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REHABILITATION OF INDUSTRIAL ENTERPRISES IN EAST AFRICA

EXECUTIVE SUMMARIES OF DIAGNOSTIC STUDY REPORTS

BANGALORE - INDIA AUGUST 1993

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INDIA

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KIBO PAPER INDUSTRIES LIMITED

1.0 A BRIEF HISTORY OF KIBO PAPER

1.1 KIBO Paper was established in 1965 as a private sector enterprise. The Company declared bankruptcy in 1969 and was nationalised the following year.

1.2 The National Development Corporation (NDC) acquired 76% of the Company's share holding. In the ensuing years the National Milling Corporation acquired 14% of the share holding and The Worker's Development Corporation held 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.

1.3 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:

- the Paper Mill was commissioned in the late 1970s and
- the production of multi-wall bags and gummed packing tapes were introduced.

2.0 LOCATIONS OF FACTORIES AND OFFICES

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

3.0 PRODUCTS

3.1 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

3.2 In 1992, the paper mill produced 1,600 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 (FORECAST)

FOR PACKAGING PRODUCTS

(x 1000 tonnes)

Items	1992 Plan	1992 Actual	% of Actual to plan	1993 Plan
Paper board and corrugated products	2.10	1.63	77.5	1.79
Packaging materials	1.05	0.33	31.5	0.89
Multi-wall bags	3.10	1.25	40.5	2.77
Gummed Tapes	0.05	0.05	100.0	0.07
	6.30	3.26	51.7	5.52

4.0 MANAGEMENT AND MANPOWER

At present KIBO Paper is managed by an Acting General Manager, who reports to the Board of Directors. The Company employs 526 persons, aged between 21 and 55 years.

At the time of writing, vacancies for department heads in production and finance still persist apart for the need for more experienced persons in marketing and human resource development.

5.0 PRE-STUDY DEVELOPMENTS AT KIBO PAPER

5.1 Immediately preceding the start of this study, on October 25, 1992 factory workers at KIBO Paper locked out the General Manager, Production Manager and Purchasing Manager in protest against the Board of Directors delay in meeting their monetary demands, and also delay in their dealing with mismanagement in the Company. Annexure XVI presents a collage of newspaper articles that reported on these developments at KIBO Paper.

5.2 An Acting General Manager was then appointed to run the Company.

6.0 FINANCIAL CONDITION OF THE COMPANY

6.1 During the course of this study it was found that the Company's credit line had been fully utilised. Loans outstanding with the East African Development Bank (EADB) and the Tanzania Industrial Bank (TIB) exceeded TSh. 1.40 billion. 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.

6.2 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.)

6.3 KIBO Paper faces serious financial problems. Through steady financial deterioration, the Company now has negative net worth.

7.0 THE APPROACH TO REHABILITATION OF KIBO PAPER

7.1 At the start of this study, repercussions from the events of October 25, 1992 continued to foster tension and uncertainty. Our Consultants made conscious efforts to help ease these tensions.

7.2 Consultants' efforts on-site were aimed at maintaining production levels in spite of severe power shortages prevalent at that time. The marketing department was restaffed internally. The practice of calling on important customers for orders was revived.

7.3 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.

7.4 On December 12, 1992 the Consultants addressed the employees to inform them of the precarious position of the Company and the important role the employees will have to play in its rehabilitation.

7.5 To boost morale, on our Consultant's recommendation, management at KIBO Paper launched a poster campaign inviting employees to participate in the rehabilitation of the Company.

8.0 SETTING AND ACHIEVING PLANNED TARGETS

8.1 A production programme for the quarter ended January 31, 1993 was formulated based primarily on raw materials in stock (see section 6.2 above), and supplemented with very limited new purchases.

8.2 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.

8.3 Trade debtors were contacted to recover amounts overdue.

8.4 The Acting General Manager and the Consultants assisted marketing personnel by initiating efforts to win back former customers by personally visiting them.

8.5 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.

8.6 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.

8.7 A performance based incentive plan was drawn up by the Consultants to provide employees a bonus of up to 15% per month.

9.0 REORGANISING THE MANAGEMENT STRUCTURE

9.1 The reorganisation of the management structure at KIBO Paper (Appendix - I) should encourage and foster growth, both in the sales of each product line as well as in production output to meet the increased demand.

9.2 The Company should be headed by a General Manager, fully responsible for the running of the Company, in effect a CEO.

The General Manager should be assisted by:

a. Managers in charge of administration, finance and accounts, internal audit, human resource development, 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
- the multi-wall bag plant.

10.0 RECONSTITUTING THE BOARD OF DIRECTORS

10.0 KIBO Paper's Board of Directors should be reconstituted to include the stake holders like bankers, customers and employees. This reconstituted Board should commit itself to the successful privatisation of KIBO Paper.

TANZANIA ANIMAL FEEDS COMPANY LIMITED

A. INTRODUCTION

1.0 History

In 1972, the National Milling Corporation (NMC) installed a factory on Pugu Road to produce animal feeds. The automated factory, imported from the Buhler Company in Switzerland, was considered among the best in the world.

In 1983, Tanzania Animal Feeds Company (TAFCO) was incorporated as a public enterprise and established as a subsidiary of the now defunct Livestock Development Authority (LIDA). At present, The National Milling Corporation is TAFCO's sole shareholder, owning share capital of TSh. 30 million.

2.0 Location

TAFCO has four operating mills:

Pugu Road	established in 1972	Capacity: 10 tonnes per hour
Mbeya	established in 1983	Capacity: 2.5 tonnes per hour
Moshi	established in 1985	Capacity: 5 tonnes per hour
Mwanza	established in 1992	Capacity: 5 tonnes per hour

3.0 Product range

TAFCO produces four types of animal feeds:

- Poultry feed
- Dairy feed
- Pig feed
- Other feed, e.g. mice meal, rabbit meal, guinea pig meal, made to order.

Poultry feed accounts for 95% of TAFCO's total output of feed products. The market for livestock feed is estimated to be 200,000 tonnes per year. TAFCO's combined plant capacity is 120,000 tonnes per year (400 tonnes per day, over 300 days), the largest in Tanzania. Actual output from the four factories during the last five years was follows:

1987	29,137 tonnes
1988	15,167 tonnes
1989	n.a
1990-91	4,853 tonnes
1991-92	2,640 tonnes

The principal reasons cited for declining production are inadequate raw material availability and the high price of raw materials.

4.0 Management & manpower

4.1 The main plant in Dar-es-Salaam employs 110 people; Moshi and Mbeya employ 47 and 34 people, respectively. Staff turnover is relatively low. Workers receive a wide rage of benefits (including reimbursement for medical treatment, transport allowances and free training courses).

4.2 The Board of Directors consists of 6 members. They have overall executive responsibility, and meet as often as six times a year.

4.3 Senior management at TAFCO are well qualified. However, many senior positions are vacant. The factory at Moshi does not have a General Manager and positions for a Production and Operations Manager and a Chief Accountant have not been filled.

4.4 Management information systems and cost control procedures are lacking. Communications between Dar-es-Salaam and the factories in Moshi and Mbeya are poor.

4.5 The present Acting General Manager, Mr. R.B. Hoza, may not have the necessary expertise to turn TAFCO around.

B. PAST STUDIES ON REHABILITATION OF TAFCO

1.0 Serious studies on the rehabilitation of TAFCO started around 1988. All the studies concentrated on the main factory in Dar-es-Salaam. Data from the Moshi, Mwanza and Mbeya factories were obtained and studied, but do not appear to have been incorporated into the total rehabilitation plan for TAFCO.

1.1 The following studies for the rehabilitation of TAFCO have been conducted:

a. "Project Profile" for DANIDA (1987/88)

b. "Future of TAFCO" (1989)
by Agricultural Planning and Marketing Division, Project Preparation and Monitoring Bureau (PPMB), Dar-es-Salaam: Report No. BFU/28/89.

c. "Special reports on Industrial Rehabilitation", UNIDO, Report No.4: PPD/R.26 of 14 June 1989.

d. UNIDO Project No. DP/RAF/88/074: (March 1990)

1.2 All these studies indicate that the factory in Dar-es-Salaam has been deteriorating.

1.3 The rehabilitation measures suggested in these studies have not been implemented till date.

2.0 The studies conducted thus far, including this study, indicate a mismatch between the technology bought from Buhler of Switzerland and the state of national development at that time.

2.1 TAFCO's automated factory is a great handicap in these times of electrical power shortage. The most successful animal feeds manufacturer in Tanzania, Interchick, uses labour intensive technology.

2.2 From August to December 1992, Interchick produced an average of 3,000 tonnes of animal feed per month; in comparison, TAFCO's factory in Dar-es-Salaam produced only 185.5 tonnes during the same period.

C. FUTURE PROSPECTS FOR TAFCO

1.0 The work-force at TAFCO is demoralized. Attempts to make them clean the factory to make it presentable to prospective users of TAFCO's plant capacity were unsuccessful.

1.1 Problems are brewing with the workers union, who either cannot or do not understand the company's poor financial situation. They were pressing for a wage increase, even when there were no funds to pay current wages.

2.0 During the course of the study, the Sales Tax Authority made it known that they would confiscate TAFCO's assets, primarily at the factory in Dar-es-Salaam, to recover past dues. The SC discovered that:

a. TAFCO has no documents to prove its ownership of assets
b. plant and equipment have only scrap value
c. none of the vehicles are in serviceable condition

d. as there has been no production, there are no stocks

e. there was no money to pay salaries, wages and dues

f. TAFCO's Acting General Manager was in no position to make promises

3.0 TAFCO's accumulated debts exceed TSh. 441 million. Estimates in the report made for DANIDA indicate that the cost of repairs to make the plant operational may exceed TSh. 1,000 million. These two factors demonstrate that it is very difficult to make TAFCO commercially viable.

4.0 During the course of their study, the Senior Consultant (SC) and the Technical Consultant (TC) perceived an indifferent response to TAFCO's financial and technical condition, from the Ministry of Agriculture, The National Milling Corporation and the Board of Directors.

5.0 TAFCO advertised in the local press, inviting companies to come forward as joint venture partners. The response was not very encouraging.

6.0 The SC and the Acting General Manager made a final attempt to negotiate sales on behalf of TAFCO. Together, they visited Interchick, Rajani Enterprises and NAPOCO to persuade them to use the production facilities at TAFCO for processing their excess requirements. Interchick and Rajani Enterprises expressed their doubts about TAFCO's quality and reliability.

7.0 Based on the information gathered, TAFCO cannot be rehabilitated; it should be shut down and liquidated. The assets of the company may be sold on an "as is where is" basis and the proceeds may be used to pay past dues to employees and creditors.

BLENDERS UGANDA LIMITED

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

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

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

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

BUL employees are demoralised. Our Consultants noted this through the many written complaints received, each alleging mismanagement and corruption. Officials from tea gardens and

banks confirmed the Company's poor image. The Senior Consultant (SC) held discussions with bank officials for possible future assistance, but was politely turned down.

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

i) After conducting an in-depth job analysis retrench extra workers and staff and (ii) sell the truck and the excess resin glue and proceed to repay as much of the EADB loan as possible.

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

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

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

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

BREAD LIMITED

Bread Limited (BL), a public sector undertaking (parastatal), is a subsidiary of Uganda Grain Milling Corporation (UGMC). UGMC holds 75% of BL's equity of USh. 96,000 (Presently equal to US$ 76.80) while Development Finance Corporation of Uganda (DFCU) holds the balance 25% of BL's equity.

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 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".

SIGNIFICANT FINDINGS

Our diagnostic study revealed the following:

1. BL continues to pack loaves with expensive imported wax paper, instead of cheaper polypropylene/polyethylene bags.

2. Packaged loaves are despatched in limited life corrugated boxes instead of reusable and longer lasting, plastic or metal bins.

3. 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, fresh loaves reach customers outside Jinja area, only the following day.

BOTTLENECKS

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. The TC designed a more efficient oil supply system.

The marketing department mainly looks after despatch and distribution neglecting other marketing functions. In-house market surveys reveal that the generic brand name for BL products, "Tip-Top", sports a good brand image and the market could easily absorb upto one hundred thousand loaves of Tip-Top bread per day. BL's average production of about twenty five thousand loaves per day gives scope for competition to enter.

FINANCIAL SITUATION

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 USh. 2.08 billion, 30% of which was due to exchange deterioration. To avoid further exchange loss, Amarnath Kamath & Co. recommended that UGMC buy out the loan from EADB and recover the amount from BL over 7 years. The UGMC Board has, at its recent meeting, approved the taking over of the EADB loan and has asked the management to start discussions with EADB for restructuring and rescheduling the loan which has to be otherwise cleared by June 1995. In turn, it has agreed to give BL time upto June 1998 to reimburse the amount in monthly instalments.

BL's corporate plan (Annexure VI) indicates its ability to repay the loan and interest to UGMC.

SUMMARY OF MAJOR RECOMMENDATIONS

1. Change packaging 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 UML to BL to reduce costs.

5. Replace corrugated boxes with wire mesh or plastic crates; the latter have longer life. Gross margins will increase, despite initial costs of procuring metal or plastic crates.

6. Modify the boiler oil feed system as suggested by the TC.

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

a. A proposal for supply of semi-automatic slicer/baggers from India has been sent to BL which is under active consideration. Installation of these machines should help relieve the bottleneck in the slicing and packing department. BL will 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 have been procured and sent to BL.

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

e. Alternate systems for conveying flour are being studied.

SHORT TERM GAINS

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

* Savings by replacing cardboard cartons with plastic or wire crates - USh. 150 million/year.

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

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

MEDIUM TERM GAINS

* By restructuring the loan package: 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 - USh. 300 million/year.

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

CONCLUSION

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.

MASAKA FOOD PROCESSORS

Masaka Food Processors (MFP), a subsidiary of Masaka Cooperative Union (MCU), is located in the pineapple growing area of Kyabakuza (near Masaka), 130 Kms. from Kampala. Mather & Platt Limited supplied the machinery for the unit from India in 1983 but were able to erect and commission it only during 1987/88, due to political turbulence in Uganda in the intervening period. The machinery never performed to specifications due to a combination of factors like deterioration from open storage, poor design, inadequate post-commissioning preventive maintenance and poor operating practices.

MFP's financial problems were heightened when interest started mounting on the East African Development Bank (EADB) loan especially due to the continued deterioration of the Ugandan Shilling against the SDR. This situation drained MFP's finances and reduced its working capital. While the bankers have been helpful, the EADB has not been lenient towards the outstandings of approximately USh. 4.35 billion in the loan account as of November 30, 1992. Losses have wiped out the low equity base.

During the course of study, substantial improvements were introduced in the working of the unit: the yield in juice separation increased by 100%; improvements in plant maintenance, hygiene, sanitation, work methods and store keeping were made; a short-term plan for modifying equipment to improve the efficiency of plant and equipment was implemented, till longer term strategies were finalised.

There are no constraints either in the supply of raw materials or in the demand for fresh fruit juices, MFP being the only fruit processing factory in the co-operative sector in Uganda. The cost of procured fruit is quite low and the processed juice can compete well with other beverages. Operating at full capacity, MFP can employ upto 100 workers and operate a fresh fruit procurement programme involving abouc 300 farmers. MFP's performance in production and marketing has suffered mainly due to poor management.

MFP can make a major contribution to national development, encouraging the cultivation of orchard fruits (pineapples, passion fruits, oranges, etc.), and processing the same for sale. MFP's potential has been recognised by the Ugandan Government. The Ugandan President visited the factory and announced a grant of US$ 500,000 to write off a part of the outstanding loans. However, nothing has been heard on the subject for a long time.

There is no hope for the survival of MFP unless it is able to persuade EADB to write off a major portion of its outstandings and is also able to get substantial aid from donors. EADB, in a meeting with the consultants during their second visit, expressed their inability to either finance MFP any further or give any concessions to it either by way of writing off any portion of the outstanding loans or extend the time for repayment. In fact, EADB has moved for recovery of its outstandings.

PREMIUM OIL INDUSTRIES LIMITED

Premium Oil Industries Limited (POI) commenced its operations in 1964 as Refined Oil Products Limited, a subsidiary of the Rhodesia Industries, with headquarters in Salisbury (now Harare).

Initial operations included crushing of cotton and groundnut seeds, oil refining, the manufacture of candles, several brands of laundry soaps, toilet soaps, liquid soaps, detergents and glycerine, washing soda, margarine and hard fats for the baking industry.

In 1975, in the wake of the Government's nationalisation policy, both Refined Oil Products Ltd., with its factory in Lusaka, and Lever Brothers Ltd. (a Unilever subsidiary), with its factory in Ndola, were nationalised, with the Government controlling 100% of the shares through Indeco Ltd., a public sector undertaking. The two companies, engaged in similar activities, were then merged under ROP Ltd., with headquarters based at Ndola and factories at Ndola and Lusaka.

In April 1976, the vegetable oil seed processing operations were expanded at the Lusaka factory with the commissioning of the 'CARVER' plant which could process 100 M.T. of oil seeds per day. In 1977, the oil refining operations were expanded with the commissioning of a new refinery which could refine 100 M.T. of oil per day.

Further expansions in 1980 saw the commissioning of the 'BUHLER' seed crushing plant which had a capacity to process 300 M.T. of seeds per day rendering the 'CARVER' plant superfluous. The latter plant was progressively cannibalised to such an extent that presently it has been consigned to the scrap heap.

In the Buhler plant, oil was extracted through the process of deep pressing. This process resulted in a substantial amount of residual oil being left in the spent cake. To recover this residual oil POI installed a solvent extraction plant capable of processing 180 metric tonnes of oil cake per day. This was sourced from Italy and commissioned in October 1982.

In July 1986, the factory at Lusaka was delinked from ROP (1975) Ltd. and incorporated as an independent company, under the banner of Premium Oil Industries Ltd.(POI). Today, POI is the largest edible oil refining factory in Zambia and continues to be wholly owned by INDECO Ltd., which in turn is a wholly owned subsidiary of ZIMCO (Zambia Industrial Mining Corporation Ltd.)

The problems of POI arise from the following:

i. Investment decisions on plant and machinery taken without adequate study and justification:

* Cotton seed processing plant imported from China at an approximate cost of US $1.0 Million still remains in its original crates.

* Modifications carried out on solvent extraction plant to enhance its process capacity, without adequate study of the imbalances that may be created in other areas.

* Pelletisation plant procured for pelletising the seed hull remains inoperative. The pelletised seed hull was to have been used as a supplement to the boiler fuel.

ii. Poor maintenance, coupled with lack of spare parts, has resulted in frequent breakdowns and consequent under-utilisation of plant capacity.

iii. Frequent changes in senior management deprives the Company of continuity in leadership. The present General Manager has been in this position for less than a year and in the past three years there have been three General Managers, none of whom have had any previous experience in the oil processing industry.

iv. Poor process control and operating practices resulting in material wastage far above acceptable norms.

v. 60% of oil production is based on imported crude - a major drain on precious foreign exchange. Imported crude has to be used because of the inefficiency and the frequent breakdown of the seed processing unit.

vi. The under utilisation of the seed-processing unit results in low production of seed cake, a profitable product which is in high demand for livestock production.

The Company's range of products, covering edible vegetable oil, stock feed cake (from soya and sunflower seeds), margarine, bakery fats and glycerine have a good market, but their quality and packaging need substantial improvement, as presently they do not compare favourably with imported products from neighbouring countries like Zimbabwe and South Africa.

Though POI has 460 employees it has no training programmes. Morale among mill level managers, staff and workers is low. This may be attributed to frequent changes in leadership. The Company does not have an incentive schemes for employees, linked either to productivity or to performance.

The critical area to be tackled is clearly in **"ENGINEERING AND MAINTENANCE"** and therefore the SC's time at POI was devoted mainly to study problems related to material storage and bottlenecks in processing, identification of specific causes for machinery breakdowns and providing respective recommendations for action plans to overcome these shortcomings. A comprehensive plant maintenance and machinery rehabilitation programme, based on identified bottlenecks, has been worked out in consultation with the production and engineering managers. (See Annexures II and III.

It is also quite clear that the existing team at the POI does not possess the requisite skills and overall competence to carry out the rehabilitation programme. The SC has therefore recommended that this exercise could be entrusted to an outside organisation on contract for a period of about three years, during which time a strong engineering team could be built up by POI through rigorous on the job training under the supervision of the selected contracting firm. It has been further recommended that the contractor's scope of work should also include the setting up of an in-company TRAINING SCHOOL so that two important objectives could be achieved during the period of the contract -

* The efficiency of the plant could be improved to enable it to achieve the rated capacity.

* The Company could build a strong team of engineers and technicians who can subsequently operate and maintain the plant & machinery at a high level of efficiency.

The Consultants are willing to assist in identifying and short-listing competent organisations, with proven track records, to undertake the contract for the rehabilitation and training programme and submit them to POI for their final selection. The rehabilitation programme envisages repair of the existing machinery, without any major capital expenditure and is aimed at progressive elimination of the present practice of importing crude oil for refining, at the cost of considerable foreign exchange. Increased procurement and processing of locally grown seeds will yield economic benefits through increased output of stock feed - a major input for livestock production and an added incentive to the farming community to enhance their output.

POI can have a substantial impact on the Zambian agricultural and livestock economy. It can promote the growth of oil seeds and improve the farm economy and by increasing the throughput of seedcake it can also improve the supply of livestock feed.

ZAMBIA PORK PRODUCTS SME

Zambia Pork Products Limited (ZAPP) was formed on January 1, 1971 when the Government of Zambia nationalised Colcom Products (Zambia) Ltd. and made it a subsidiary of the Rural Development Corporation. The Company was established to encourage pig production in Zambia and provide Zambian pig farmers an outlet for processed pork meat.

Through nationalisation, the Government planned to build an efficient marketing system for pork and processed pork products, both for domestic use and for exports.

To encourage local pig farmers improve the quality of pigs raised and increase the quantity of pigs harvested, the Company organised a Farm Liaison Department in 1973, whose main function was to offer farmers a qualified extension service, covering all aspects of pig farm management. In late 1974, the Zambian Government imposed a total ban on the imports of pork and pork meat products, which further encouraged local pig production. (These restrictions were removed in October 1991 under the programme of economic reforms, introduced by the new Movement for Multiparty Democracy (MMD) Government).

In June 1984, the Rural Development Corporation was dissolved. INDECO acquired the entire share holding of ZAPP. INDECO is a subsidiary of ZIMCO, the final holding Company in this chain of share holding.

Zambia Pork Products SME (Self Management Enterprise) was officially launched on March 1, 1989. The concept of self management enterprises was introduced in Zambia through Zambia Pork Products SME (ZAPP).

The Company's Board of Directors comprise of five members: three members are elected from among the employees, one member is nominated by the union, and one is nominated by the Ministry of Labour. The Managing Director is an ex-officio member.

Till 1987, ZAPP consistently recorded losses. In that year management introduced measures to cut costs. As a result, ZAPP recorded a profit for the first time in 1988. Although the Company continued to record profits till 1991, only 30 % of plant capacity was utilised. Margins, however continued to steadily decline.

('000 Kwachas)

	1992	1991	1990	1989	1988
Turnover	161,677	92,404	53,448	20,547	10,462
Profit/(Loss) after tax	(4,462)	2,217	2,548	2,101	355

Source: ZAPP - Audited Financial Statements year ending March 1992. Auditors: Audico Associates, Lusaka.

In 1992, only 24% of plant capacity was utilised: 11% below the Company's budgeted level of 35% plant capacity utilisation.

The following have been identified as the major causes for the Company's deteriorating performance:

* Poor administrative and financial controls. There were frequent thefts of finished products and other Company property, besides cash losses through fraud and embezzlement by staff members. Failure to prepare management accounts on time prevented the Company's management from taking timely decisions on several critical issues.

* Weak and ineffective marketing. The Company did not have an organised network of distributors in the principal cities and provinces of Zambia. It did not have well documented credit policies and the lack of incentive schemes did not help in motivating distributors achieve higher sales.

* The Engineering and Maintenance Department was weak and poorly staffed. Although this department was headed by a qualified mechanical engineer who joined ZAPP in September 1992, he inherited a very weak team of support staff. As a result, maintenance of plant and machinery was poor and the culture of preventive maintenance did not exist.

The Senior Consultant (SC) of Amarnath Kamath & Co. held meetings with the Managing Director and each departmental head, to initiate remedial measures to correct identified weaknesses. The objective of these meetings was to improve the performance of the Company without incurring major expenditure. Under the Government's programme of privatising industry, these remedial measures helped project a better profile of the Company to potential investors. The remedial measures acted on were:

1. Finance & accounts

(a) A decision was taken to move the Finance and accounts Department from its location - about 2 kms. away and relocate it in the same premises as the Head Office and Factory to enable the Managing Director to have closer supervision and control over the department.

(b) To appoint a firm of accountants to bring all books of accounts up-to-date. Management accounts had not been presented for more than five months as the books of account were in arrears.

(c) Internal controls on cash and banking were shoddy and several measures were introduced to plug loop-holes, e.g. Consultants found that cheque issue registers were not maintained and the cheque books were not kept under the safe custody of the Finance Manager. The absence of these important control procedures has resulted in the loss of several million Kwachas through the issue of unauthorised cheques. The exact figures could not be computed within the time available to the SC, because of the poor state of the books of account.

(d) The Company's properties were not insured due to a disagreement between the Finance Manager and the insurance company on alleged discrepancies in the payment of earlier premia. Steps to resolve this disagreement were taken and adequate insurance cover was taken for the Company's properties. Had insurance cover been obtained earlier, the Company could have claimed compensation against the burglary and theft of finished products, office equipment and the like. Appendix III contains the minutes of the meeting held in this connection on December 2, 1992 and Appendix V contains the letter addressed to the Managing Director, dated December 15, 1992.

2. Marketing

(a) Even when inflation was running at around 200% p.a., the Marketing Department continued to extend credit. At that time the Company serviced its debt payments with interest rates which had risen to 75% p.a. by December 1992.

The SC initiated measures to allow trade credit facilities only to a few select customers. This improved cash flow by 60%.

(b) The Marketing Manager was reluctant to raise selling prices, even when confronted with evidence that costs of production had risen by more than 30% in the preceding four months. Based on revised product costing, the SC initiated measures to increase selling prices by 40%. There were no adverse reactions from the market to these price increases as ZAPP had been selling at prices below those of the competition. The volume of sales remained the same.

(c) ZAPP concentrated on selling only to a small group of customers and distributors in and around the Lusaka urban area. All marketing decisions including pricing were based on the reactions of this narrow segment of the market. The SC released press advertisements inviting applications from potential distributors in selected cities/provinces in Zambia.

Responses to this advertisement were very encouraging. A corporate committee was set up to screen the applications, short-list the potential distributors and draw-up the terms and conditions for their appointment.

Appendix XI contains copies of two advertisements: (a) copy of the advertisement inviting potential distributors and (b) a promotional advertisement released during the Christmas season.

Appendix VI contains a copy of the letter dated December 22, 1992 addressed to the Managing Director by the SC, suggesting measures for controlling operating expenses and the need to form a committee to finalise the appointment of distributors.

3. Engineering & maintenance

(a) Several technicians and mechanics in the Engineering and Maintenance Departments were found repairing, refurbishing and painting the Company's motor vehicles instead of attending to the maintenance of plant and machinery. AKC's Senior Consultant recommended that the repair of motor vehicles be entrusted to outside motor garages, who are better equipped to perform this task. This would allow skilled technicians and mechanics to carry out the much needed maintenance of plant and machinery. Unskilled personnel employed in the Department could then be laid off, reducing the operating cost of the department. This proposal was implemented, resulting in a perceptible improvement in the efficiency of plant operation. Cost savings of $ 10,000 per annum.

(b) The overhead water storage tank had developed large leaks due to which the water pumps had to be run continuously, resulting in frequent pump breakdowns and motor burn-outs. The SC planned for a shut-down of the water system, hired mobile cranes and repaired the tank and pipe lines. This resulted in:

* the conservation of water supply;

* near elimination of frequent motor-burnouts and pump-breakdowns;

* a reduction in the frequency of plant shut-downs, caused earlier by inadequate water supply to the boiler and to the processing line;

* the flooding of passages and walkways caused by water leaking from the overhead storage tanks was stopped.

This repair work will result in approximate savings of $ 10,000, per annum.

(c) Maintenance of the refrigeration system in the cold rooms had been neglected, resulting in poor efficiency and high loss of freon gas. A programme was drawn up by the SC to induct the services of specialised engineering companies, to carry out repairs of critical refrigeration equipment. The Company was incurring large expenditure in replenishing refrigeration gases leaking from several locations. Plugging these leaks could save the Company approximately $ 15,000 per annum.

(d) Boiler breakdowns were frequent due to poor maintenance practices, inadequate control on the water softening process, the leaking of steam at various points and long lengths of uninsulated steam pipes, both inside and outside the plant.

The SC initiated steps to repair the pipes and insulate the pipelines. The Engineering Department started sourcing materials necessary to complete this work. When completed it should result in substantial improvement in production and energy savings of approximately $ 4,000 per annum.

(e) The insulation in all the cold rooms was found to be in a state of total disrepair and the ceilings and the walls had collapsed in several places. Rodents had burrowed holes in the insulation and refrigeration ducts. The main doors to the cold rooms had corroded and the supporting hinges on some of them had given way, resulting in improper closure and substantial loss of cooling capacity.

The cold rooms need extensive rehabilitation, both in terms of complete replacement of all insulation and selective replacement/repairs of the refrigeration equipment. The SC in consultation with the Technical Manager and his team worked out a programme for carrying out in-house repairs to insulation and repairs to refrigeration equipment through outside agencies (see item (c) above).