area of the country is about 241,000 sq. kms. (roughly comparable to U.K) which includes 44,000 sq. kms. of inland water area. The population as per the 1991 census is 16.6 million (with a crude birth rate of 49 per 1,000 and a crude death rate of 18 per 1,000) which is growing at over 3% per annum. Only about 11% of the population is urban. Kampala is the largest city with a population of 773,400 followed by Jinja with about 61,000.

Uganda is an overwhelmingly agricultural country. Agriculture accounts for 70% of GDP, while manufacturing accounts for less than 5%. More than 80% of the population is engaged in agriculture as against 2% in manufacturing. Uganda's main export is coffee. Before World War II, cotton used to be the main export. In the 1970s, export of cotton, sugar, tea and tobacco ceased. Tea is being exported once again, though in small quantities.

The value of the Ugandan shilling (U.Sh) had been severely affected by political instability between 1981 and 1987. In May 1987 the new U.Sh. was introduced with an initial rate of N.U.Sh. 60 = US$ 1. The depreciation of the value of the U.Sh. over time, is given below:

Average exchange rate: (N.U.Sh. per US$)

1987	1988	1989	1990	1991	1992	1993
42.80	106.14	223.09	428.85	1300	1250	1175

Over 1992 and 1993 the U.Sh has been firm against the US$. In December 1993 the Bank of Uganda stopped the auction system for foreign exchange and transferred foreign exchange management to specified banks.

Uganda has made considerable progress in its battle against inflation. As measured by year on year change in the Kampala Consumer Price Index, inflation rate fell from 243% during 1987/88 to 29% in 1990/91 and further to -1.2% by May 1993 (year on year figure for 12 months). With inflation under control, it has become possible to restore positive real interest rates at relatively lower levels. With the restoration of positive real interest rates savings will increase which should in turn stimulate investment.

According to a Government release entitled "Background to the Budget 1993/1994", the economy grew by 7% in real terms during the financial year 1992/93, compared with only 1.8% in 1991/92. The main reason for the improvement was a 9.2% increase in agricultural output, led by the food crop sub-sector (monetary and subsistence), in which output grew by 11%. Fluctuations in agricultural output tend to dominate the performance of the economy because it makes up about half of GDP. The recovery of agriculture in 1992/93 was due to better rainfall conditions. Mining also performed well, with output increasing by about 115%, reflecting a good level of foreign interest in mineral exploration, but manufacturing remained virtually stagnant after several years of good growth. Other sectors performed moderately well, increasing on an average by 5 to 6%, except for ownership of dwellings, where output continued to increase slowly, at about 3%. The background note to the budget also shows GDP data on the basis of calendar years. This series shows a more even pattern, with real GDP expanding by [illegible].4% in 1991 and 3.2% in 1992.

Budget features for 1993-94 included the following:

* Government wages increased by 33% in real terms.

* 60% of the development budget consisted of a "core programme" of 160 projects.

* The reform of the forex system was to be completed by ending the forex auctions and introducing a unified inter bank market.

* Customs duties were revised from six bands (up to 50%) to four bands (up to 130%).

* Petrol and paraffin prices were unchanged, but the tax on diesel increased from 115% to 130%.

* Sales tax was adjusted from nine bands (up to 50%) to five bands (up to 100%), and the duty on cigarettes, beer and spirits was raised to 100%.

* Excise duties were changed from three bands (up to 50%) to five bands (up to 100%), and the duty on cigarettes, beer and spirits raised to 100%.

* The Commercial Transaction Levy was to be collected at the point of sale.

* Stamp duty was reduced from 3% to 1%.

* Income tax clearance as a requirement for foreign travel was abolished.

* Foreign visitors no longer need to pay hotel bills in foreign currency.

* Imported goods worth more than $ 2,500 to require preshipment inspection, with a second company appointed to offer inspection services in addition to the Swiss-based Societe General de Surveillance.

* Urban properties were to be revalued for rate purposes.

* Tax holidays under the investment code was to be restricted to new investment only.

1.2. BACKGROUND OF BREAD LTD:

Bread Limited (BL) is a public sector undertaking (parastatal). It is a subsidiary of Uganda Grain Milling Company Limited (UGMC) and is engaged in the manufacture of bread and other bakery products. BL has capacity to produce about 28,000,000 loaves, per annum.

BL's subscribed share capital is U.Sh. 96,000 (Presently equal to US$ 76.80). UGMC holds 75% of the shares while Development Finance Corporation of Uganda (DFCU) holds the balance 25%. BL commenced production in 1967. To meet growing demand, a second baking line was added in 1972. The unit closed in 1983 due to mismanagement and reopened only in August 1990. In 1990, BL availed a loan of SDR 780,700 from the East African Development Bank for the purchase of spares and additional bread pans. By December 1992, the EADB loan burden had increased to U.Sh. 2.08 billion, 30% of which was due to exchange deterioration. The financial profile of present operations is given in Annexure 1.

CAPACITY UTILISATION AND PRODUCTION

Though the bakery can produce about 28 million loaves, per annum production has been low.

Production & capacity utilisation

Year	No. of loaves	Capacity
1990	3,129,144	11.1%
1991	5,226,191	18.6%
1992	6,242,257	22.3%

The bakery operates on a single shift basis, with weekly off on Saturday. Production averages 25,000 loaves of bread per shift, representing 25% capacity utilisation.

A cost sheet for the 500 gms. loaf is given in Annexure 2. The cost sheet also lists the raw materials used, their yields and prices.

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 M/s Amarnath Kamath & Company (Bangalore, India). The main objective of the study was to prepare a diagnostic report after studying selected money losing units. Bread Limited was one of the eight units selected under this programme.

SUMMARY OF THE MAJOR RECOMMENDATIONS MADE IN THE DIAGNOSTIC STUDY

1. Change the packaging used for bread loaves from wax paper to polyethylene bags.

2. Utilise the 47 tonnes of redundant "Premium Loaf" wax paper in stock, for institutional and local sales.

3. Purchase combined slicer-baggers (for polyethylene bags); phase out existing slicer-wax paper wrappers.

4. Improve flour transfer system from Uganda Millers Ltd. (UML) to BL to reduce costs.

5. Replace corrugated boxes used in packing bread loaves with wire mesh or plastic crates; the latter have longer life. Gross margins will increase, despite the initial higher costs of procuring the wire mesh or plastic crates.

6. Modify the boiler oil feed system as suggested.

7. Shift location of maintenance spares from UML to BL stores to ensure ready accessibility during emergencies.

8. Improve plant and personnel hygiene.

9. Develop new products to improve profitability, e.g., introduce 1,000 gms. loaves.

10. Shift marketing department to Kampala, the main demand centre.

11. Privatise marketing through dealers/stockists.

12. Decentralise decision making from UGMC to officers at BL.

13. Implement a suggestion system in the plant.

14. As a long term strategy, encourage the development of wheat cultivation in Uganda.

ACTION TAKEN BY CONSULTANTS AFTER COMPLETION OF DIAGNOSTIC STUDY

a. A proposal for supply of semi-automatic slicer/baggers from India was sent to BL. Installation of these machines should help relieve the bottleneck in the slicing and packing department. BL would then be able to deliver fresher bread in the market besides being able to increase production substantially.

b. Samples of polyethylene bags being used for packing bread in India were sent to BL.

c. The Technical Consultant submitted detailed drawings for modification of the oil feed system to the boilers. Orders have since been placed for the items needed to carry out this modification.

d. The Technical Consultant was a member of the packaging committee, to supervise the shift in packaging systems (wax paper to polyethylene bags).

e. Alternate systems for conveying flour from UML to BL were studied.

SHORT TERM GAINS FROM THE DIAGNOSTIC STUDY

* Savings by using poly-lined polyethylene sacks for transferring wheat flour from UCMC to BL - U.Sh. 25 million/ year.

* Savings by replacing cardboard cartons for packing bread loaves with plastic or wire crates - U.Sh. 150 million/year.

* Improving the oil transfer and supply system to the boilers (this reduces plant breakdowns due to boiler breakdowns and improves production) - U.Sh. 100 million/year.

* Use of 'Premium' loaf wax packaging paper for packing 'Sweet loaf' - U.Sh. 150 million.

MEDIUM TERM GAINS FROM DIAGNOSTIC STUDY

* By restructuring the EADB loan; UGMC taking over the loans (savings in exchange loss considering an outstanding of 1.75 million SDR by end 1993), at 10% deterioration of exchange rate - U.Sh. 300 million/year.

* By adding slicer/baggers and changing from wax packing to polyethylene packing - U.Sh. 300 million/year.

As a consumer item, bread has a ready and growing market. Bread Limited has a good factory and a well motivated work force. BL can be turned around successfully by implementing the recommendations outlined above.

UGMC's decision to take over the EADB loan after negotiations will go a long way in making BL a viable enterprise.

a. **Activities completed by Bread Ltd. in the short term to improve profitability**

1. Changed packaging for bread loaves from wax paper to polyethylene bags.

2. Utilised the 47 tonnes of "Premium loaf" wax paper in stock.

3. Procured slicer/baggers.

4. Gradually discontinuing use of corrugated boxes for second level packing and changing to wire mesh or plastic crates.

5. Orders for modifying the boiler oil feed system as suggested by the technical consultant had been placed.

6. Shifted part of maintenance spares from UML to BL stores to ensure ready accessibility during emergencies.

7. 1,000 gms. bread pack being introduced.

b. **Activities in the medium/long term to improve profitability**

1. Shifting marketing department to Kampala and, if possible, privatising marketing completely through dealers/stockists.

2. Decentralising all decision making to the officers of BL. Implementing a suggestion system in the plant.

3. Developing new products which can improve overall profitability.

4. As a long term strategy it is preferable to develop wheat cultivation in Uganda. UCMC is taking up the development of wheat cultivation through a ADB sponsored project.

5. The pneumatic conveying system for transferring wheat flour from UML to BL plant should be commissioned. Proposals received indicated an investment of US$ 100,000 for this.

c. **Financial gains of the programme in short & medium term**

1. Savings by using poly-lined polyethylene sacks for transferring wheat flour from UML to BL - U.Sh. 25 mn./year.

2. Savings by scrapping cardboard cartons and using plastic crates or wire crates - U.Sh. 150 million/year.

3. Savings by improving the oil transfer and oil supply system to the boilers (this reduces plant breakdowns due to boiler breakdowns and improves production) - U.Sh. 100 million/year.

4. Savings by the use of redundant stock of 'Premium' loaf wax packaging paper for packing 'Sweet ' loaf - U.Sh. 150 million.

5. Savings by restructuring the loan package after its take over by UGMC (savings in exchange loss on an outstanding of 1.75 million SDR by 1993 - at 10% deterioration of exchange rate) - U.Sh. 300 million/year.

6. Savings by adding slicer/baggers and changing from wax packing to polyethylene packing - U.Sh. 300 million/year.

The financial analysis on a medium term indicates that on the budgeted turnover for 1993 the company can gain as follows:

in million U.Sh.

	1993 Budgeted figures	Cost reduction	1993 Improved figures
Turnover	6013		6013
Raw material	4803	675	4128
Variable margin	1210		1885
Sundry income	331		331
Production exp.	273	50	223
Administration	456	300	156
Marketing exp.	26		26
UGMC fees	201		201
Operating Profit	585		1610

2. HOST COUNTRY STRATEGY

The government's reforms in the trade regime, monetary policy and fiscal policy have created a very positive business environment. Some of the policies favourable to industrial investment are as follows:

The Uganda Investment Authority is offering one-stop services to the investors. In the first eleven months of the Authority's operations to end May 1992 a total of 647 applications were issued, out of which 175 were returned to the authority completed.

Over 1991/92 financial year, import and export licensing, with its tedious procedures has been replaced with a semi-automatic import and export certificate system.

Foreign exchange allocation has been further liberalised and the exchange rate is allowed to be determined by market forces. Importers can buy foreign exchange from banks.

Corporate tax has been reduced from 40 percent to 30 percent.

Export duty on coffee is being abolished.

Import duties on import of plant and machinery and other raw materials are being rationalised.

Keeping in mind the background of the fluctuations in the political history of Uganda and the positive steps now being taken by the government, the case of rehabilitation investment for Bread Ltd, should be considered favourably.

Public enterprise divestiture and privatisation programme

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 cum privatisation 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. The divestiture programme has begun slowly and MOIT has been able to sell a hotel and some manufacturing organisations.

3. PRIOR OR ON-GOING ASSISTANCE

The rehabilitation package for Bread Ltd. 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 Uganda) and PPP/R.36 (May 1990) report titled "UNIDO Industry Sector Programming Mission to Uganda". Subsequently, in October, 1992, a project entitled "Rehabilitation of Industrial Enterprises in East Africa" with No US/UT/RAF/91/173 covering Tanzania, Uganda and Zambia was sub contracted to M/s Amarnath Kamath & Company (Bangalore, India). The main objectives of the programme were:

* Select 3 money losing units in Uganda (of which BL was one).
* Complete external and internal audit of all managerial functions and prepare 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 this project direct managerial and technical assistance was provided to improve material management, financial management, maintenance of machinery and boiler, human resource management, etc.

4. INSTITUTIONAL FRAMEWORK

The institutions involved in the rehabilitation of Bread Ltd. will be UNDP, Ministry of Industry, Financial Institutions (mainly EADB) and Uganda Grain Milling Company Limited (the holding company). The Ministry of Industry in Uganda along with the supporting departments (namely PIES) will have to play a key role in this project.

B. PROJECT JUSTIFICATION

1. Problems to be addressed in the present situation

As identified by the diagnostic study under US/UT/RAF/91/173, which was carried out between November'92 and January'93 the main problems were:

* The unit closed in 1983 due to mismanagement and reopened only in August 1990.
* In December 1990, responding to changes in consumer tastes, BL introduced "Sweet Loaf" replacing "Premium Loaf". This sudden, unplanned change rendered redundant, 47 tonnes of wax wrapping paper, already printed "Premium Loaf".
* BL continues to pack loaves in expensive imported wax paper, instead of cheaper polypropylene/polyethylene bags.
* Packaged loaves are despatched in limited life corrugated boxes instead of reusable and longer lasting plastic or metal bins.
* Demand for bread in sliced form was not envisaged at the planning stage and it is now found that the slicing capacity does not match the baking capacity. This restricts production and delays the despatch of bread. Consequently, loaves would reach customers outside Jinja area, only on the following day.
* Functioning of engineering and marketing departments were found operationally lacking.
* Frequent production breakdowns arose mainly due to poor design of fuel oil supply system to boilers.

* In 1990, BL availed a loan of SDR 780,700 from the East African Development Bank for the purchase of spares and additional bread pans. The EADB loan burden had increased to SDR 1,117,018 by June 30, 1993.

2. Expected end-of-project situation

For Bread Ltd. 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 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 Bread Ltd. and the holding company, Uganda Grain Milling Company Limited. Higher production levels will bring down the cost of production and ultimately result in lower consumer prices. This should reduce smuggling of bread from Kenya and other neighbouring countries.

4. Project implementation strategies and institutional arrangements

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

The turn around strategy would involve a multi pronged approach over a limited period of time. Full cooperation from the Government and banks would be necessary.

The strategies to be adopted would be:-

Phase

* Formulation of a rehabilitation strategy
* Finalisation of an investment cum business plan with UGMC, Ministry of Industry, bankers and EADB.
* Implementation of schemes which do not require large financial inputs.

Phase 2

* Rescheduling outstanding financial liabilities.
* Providing 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 a proper management information system and establishing financ[illegible] controls.

5. Reasons for assistance from UNIDO

Bread Ltd. is the largest bread manufacturing unit in Uganda with potential to improve the agricultural economy of Uganda. The product, at present selling prices, yields sufficient margins, provided the plant can be run continuously at rated capacities. The rehabilitation package should considerably improve the plant reliability. The financial projections indicate viability.

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 needs to be improved.

7. Co-ordination arrangements

The Ministry of Industry (in association with PIES) should be the coordinating agency and they should designate an official at the appropriate level to assure coordination. UGMC should coordinate all arrangements at Jinja.

8. Support activities

The Government of Uganda will have to support the rehabilitation programme through the coordinator mentioned above.

The Government should also exempt the plant and machinery, spares, vehicles and consumables imported under this scheme from customs duty and taxes.

C. DEVELOPMENT OBJECTIVES

To accelerate industrial growth and specifically the bread industry in Uganda, and thereby to contribute to the country's socio-economic development via increasing the productivity of installed capacity in BL 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 the existing 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 equipment through design checks.
* Scrapping equipment which cannot be repaired.
* Disposal of fixed assets not needed for the unit.
* Ordering 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 department (or privatising).

* Setting up quality control facilities and strengthening quality control department.

* Improving sanitation at the factory and surrounding areas.

* 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 of the rehabilitation project would be:

* Wider range of bread sizes and varieties.

* Greater flexibility to manufacture low batch size and high value products (like cakes, buns, etc.) in the small bakery.

* Improved flour transfer system which will reduce present cost of transfer of flour in bags.

* Smoother production flow on the main bakery line especially at slicing and packing (or bagging) stages.

* Better trained and motivated labour force manufacturing quality products.

* Reduced prices of standard loaves to customers through efficient production, distribution and cost control.

* Improved market share through aggressive marketing.

* Improved over-all profitability.

Activities

The details of activities and gains in the short, medium and long term are given in pages 8, 9 & 10. Further to those, the rehabilitation project related activities would be:

* Formulation of a clear rehabilitation strategy
* Finalisation of an investment cum business plan in association with UGMC, Ministry of Industry, Bankers and EADB.
* Implementation of schemes which do not require large financial ir .ts.
* Rescheduling outstanding financial liabilities.
* Locating and ordering plant, machinery, consumables and spares.
* Locating competent and trained manpower for getting the management team into operation.
* 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 Ugandan Government

* Designate one Senior official of the Ministry of Industry or PIES to be a coordi itor for the project.
* Clear import of all project equipment, spares and consumables free of duty during the implementation period of the project.

2. **Inputs from Bread Ltd./Uganda Grain Milling Company Limited**

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

3. **Inputs from UNIDO**

UNIDO will coordinate with the Ministry of Industry for smooth operation of the project. They should also be involved in clearing project budgets and their 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 considered exemption from import duties and other taxes for items considered necessary for this project. If the Ugandan Government does not give this specific exemption the project cost may have to be increased by about 30%. The product has a fairly good market with a potential sale of 7.5 million loaves/month. Considerable amount of marketing inputs would be necessary to reduce market risks. The start of the project may be delayed due to the non availability of suitable grant funds. Procedural formalities for import of equipment/machinery and bottlenecks in civil and electrical works at site may also delay the project. BL already has substantial loan and interest burden and a very low equity base.

G. PRIOR OBLIGATIONS AND REQUIREMENTS

Prior to starting the assignment with BL the following sanctions should be ready:

* Specific concessions being granted by the Uganda Government on customs duties and taxes for project imports and purchases.
* UNIDO/Ministry of Industry should ensure that a Coordinator is appointed for follow up on rehabilitation programme.

H. PROJECT REVIEWS, REPORTING AND EVALUATION

The project reviews should be held through the Project Evaluation/ Implementation Committee which can hold its meetings either at Jinja or at Kampala for reviewing progress and to sanction expenditure budgets. The Committee should consist of the Technical team, National Coordinator, BL/UGMC and UNIDO representatives. UGMC should keep minutes and prepare fortnightly progress report which should be submitted to UNIDO/UGMC and Ministry of Industry. On the reaching of specific milestones, as decided by the committee, detailed reports should be prepared.

I. PROJECT IMPLEMENTATION COST

The project implementation cost is listed in detail in Annexure 4, followed by a cash flow statement in Annexure 5 justifying viability of investment without taking into consideration the burden of the EADB loan.

A brief outline of the project cost is given below:

DETAILS OF PROJECT COST

1 US$ = 1175 U.Sh.= .707 SDR

ITEM	NOS.	AMOUNT US$	MILL. U.Sh.
SMALL BAKERY	1	175,000	205.63
FLOUR TRANSFER SYSTEM	1	150,000	176.25
SLICER / BAGGERS	2	17,000	19.98
LORRY/VANS	2	61,000	71.68
COLD ROOM		35,000	41.13
SPARES FOR PLANT		14,000	16.45
PROJECT & COMMISSIONING EXPENDITURE		48,000	56.40
TOTAL		500,000	587.52

J. TERMS OF REFERENCE

The Terms of Reference and the implementation programme are given in Annexure 6.

ANNEXURE - 1

ANALYSIS OF ANNUAL ACCOUNTS

BALANCE SHEET ANALYSIS

In '000 U.Sh.

	As at 31.12.92	As at 31.12.91	As at 31.12.90
Fixed assets	356,933	367,770	431,791
Intangible assets	3	3	3
	356,936	367,773	431,794
Current assets:			
Stocks	431,889	313,161	128,271
Receivables	56,855	190,804	101,481
Bank balances and cash	254,249	166,176	292,394
	742,993	670,141	522,146
Less: Current liabilities	544,723	658,832	333,153
	198,270	11,309	188,993
Net assets	555,206	379,082	620,787
Less: Liabilities:			
Long term loans	8	8	8
EADB loans	2,019,188	798,988	587,466
Amounts falling due outside 1 year	-	367,236	155,085
	2,019,196	1,166,232	742,559
NET WORTH	(1,463,990)	(787,150)	(121,772)
Represented by:			
Share capital	96	96	96
Reserves	10,859	10,859	10,859
Accumulated losses	(1,474,945)	(798,105)	(132,727)
	(1,463,990)	(787,150)	(121,772)

PROFIT & LOSS ACCOUNT ANALYSIS

In '000 U.Sh.

	Year ended 31.12.92	Year ended 31.12.91	Year ended 31.12.90
Gross sales	3,152,457	1,729,306	922,322
Sundry incomes	18,695	10,675	10,685
	3,171,152	1,739,981	933,007
Manufacturing expenses	2,467,133	1,389,792	723,776
Administrative expenses	401,426	210,054	124,583
Interest	301,219	281,050	42,891
Depreciation	72,886	64,021	18,900
Foreign exchange risk exposure	605,328	460,442	131,286
	3,847,992	2,405,359	1,041,436
Loss for the year/period	676,840	665,378	108,429
Loss b/fd	798,105	132,727	24,298
Loss carried to Balance Sheet	1,474,945	798,105	132,727

ANNEXURE - 2

COSTING

A cost sheet for 500 gms. sweet loaf was prepared as on November 30, 1993 and is given below:

STANDARD COST FOR MANUFACTURE OF SWEET LOAF - 500 GMS. PACK

Batch size 900 loaves

MATERIALS CHARGED/BATCH	QTY.	PRICE U.Sh.	COST U.Sh.
a) Flour	300 Kgs.	840	252,000
b) Other ingredients:			
Sugar	31 Kgs.	748	23,188
Yeast	1.2 Kg.	7,371	8,845
Salt	2.5 Kgs.	500	1,250
S. B. fat	5 Kgs.	1,844	9,220
Acetic acid	0.5 Kg	2,888	1,444
Cotton seed oil	2 Kg	1,555	3,110
c) Utilities:			
Diesel	27 Lts	820	22,140
Furnace oil	22 Lts	330	7,260
d) Cartons	15 Pcs	1,175	17,625
e) Wrapping supplies	9.4 Kgs	2,796	26,282

Therefore, cost per sweet loaf of 500 gms. pack would be as under:

	U. Sh.
a. Flour	280.00
b. Other ingredients	52.29
c. Wax wrapper	29.21
d. Cartons	19.60
e. Utilities	32.67
	413.77
Direct production cost	42.67
Administration cost	67.07
Total cost	523.51

ANNEXURE - 3

RESCHEDULED REPAYMENTS OF EADB LOAN

LOAN BALANCE AS OF JUNE 30,1993 - SDR 1,117,018.85
1 SDR = 1662 U.SH.
NEGOTIATED RATE OF INTEREST WITH EADB- 12.5%

CASH FLOW PROJECTIONS

MONTH	REPAYMENT OF LOAN SDR	BALANCE OF LOAN SDR	INTEREST ON LOAN SDR	MONTHLY PAYMENT SDR	MONTHLY PAYMENT MILL USH
JUNE, 1993	20685.53	1096333.3	11635.61	32321.14	53.72
JULY	20685.53	1075647.8	11420.14	32105.67	53.36
AUGUST	20685.53	1054962.2	11204.66	31890.20	53.00
SEPTEMBER	20685.53	1034276.7	10989.19	31674.72	52.64
OCTOBER	20685.53	1013591.2	10773.72	31459.25	52.29
NOVEMBER	20685.53	992905.6	10558.24	31243.78	51.93
DECEMBER	20685.53	972220.1	10342.77	31028.30	51.57
TOTAL			76924.33	221723.1	368.50
JANUARY,'94	20685.53	951534.58	10127.29	30812.83	51.21
FEBRUARY	20685.53	930849.04	9911.82	30597.35	50.85
MARCH	20685.53	910163.51	9696.34	30381.88	50.49
APRIL	20685.53	889477.97	9480.87	30166.40	50.14
MAY	20685.53	868792.44	9265.40	29950.93	49.78
JUNE	20685.53	848106.90	9049.92	29735.46	49.42
JULY	20685.53	827421.37	8834.45	29519.98	49.06
AUGUST	20685.53	806735.84	8618.97	29304.51	48.70
SEPTEMBER	20685.53	786050.30	8403.50	29089.03	48.35
OCTOBER	20685.53	765364.77	8188.02	28873.56	47.99
NOVEMBER	20685.53	744679.23	7972.55	28658.08	47.63
DECEMBER	20685.53	723993.70	7757.08	28442.61	47.27
TOTAL			107306.2	355532.6	590.90
JANUARY,'95	20685.53	703308.16	7541.60	28227.14	46.91
FEBRUARY	20685.53	682622.63	7326.13	28011.66	46.56
MARCH	20685.53	661937.10	7110.65	27796.19	46.20
APRIL	20685.53	641251.56	6895.18	27580.71	45.84
MAY	20685.53	620566.03	6679.70	27365.24	45.48
JUNE	20685.53	599880.49	6464.23	27149.76	45.12
JULY	20685.53	579194.96	6248.76	26934.29	44.76
AUGUST	20685.53	558509.43	6033.28	26718.82	44.41
SEPTEMBER	20685.53	537823.89	5817.81	26503.34	44.05
OCTOBER	20685.53	517138.36	5602.33	26287.87	43.69
NOVEMBER	20685.53	496452.82	5386.86	26072.39	43.33
DECEMBER	20685.53	475767.29	5171.38	25856.92	42.97
TOTAL			76277.91	324504.3	539.33

MONTH	REPAYMENT OF LOAN SDR	BALANCE OF LOAN SDR	INTEREST ON LOAN SDR	MONTHLY PAYMENT SDR	MONTHLY PAYMENT MILL USH
JANUARY,'96	20685.53	455081.75	4955.91	25641.44	42.62
FEBRUARY	20685.53	434396.22	4740.43	25425.97	42.26
MARCH	20685.53	413710.69	4524.96	25210.49	41.90
APRIL	20685.53	393025.15	4309.49	24995.02	41.54
MAY	20685.53	372339.62	4094.01	24779.55	41.18
JUNE	20685.53	351654.08	3878.54	24564.07	40.83
JULY	20685.53	330968.55	3663.06	24348.60	40.47
AUGUST	20685.53	310283.01	3447.59	24133.12	40.11
SEPTEMBER	20685.53	289597.48	3232.11	23917.65	39.75
OCTOBER	20685.53	268911.95	3016.64	23702.17	39.39
NOVEMBER	20685.53	248226.41	2801.17	23486.70	39.03
DECEMBER	20685.53	227540.88	2585.69	23271.23	38.68
TOTAL			45249.61	293476.0	487.76
JANUARY,'97	20685.53	206855.34	2370.22	23055.75	38.32
FEBRUARY	20685.53	186169.81	2154.74	22840.28	37.96
MARCH	20685.53	165484.27	1939.27	22624.80	37.60
APRIL	20685.53	144798.74	1723.79	22409.33	37.24
MAY	20685.53	124113.21	1508.32	22193.85	36.89
JUNE	20685.53	103427.67	1292.85	21978.38	36.53
JULY	20685.53	82742.14	1077.37	21762.91	36.17
AUGUST	20685.53	62056.60	861.90	21547.43	35.81
SEPTEMBER	20685.53	41371.07	646.42	21331.96	35.45
OCTOBER	20685.53	20685.53	430.95	21116.48	35.10
NOVEMBER	20685.53	0.00	215.47	20901.01	34.74
TOTAL			14221.30	241762.2	401.81

ANNEXURE - 4

DETAILS OF PROJECT COST

1 US$ = 1175 U.Sh.= .707 SDR

ITEM	NOS.	AMOUNT US$	AMOUNT MILL. USh.
SMALL BAKERY	1	175,000	205.63
FLOUR TRANSFER SYSTEM	1	150,000	176.25
SLICER / BAGGERS	2	17,000	19.98
LORRY/VANS	2	61,000	71.68
COLD ROOM		35,000	41.13
SPARES FOR PLANT		14,000	16.45
PROJECT & COMMISSIONING EXPENDITURE		48,000	56.40
TOTAL		500,000	587.52

MEANS OF FINANCE

SOURCE	AMOUNT US$	AMOUNT MILL. USh.
INTERNAL GENERATION	98,000	115.15
LOAN- EADB/DANIDA	402,000	472.37
TOTAL	500,000	587.52

NOTE: It is assumed that loan is sanctioned by 1995 and repayment starts from January 1997

SCHEDULE OF REPAYMENTS OF EADB/DANIDA LOAN OVER 60 MONTHS

LOAN BALANCE AS OF JANUARY 1997 - US $ 402,000
1 US $ = 1175 U.SH.
NEGOTIATED RATE OF INTEREST WITH EADB– 12.5%

MONTH	REPAYMENT OF LOAN US$	BALANCE OF LOAN US$	INTEREST ON LOAN US$	MONTHLY PAYMENT US$	MONTHLY PAYMENT MILL USH
JANUARY,'97	6700.0	395300.0	4187.50	10887.50	12.79
FEBRUARY	6700.0	388600.0	4117.71	10817.71	12.71
MARCH	6700.0	381900.0	4047.92	10747.92	12.63
APRIL	6700.0	375200.0	3978.13	10678.13	12.55
MAY	6700.0	368500.0	3908.33	10608.33	12.46
JUNE	6700.0	361800.0	3838.54	10538.54	12.38
JULY	6700.0	355100.0	3768.75	10468.75	12.30
AUGUST	6700.0	348400.0	3698.96	10398.96	12.22
SEPTEMBER	6700.0	341700.0	3629.17	10329.17	12.14
OCTOBER	6700.0	335000.0	3559.38	10259.38	12.05
NOVEMBER	6700.0	328300.0	3489.58	10189.58	11.97
DECEMBER	6700.0	321600.0	3419.79	10119.79	11.89
TOTAL			45643.75	126043.8	148.10
JANUARY,'98	6700.0	314900.0	3350.00	10050.00	11.81
FEBRUARY	6700.0	308200.0	3280.21	9980.21	11.73
MARCH	6700.0	301500.0	3210.42	9910.42	11.64
APRIL	6700.0	294800.0	3140.63	9840.63	11.56
MAY	6700.0	288100.0	3070.83	9770.83	11.48
JUNE	6700.0	281400.0	3001.04	9701.04	11.40
JULY	6700.0	274700.0	2931.25	9631.25	11.32
AUGUST	6700.0	268000.0	2861.46	9561.46	11.23
SEPTEMBER	6700.0	261300.0	2791.67	9491.67	11.15
OCTOBER	6700.0	254600.0	2721.88	9421.88	11.07
NOVEMBER	6700.0	247900.0	2652.08	9352.08	10.99
DECEMBER	6700.0	241200.0	2582.29	9282.29	10.91
TOTAL			35593.75	115993.8	136.29
JANUARY,'99	6700.0	234500.0	2512.50	9212.50	10.82
FEBRUARY	6700.0	227800.0	2442.71	9142.71	10.74
MARCH	6700.0	221100.0	2372.92	9072.92	10.66
APRIL	6700.0	214400.0	2303.13	9003.13	10.58
MAY	6700.0	207700.0	2233.33	8933.33	10.50
JUNE	6700.0	201000.0	2163.54	8863.54	10.41
JULY	6700.0	194300.0	2093.75	8793.75	10.33
AUGUST	6700.0	187600.0	2023.96	8723.96	10.25
SEPTEMBER	6700.0	180900.0	1954.17	8654.17	10.17
OCTOBER	6700.0	174200.0	1884.38	8584.38	10.09
NOVEMBER	6700.0	167500.0	1814.58	8514.58	10.00
DECEMBER	6700.0	160800.0	1744.79	8444.79	9.92
TOTAL			25543.75	105943.8	124.48

MONTH	REPAYMENT OF LOAN US$	BALANCE OF LOAN US$	INTEREST ON LOAN US$	MONTHLY PAYMENT US$	MONTHLY PAYMENT MILL USH
JANUARY,2000	6700.0	154100.0	1675.00	8375.00	9.84
FEBRUARY	6700.0	147400.0	1605.21	8305.21	9.76
MARCH	6700.0	140700.0	1535.42	8235.42	9.68
APRIL	6700.0	134000.0	1465.63	8165.63	9.59
MAY	6700.0	127300.0	1395.83	8095.83	9.51
JUNE	6700.0	120600.0	1326.04	8026.04	9.43
JULY	6700.0	113900.0	1256.25	7956.25	9.35
AUGUST	6700.0	107200.0	1186.46	7886.46	9.27
SEPTEMBER	6700.0	100500.0	1116.67	7816.67	9.18
OCTOBER	6700.0	93800.0	1046.88	7746.88	9.10
NOVEMBER	6700.0	87100.0	977.08	7677.08	9.02
DECEMBER	6700.0	80400.0	907.29	7607.29	8.94
TOTAL			15493.75	95893.8	112.68
JANUARY,2001	6700.0	73700.0	837.50	7537.50	8.86
FEBRUARY	6700.0	67000.0	767.71	7467.71	8.77
MARCH	6700.0	60300.0	697.92	7397.92	8.69
APRIL	6700.0	53600.0	628.13	7328.13	8.61
MAY	6700.0	46900.0	558.33	7258.33	8.53
JUNE	6700.0	40200.0	488.54	7188.54	8.45
JULY	6700.0	33500.0	418.75	7118.75	8.36
AUGUST	6700.0	26800.0	348.96	7048.96	8.28
SEPTEMBER	6700.0	20100.0	279.17	6979.17	8.20
OCTOBER	6700.0	13400.0	209.38	6909.38	8.12
NOVEMBER	6700.0	6700.0	139.58	6839.58	8.04
DECEMBER	6700.0	0.0	69.79	6769.79	7.95
TOTAL			5443.75	85843.8	100.87

ANNEXURE - 5

CASH FLOW PROJECTIONS

IN MILLION USH

ITEM	1993	1994	1995	1996	1997	1998	1999	2000	2001
OPENING CASH/ BANK BALANCE	254.25	397.29	617.19	931.94	1455.22	1944.14	1357.59	2293.13	3243.22
PROJECTED SALES-MILL. LOAVES	6.80	8.16	9.79	10.77	11.85	12.44	13.06	13.72	14.40
AVERAGE SALES PRICE U.SH.	575	565	565	570	570	570	570	570	570
SALES INCOME	3910.00	4610.40	5532.48	6139.58	6753.54	7091.22	7445.78	7818.07	8208.97
OTHER INCOME	15.00	18.00	21.60	25.92	31.10	37.32	44.79	53.75	64.50
TOTAL FUNDS INFLOW	3925.00	4628.40	5554.08	6165.50	6784.64	7128.54	7490.57	7871.82	8273.47
EXPENSES/OUTFLOWS									
MATERIAL PURCHASES	2776.10	3273.38	3928.06	4359.10	4795.02	5034.77	5286.50	5550.83	5828.37
PRODUCTION EXPENSES	242.42	285.84	343.01	380.65	473.72	494.66	516.64	539.72	563.96
ADMINISTRATION & MARKETING	153.70	184.45	221.34	265.61	318.70	382.44	458.95	550.74	660.88
LOAN INTEREST	225.43	178.34	126.77	75.20	99.50	59.16	42.45	25.75	9.05
TOTAL COST OF SALES	3397.65	3922.01	4619.18	5080.56	5686.94	5971.03	6304.54	6667.04	7062.26
PROFIT BEFORE TAX(PBT)	527.35	706.39	934.90	1084.94	1097.70	1157.51	1186.03	1204.78	1211.21
LESS UGMC FEES (25% OF PBT)	131.84	176.60	233.73	271.24	274.43	289.38	296.51	301.20	302.80
TAX @ 30%	118.65	158.94	210.35	244.11	246.98	260.44	266.86	271.08	272.52
PROFIT AFTER TAX (PAT)	408.70	547.45	724.55	840.83	850.72	897.07	919.17	933.71	938.69
ADD BACK DEPRECIATION	75.00	85.00	85.00	95.00	150.00	150.00	150.00	150.00	150.00
TOTAL CASH INFLOW	483.70	632.45	809.55	935.83	1000.72	1047.07	1069.17	1083.71	1088.69
LOAN REPAYMENT	240.66	412.55	412.55	412.55	511.80	133.62	133.62	133.62	133.62
CAPITAL EXPENDITURE	100.00		82.25			1500.00			
NET CASH INFLOW	143.04	219.90	314.75	523.28	488.92	-586.55	935.55	950.08	955.07
% PBT ON SALES	13.44	15.26	16.83	17.60	16.18	16.24	15.83	15.31	14.64
% PAT ON SALES	10.41	11.83	13.05	13.64	12.54	12.58	12.27	11.86	11.35

NOTE:

1. Material expenses considered at 71% of sales value.

2. Other production expenses considered at 6.2% of sales value. This includes depreciation along with additional depreciation after 1997 when rehabilitation investment has been completed.

3. Administration and marketing expenses have been increased by 20% every year to accommodate higher marketing expenses for selling higher volumes projected at slightly lower (1994 - 1995) prices.

4. Growth in volume of sales has been assumed at 20 % for 1994 & 1995, at 10 % for 1996 & 1997 and at 5 % for 1998 and later years.

ANNEXURE - 6

TERMS OF REFERENCE

1. Project title:

Rehabilitation of Bread Limited, Jinja, Uganda.

2. Background information:

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

3. Objectives:

The main rehabilitation objectives are:

Bring the plant to 100% capacity utilisation by balancing the equipment & 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 the existing borrowings.

Commence procurement of wheat from Ugandan farmers.

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 market size.

b. In association with the Bakery Manager (i) assess the viability of upgrading the existing bread plant, (ii) list new equipment required including small bakery, (iii) prepare estimates of cost for refurbishing old equipment and for civil work.

c. To collect details of suppliers, obtain quotations and delivery schedules in respect of new plant and machinery.

d. To prepare a detailed project report based on final prices of equipment and costs of refurbishment.

e. Select vendors for supply of equipment, spares and consumables in consultation with the Bakery Manager and UNIDO Country Director (UCD), Kampala.

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

4.2 Output 2:

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

Activities for Output 2:

a. The international consultant in association with the local consultant, Bakery 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 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 food processing industry and expertise in turn-around and rehabilitation of sick industries.

* The local consultant should preferably be an engineer with experience in food processing industry with special emphasis on maintenance/ project management.

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 during ordering of machinery, revamping of buildings, revitalisation of the plant, (b) 20 days at home office for rehabilitation work and (c) 40 days in the factory during 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: Jinja and Kampala.

8. Language: English.