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CONTRACT NO. 92/081
PROJECT NO. US/UT/RAF/91/173

20880

DIAGNOSTIC STUDY

OF

TANZANIA ANIMAL FEEDS COMPANY LTD
DAR-ES-SALAAM, TANZANIA

FINAL REPORT

BANGALORE - INDIA JUNE 1993

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UNIDO CONTRACT NO. 92/081

PROJECT NO. US/UT/RAF/91/173

ACTIVITY CODE: J12207

REHABILITATION OF INDUSTRIAL ENTERPRISES IN EAST AFRICA

FINAL REPORT ON TANZANIA ANIMAL FEEDS COMPANY LIMITED

DAR-ES-SALAAM, TANZANIA

PREPARED BY:

AMARNATH KAMATH & COMPANY

MANAGEMENT CONSULTANTS

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BANGALORE 560001

INDIA

DATE OF REPORT: JULY 1993

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SYNOPSIS

Tanzania Animal Feeds Company Limited (TAFCO) in Dar es Salaam, Tanzania was one of the enterprises selected for study in consultation with the Ministry of Industries and Trade, Government of Tanzania and UNIDO. After 47 man-days of study, and having rendered direct assistance, Amarnath Kamath & Co., Management Consultants, are of the opinion that **TAFCO does not merit consideration for industrial rehabilitation.**

Factors that support this view are:

1. The studies conducted on TAFCO thus far, including this one, indicate that the technology acquired for the manufacture of animal feeds was not suited to Tanzania. The highly automated factory is a great handicap in these times of electrical power shortage.

2. The plant and equipment have been badly maintained. The cost of restoring the plant to operational capacity can exceed TSh. 1 billion.

3. TAFCO's accumulated debts exceed TSh. 441 million, making it impossible to service these debts from the existing scale of operations and the margins available in the market.

4. The Company does not have any documentation, proving its ownership of fixed assets. This will make it impossible to find investors interested in buying out the operations.

5. AKC recommend that the Government of Tanzania close this enterprise as soon as possible.

I. EXECUTIVE SUMMARY

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, 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. <u>FUTURE PROSPECTS FOR TAFCO</u>

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.

II. PREAMBLE

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

The objectives of the project are:

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

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

The work evolving from these objectives are:

1. Objective (a)

i) To prepare diagnostic reports for the enterprises audited and extend direct assistance to them, and

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

2. Objective (b)

A report is to be submitted containing:

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

ii) a list of opportunities for enterprise to enterprise co-operation identified during the implementation of the project.

Two progress reports documenting the activities of our consultants and with preliminary recommendations have been submitted.

This is the final report on TAFCO, submitted after a presentation of our findings and a discussion of our recommendations with the Government of Tanzania and the UNIDO Country Director on May 6 1993.

III. CONSULTING METHODOLOGY

Mr. Raju Swamy, Senior Consultant (SC), Messrs. Amarnath Kamath & Co., Bangalore, India and Mr. P. Bathena, Technical Consultant (TC), first visited Tanzania Animal Feeds Company (TAFCO) on November 17, 1992. 47 man-days have been spent on studying TAFCO in Tanzania.

TAFCO was selected for study by Mr. J. G. Mrema, Senior Industrial Economist, Ministry of Industry, Government of Tanzania (see Annexure II). The study team was requested to concentrate only on TAFCO's factory in Dar es Salaam.

Understanding the enterprise's problems "on-the spot", rendering technical assistance and regularly reviewing the study team's findings with the National Co-ordinator at the Ministry of Industry and Trade and with the UNIDO Country Director, formed the thrust of the study.

Mr A. Kamath and Mr C.R. Seetharam, Team Leader, returned to Tanzania in May 1993. They presented the draft report to UNIDO and Ministry officials in Dar es Salaam on May 5-6, 1993. The observations and comments on the draft report prepared after the study have been incorporated in this final report.

The list of principal organisations, companies and persons contacted during the study is given in Annexure - I.

IV. COUNTRY BACKGROUND - TANZANIA

1.1 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. The UNDP's Human Development Index ranks Tanzania higher than 33 other countries, using a broader measurement of development which includes adjusted real GDP per capita, life expectancy and the level of education attained.

Enrollment in primary schools increased to 60% of the school going population in 1975; 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 total economy and the country, constraining government's capacity to deliver social services, eroding gains achieved.

1.2 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% (1987) to 2.5% (1991)

Agriculture constitutes 58.2% and manufacturing 5.1% of the total GDP of TSh. 625 million in 1991. Table - 1 shows GDP by sector of origin. Growth in agriculture has remained at 1% while industrial output grew at 5% in 1992, up from -5.20% in 1989.

Table - 1: Gross domestic product by sector of origin (mainland)

(million Tanzanian Shillings, at current prices)

	1985	%	1990	%
Agriculture, forestry, etc.	61,231	56.7	233,804	58.2
Mining & quarrying	251	0.2	4,815	1.2
Manufacturing	6,665	6.2	20,436	5.1
Electricity & water	1,071	1.0	5,088	1.3
Construction	2,061	1.9	12,650	3.2
Trade, hotels, etc.	14,195	13.1	57,717	14.4
Transport & communications	7,021	6.5	36,242	9.0
Financial services	6,659	6.2	24,123	6.0
Public administration	10,735	9.9	31,968	8.0
Imputed bank service charge	-1,806	-1.7	-25,260	-6.3
GDP at factor cost	108,083	100.0	401,583	100.0

Source: EIU Country Profile 1991-92 (Bureau of Statistics).

Table-2 below compares wage employment by economic sectors.

Table - 2: Number of wage earners employment by sector

	1984 No.	%	1989 No.	%	Annual average growth (%)
Agriculture	108,114	17.1	117,745	16.5	1.7
Mining & quarrying	5,360	0.8	5,698	0.8	1.2
Manufacturing	115,908	18.3	128,769	18.1	2.1
Electricity & water supply	27,091	4.3	28,989	4.1	1.4
Construction	34,365	5.4	26,896	3.8	4.8
Trade, hotels, etc.	46,707	7.4	50,215	7.1	1.5
Transport and communications	61,279	9.7	76,145	10.7	4.4
Financial services	16,646	2.6	21,973	3.1	5.7
Public admin.	217,910	34.4	255,328	35.9	3.2
Total	633,380	100.0	711,758	100.0	2.4

Source: EIU Country Profile 1991-92 (taken from the Budget speech, 1991)

Inflation averaged 22.3% in 1991 in spite of the slower devaluation of the Tanzanian Shilling.

Table - 3 below shows changes in consumer price index (1977=100)

Table - 3: Consumer prices (mainland)

	1985	1986	1987	1988	1989	1990
National index	584.4	775.2	1,007.4	1,321.6	1,663.2	1,990.8
Annual % change	33.3	32.4	30.4	31.2	25.8	19.7
Urban index	661.5	911.4	1,194.8	1,591.6	2,074.9	2,601.2
Annual % change	43.0	37.8	31.1	33.2	30.4	25.4

Source: EIU Country Profile 1991-92 (Bank of Tanzania)

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 newly established exchange-bureau rates is planned.

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 over valuation of the Tanzanian shilling. A series of exchange rate adjustments starting in late 1988 valued the TSh. from 90 to the US Dollar, to TSh. 325 in August 1992.

Table - 4 below shows the variations in the exchange rate from October 31, 1991 to January 31, 1992; a graphical representation of the same is presented over leaf.

Table - 4: Changes in the exchange rate of TSh. to US$
(TSh. per US$)

	Oct.31 1991	Nov.30 1991	Dec.31 1991	Jan.31 1992
Official rate	230	234	234	247
Exchange Bureau rate	380	420	425	420
Apparent over-valuation (%)	65	79	79	70

Source: EIU Country Report No. 2, 1992

By December 1992 the exchange bureau rate was TSh. 425 per US Dollar. 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. In February 1988, the Bank of Tanzania announced the facility of an open general licence window. This has since been widened substantially to enable increased liberalisation in trade. Goods not eligible for import under the open general license include items controlled for health and security reasons and selected consumer goods. A reform of the tariff system was also 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 all such commercial enterprises.

A comprehensive road transport policy has been introduced, aimed at reducing transport bottlenecks that impede the distribution of agricultural inputs, and the movement of export crops to processing centers and ports. A two-stage programme to rehabilitate the Tanzanian railway network has been prepared and endorsed by donors who funded the first stage of the programme; the second stage has begun with a line of credit from IDA.

V. DIAGNOSTIC STUDY

PRODUCTION FACILITIES - DAR ES SALAAM

A. Premises & facilities

The main processing mill is contained in a 5 storey building covering a floor area of 1,600 square metres. Additionally, 875 square metres have been provided for storage of raw materials and 1,400 square metres for the storage of finished products. A boiler room and a shed to accommodate the molasses tank are located outside. An air compressor of Swiss origin, generating 120 psi., is on the upper floor of the mill house.

B. Raw material inputs

1.0 TAFCO has not been able to procure adequate quantities of raw materials, primarily due to its weak financial position. This has resulted in progressively lower production.

2.0 Maize is the principal ingredient in animal feed. It is procured from The National Milling Corporation and from regional co-operatives. Supplies however, are irregular. Fish meal is scarce. No effort is made to supplement this essential protein in animal feeds, with soyabeans. A coarse meal manufactured from small dried fish is processed by a local mill that produces 2 tonnes per hour.

3.0 Cotton and sunflower oil seed cakes, procured either directly from oil mills, or through middlemen, are always in short supply. Limestone and salt are procured from local sources. Trace minerals, vitamins, amino acids are imported under aid programmes.

C. Product range

1.0 TAFCO can manufacture feed for a wide range of livestock:

- Poultry feed
- Dairy (cattle feed)
- Pig feed
- Miscellaneous feeds (for mice and rabbits, produced on order)

2.0 The factory in Dar-es-Salaam has a production capacity of 10 tonnes per hour (tph). The animal feed factory in Mbeya has a capacity of 2.5 tph., while the factories in Moshi and Mwanza, have a capacity of 5 tph., each.

3.0 The conbined operating capacity of all four factories is 22 tph. (120,000 tonnes annually, @ 400 tonnes per day over 300 days).

4.0 During 1990-91 production of animal feeds from all four factories was 4,853 tonnes while during 1991-92 it amounted to only 2,640 tonnes, representing 2.2 % of the capacity.

4.1 This poor performance can be attributed to:

- the degenerate condition of plant and equipment
- absence of regular maintenance and lack of spare parts
- the demoralised state of management and workers
- a paucity of raw materials and other items essential for production due principally to the lack of funds.
- crippling financial burden caused by devaluation
- electrical power constraints
  (power supply available only 3 days a week)
- unhygienic working conditions

5.0 The plant and equipment have deteriorated badly and need major rehabilitation and restoration.

5.1 The grain cleaning and sorting equipment, including the elevator, separator, cyclone system and drum magnet, need replacement. The centrifugal sorter and main screw conveyor should also be replaced. The controlled sifting machine is out of action and should be replaced soon. At present it is by passed.

5.2 The rotor of the main mixer is worn out and requires immediate replacement.

5.3 Valve boxes for directing the flow of ingredients are operated manually as the pneumatic blowers are not functioning. These blowers and related pipes should be replaced.

5.4 The pre-mixing plant is not functioning. Pre-mixing is now done manually.

5.5 10 years ago the entire pelletising section was shut down as the steam operated pressure reducing valve was not working. The molasses injector system has also not been operating since then. In the event this section has to be made operative, it has to be overhauled and worn out parts replaced.

5.6 All the air jet filters require replacement as dust is leaking from all joints and cracks. This increases dust levels on all floors.

5.7 The fumigation plant ceased to function soon after its installation. Its present condition could not be verified.

5.8 Electrical cables in the control panels have been damaged by rats and need to be replaced. The central control panel with its adjoining circuit-switch room is not being maintained properly. The air conditioner has been removed. This allows dust to settle on the exposed wires, exposing them to the risk of short circuit and fire.

6.0 Analysis, monitoring and controlling animal feed processing is not possible due to the absence of a proper laboratory. The laboratory at NMC is currently being used. TAFCO should have its own laboratory for quality control.

7.0 The absence of a maintenance workshop and inadequate stock of spares contribute to prolonged production stoppages.

8.0 The level of plant utilisation for the last two years is below 10% of rated capacity and is unlikely to improve with the present constraints.

VI. FINAL RECOMMENDATIONS

1. TAFCO does not appear to enjoy the support of the Ministry of Agriculture, the shareholders (NMC), or the Board. It does not even have an organisation with enough life within to fight for itself.

2. The plant and equipment have no value as an animal feed factory. If sold as scrap, it may be possible to recover approximately US$ 50,000 for the entire plant and equipment. This may be enough to pay employees their past dues.

3. The legal process of liquidating the company must be started immediately.

NOTE: This recommendation has since been accepted by the Government.

ACKNOWLEDGEMENTS

We wish to place on record the cooperation rendered by Mr. R. B. Hoza, Acting General Manager, TAFCO. We are also grateful to the members of staff and workers of TAFCO for their assistance.

Grateful thanks are due to the National Co-ordinator Mr. J.G. Mrema and his colleagues in the Government whose cooperation and assistance have contributed significantly in the preparation of this report.

Our sincere appreciation for the continuous guidance and encouragement given by the UNIDO Country Director, Mr. Alexandre Krassiakov and the Programme Officer, Ms. Anya Kostian.

July 1993
Bangalore, India.

AMARNATH KAMATH & Co.

ANNEXURES

TANZANIA ANIMAL FEEDS COMPANY LIMITED

LIST OF ANNEXURES

ANNEXURE-I

LIST OF ORGANISATIONS, COMPANIES AND PERSONS CONTACTED BY M/S AMARNATH KAMATH & CO., FOR THE STUDY OF TAFCO

Organization/Company	Person(s) met
Ministry of Industries and Trade	Mr. Cleopa Msuya Hon. Minister
	Mr. N'hasa Director
	Mr. Januarius G. Mrema Senior Industrial Economist and Co-ordinator for the project
	Mr. Uledi Economist
	Mr. Mbele Economist
EADB	Mr. A.Z. Nkya Resident Manager - Tanzania
	Mr. Bernard M.O. Mboha Appraisal Officer/Economist
Tanzania Investment Bank	Mr. W.A. Mlaki Director of Projects Supervision
	Mr. Matembele G. Manager Project Implementation
National Milling Corporation	Mr. V.M. Semesi Director General
Interchick Co. Ltd.	Mr. Pinkerton General Manager
	Mr. John K.R. Shumbusho Chief Accountant
National Poultry Co. Ltd.	Mr. T. Bampamuchi Planning, Production and Marketing Manager
Rajani Industries Ltd.	Mr. Shimir J. Rajani Director

ANNEXURE-II

MINUTES OF MEETING HELD ON DECEMBER 15, 1992 AT MINISTRY OF INDUSTRIES AND TRADE AT 9.30 A.M.

Prepared by Amarnath Kamath & Co

PRESENT:	Mr. J.G. Mrema	- Sr. Industrial Economist Ministry of Industries & Trade and National Co-ordinator for Project
	Mr. Uledi	- Industrial Economist Ministry of Industries & Trade
	Mr. Raju Swamy	- Senior Consultant Amarnath Kamath & Co. Bangalore, India

1. It was confirmed to Mr. Mrema that pending transport arrangements through NMC, the TAFCO project had been restarted since 14.12.92 kind courtesy transport provided by Acting General Manager of KPIL. Our Technical Consultant Mr. Phiroze Bhathena was with TAFCO on 14.12.92 and today.

2. Mr. Mrema informed that NMC Director General, Mr. Semesy had agreed to make transport available from today for pick up and drop as and when required.

3. The TAFCO project is now confirmed to the Dar-es-Salaam operations as a decision has been taken by the appropriate authorities that the upcountry locations will be put up for "outright sale" and there was therefore no need for a study. This is as per handwritten note from Mr. J.G. Mrema addressed to Mr. Raju Swamy dated 07.12.92.

4. With reference to selecting a Private Sector project, it was explained to Mr. Mrema that KIBO Paper by virtue of its size including two manufacturing establishments (the Paper Mill on Pugu Road and the Packaging & Printing Plant at Changombe) and by virtue of its serious management and operational problems required major attention and time from the consultants everyday till atleast the end of January 93. And with the TAFCO project also now in operation, taking on another project would dilute our attention to KIBO's two plants and to TAFCO.

Mr. Mrema while appreciating the point suggested that we review the matter with UNIDO during Mr. Amarnath Kamath's visit in mid-January and if possible a very small unit could be selected for study.

5. A copy of the progress report on KPIL would be given to Mr. Mrema by Mr. Raju Swamy by 17.12.92.

6. Mr. Mrema and Mr. Uledi would be visiting KIBO Paper on Monday, 21.12.92. They will be picked up at 9.30 a.m. from their /office by Mr. Raju Swamy.

ANNEXURE-III

CONSULTANT'S REPORT ON VISIT TO TAFCO

From: Mr. Raju Swamy. November 25, 1992
To: Mr Amarnath Kamath

Met the Acting G.M. Mr. R.B. Hoza, Acting Finance + Admn.Manager Mr. A. Ngonyani, Principal Manpower Marketing Officer Ms. C.A. Matessa and Senior Technician Mr. S. Mdoe

1. Visited plant and stores on November 16, 19 & 20, 1992. Plant was not functioning as there was no power. Even when power is there, there is very limited functioning.

2. Finished goods stock is negligible.

3. Most employees (nearly all) were idling both in the office and at the plant.

4. After observing the work environment and the plant and noting the acute shortage of funds and the fact that the company was no longer "qualified" to receive further loans on account of its disastrous performance and results to date - whatever the reasons- I made the following recommendations for generating immediate short-term activity for the plant pending a deeper look at their total operations:

a) Since there was a power problem for all producers and in the absence of TAFCO's capability to produce, to approach other large or medium animal feed producers and offer them TAFCO's capacity to augment their own production by bringing in their raw material and taking the finished product. TAFCO would be paid a negotiated conversion price.

b) I had also suggested to the Acting GM that his idle workers he made to clean up the machines and equipment and make the whole plant look "active" and capable of efficient production in case we could bring in some customers who were interested in using the capacity of TAFCO. However, the Acting GM could not get this work done as there is also a problem brewing with the Union. The workers are asking for an increase in wages, etc. It is not clear from where the money for even existing wages is coming considering that there is negligible production.

c) The Acting GM and myself in any case visited potential users of TAFCO capacity:

- Rajani Industries Ltd.
- Interchick Company Ltd.
- National Poultry Company Ltd. (NAPOCO) (Parastatal)

Both at Rajani Industries - met Mr. Shimvi Rajani, Director - and at Interchick - met Mr. Pinkerton, GM and Mr. John Shum bushu, Chief Accountant - the response was positive (but more so at Interchick) but they expressed reservation on TAFCO managements ability to
(i) Produce their desired quality
(ii) Prevent theft and pilferage

ANNEXURE-III (Cont'd.)

Mr. Pinkerton of Interchick said that the backbone of the animal feed industry in Tanzania was chickfeed and at present there was a shortage of chicks but not of animal feed. Between Interchick's production of approximately 3000 tonnes a month, Rajani's 700 to 1000 tonnes per month and the balance of about 1000 to 1500 tonnes from the other producers, atleast about 65000 tonnes per annum was available and was currently adequate to service the country's requirements.

However, Mr. Pinkerton said that they were trying to get large export orders and in case they got them, additional capacity was required and they would explore TAFCO.

We also met Mr. T. Bampamuchi, Planning Production and Marketing Manager of NAPOCO. He said that NAPOCO was sailing in the same boat as TAFCO and therefore was not in a position to help.

5. TAFCO had advertised in August'92 inviting joint venture participation. The responses were not many but have to be analysed closely. If TAFCO shows some process of recovery in the short term, the chances of a profitable joint venture can be promising Rajani Industries have temporarily hired the services of an animal feed production expert from the UK and he is expected to visit TAFCO's plants for a preliminary appraisal.

6. Mr. Phiroze Bhathena visited TAFCO plant at Dar-es-Salaam on November 19th. We plan to visit all the four plants as soon as possible and then make a consolidated technical appraisal.

7. In terms of facilitating our study of TAFCO, I find that the TAFCO Acting GM, Mr. Hoza is quite helpless about providing transport in Dar-es-Salaam as well as making arrangements for our visit to other plants. TAFCO in Dar-es-Salaam has just one dilapidated small pick-up van which is unsafe for travel. For one day, at my request, the Director General of National Milling Corporation (NMC), Mr.Semery, made available a good vehicle but a more sustaining arrangement is required.

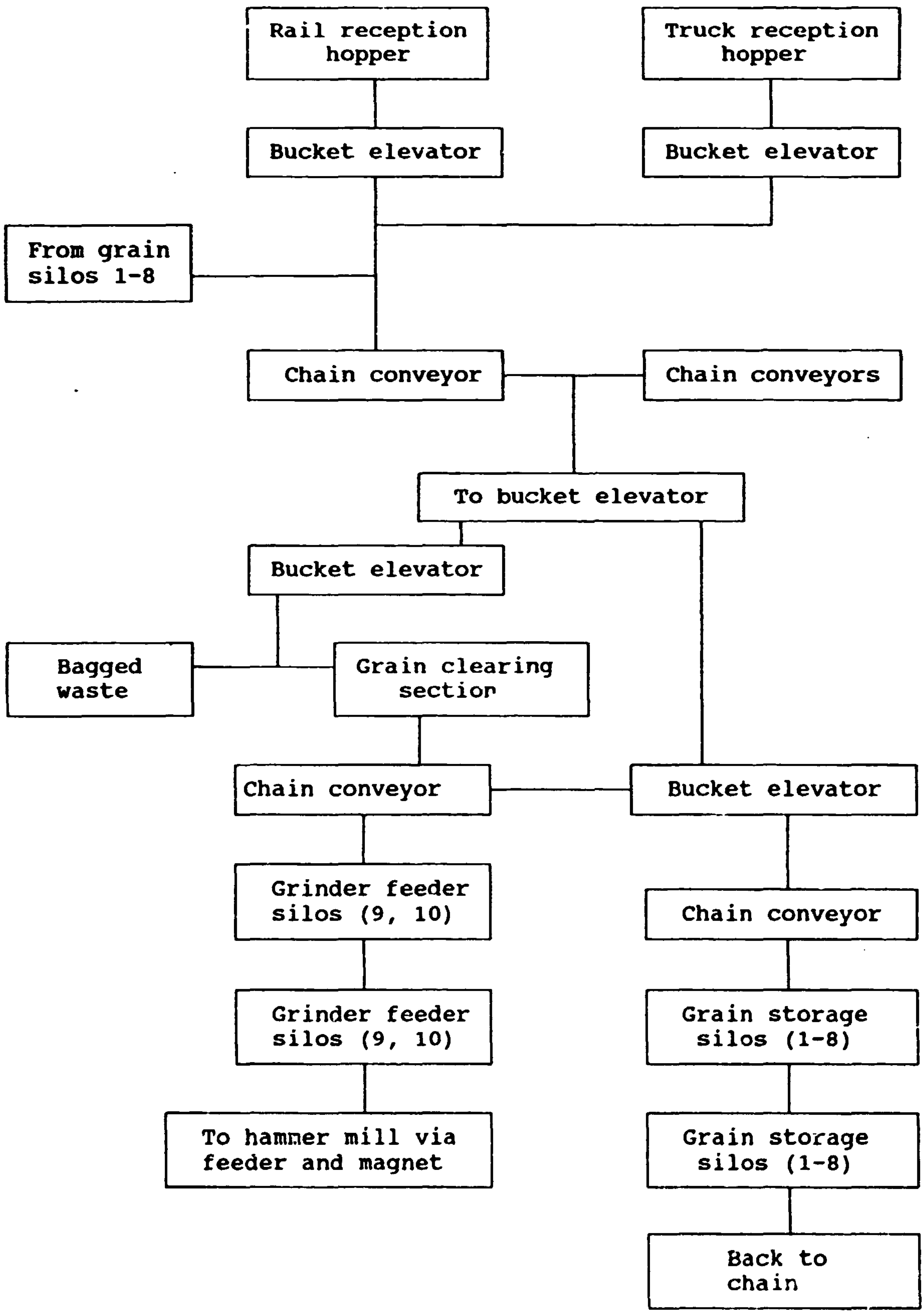
   Mr. Mrema was briefed on this problem at our meeting on November 24th when Mr. Seetharam and Mr. Bhathena were also present. Mr. Mrema is likely to inform us of new arrangements if any in UNIDO by this evening.

   We have another meeting with Mr. Mrema on Friday, November 27th at 2.00 p.m. prior to Mr. Seetharam's departure on November 28th morning.

ANNEXURE IV

TAFCO process flow diagram

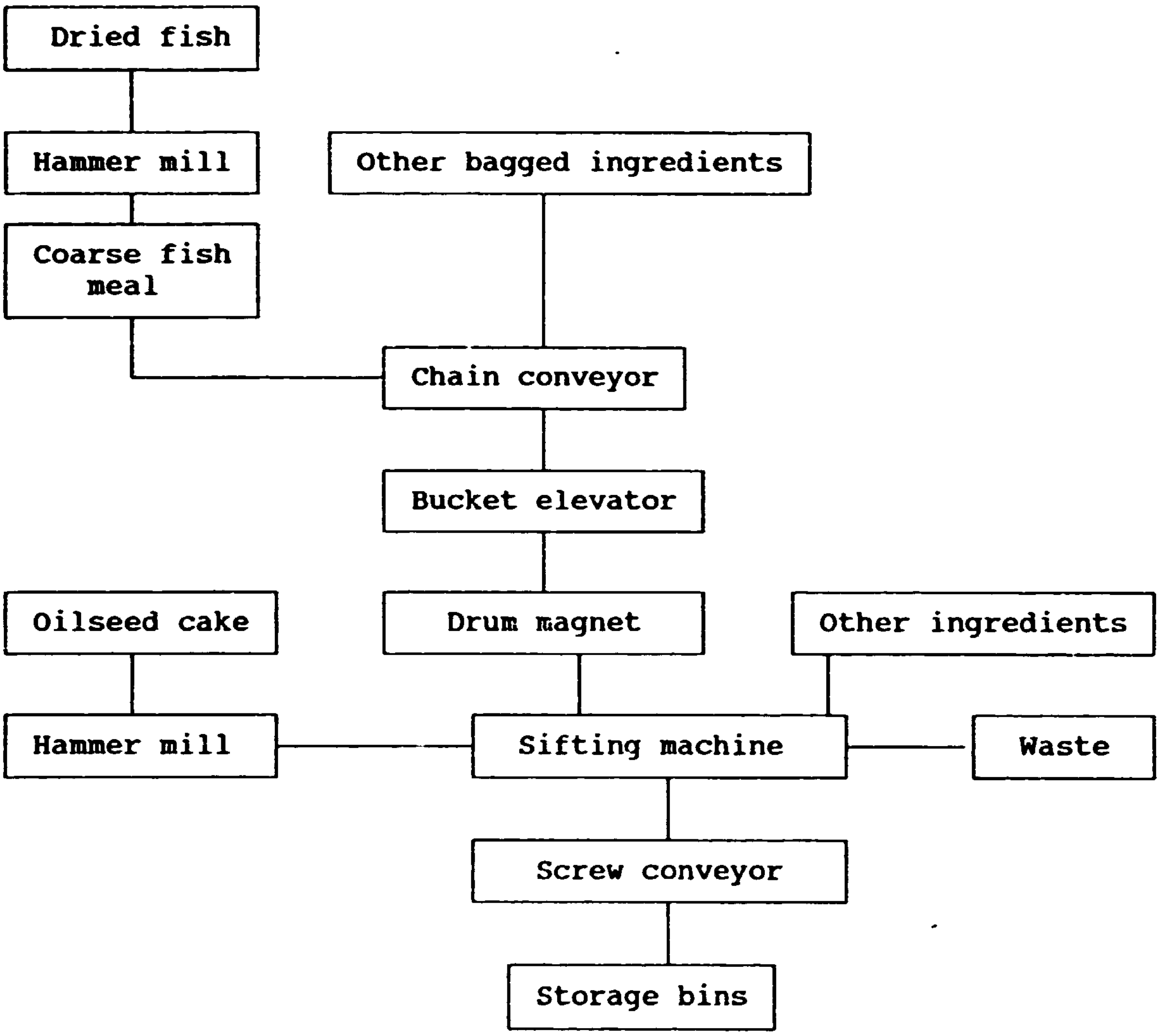
(a) Production of maize and other grains



ANNEXURE IV (Cont'd.)

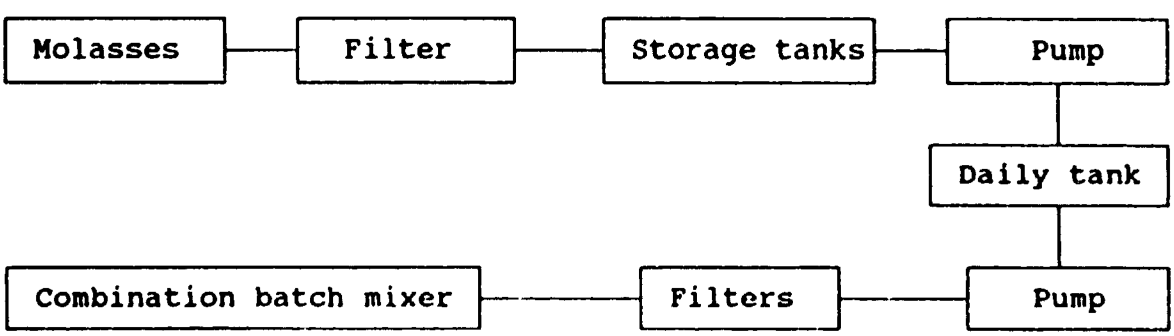
TAFCO process flow diagram

(b) Production of meals, oilseed cakes, bran & limestone



TAFCO Process flow diagram

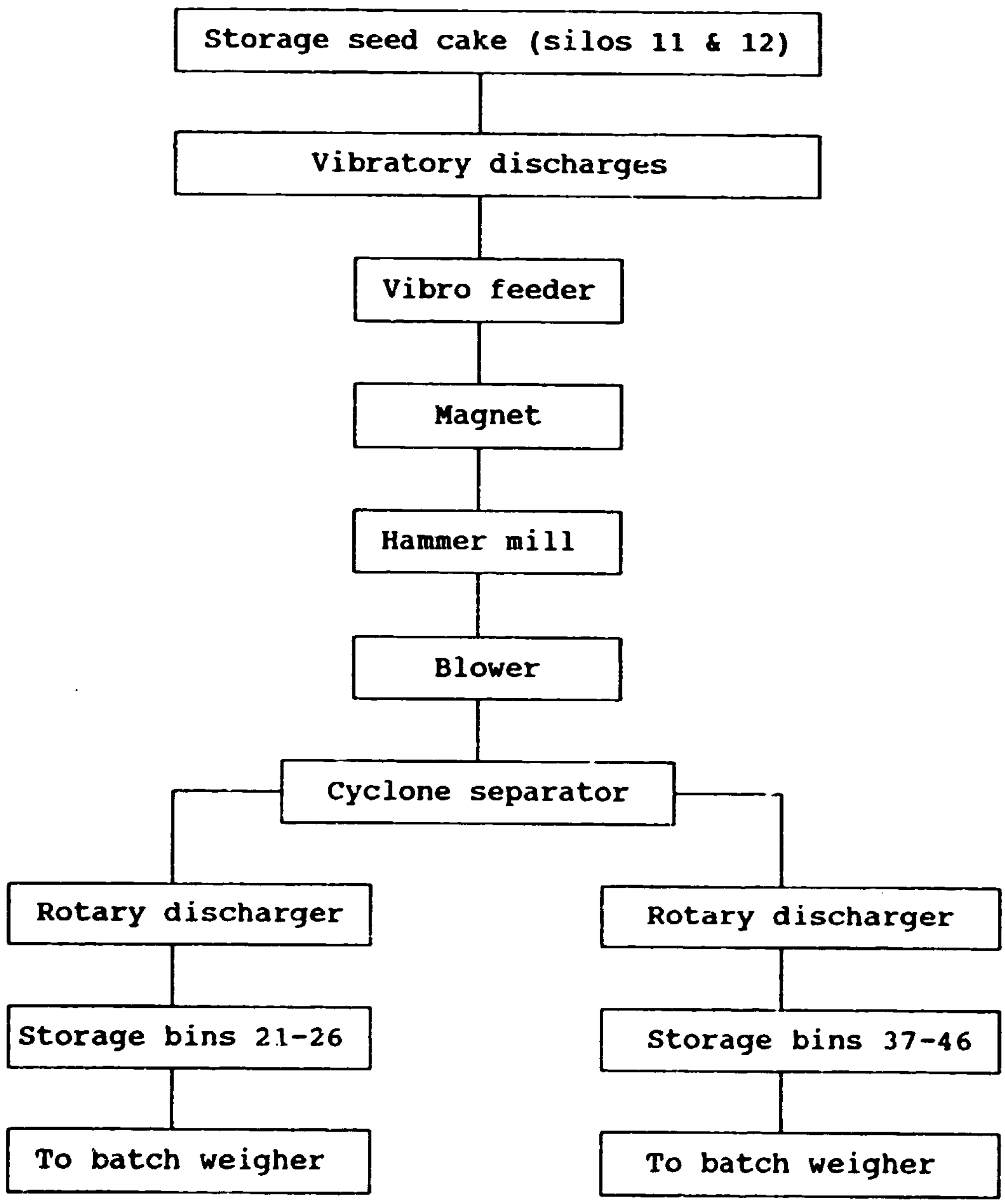
(c) Production of molasses



ANNEXURE IV (Cont'd.)

TAFCO process flow diagram

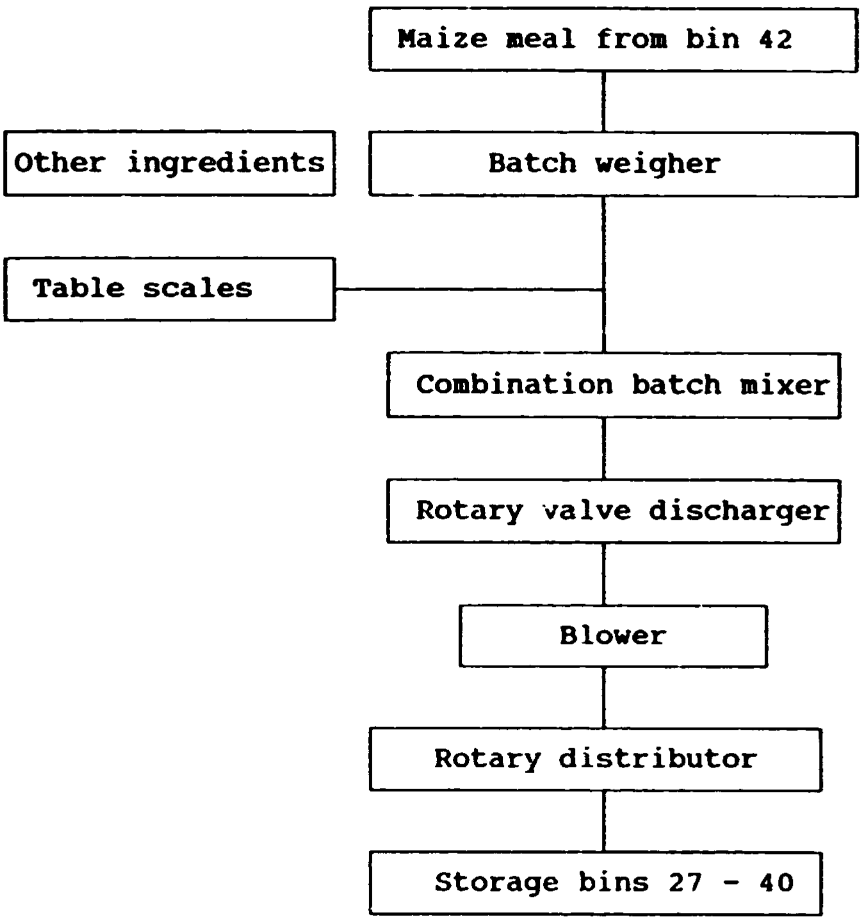
(d) Milling Operations



ANNEXURE IV (Cont'd.)

TAFCO process flow diagram

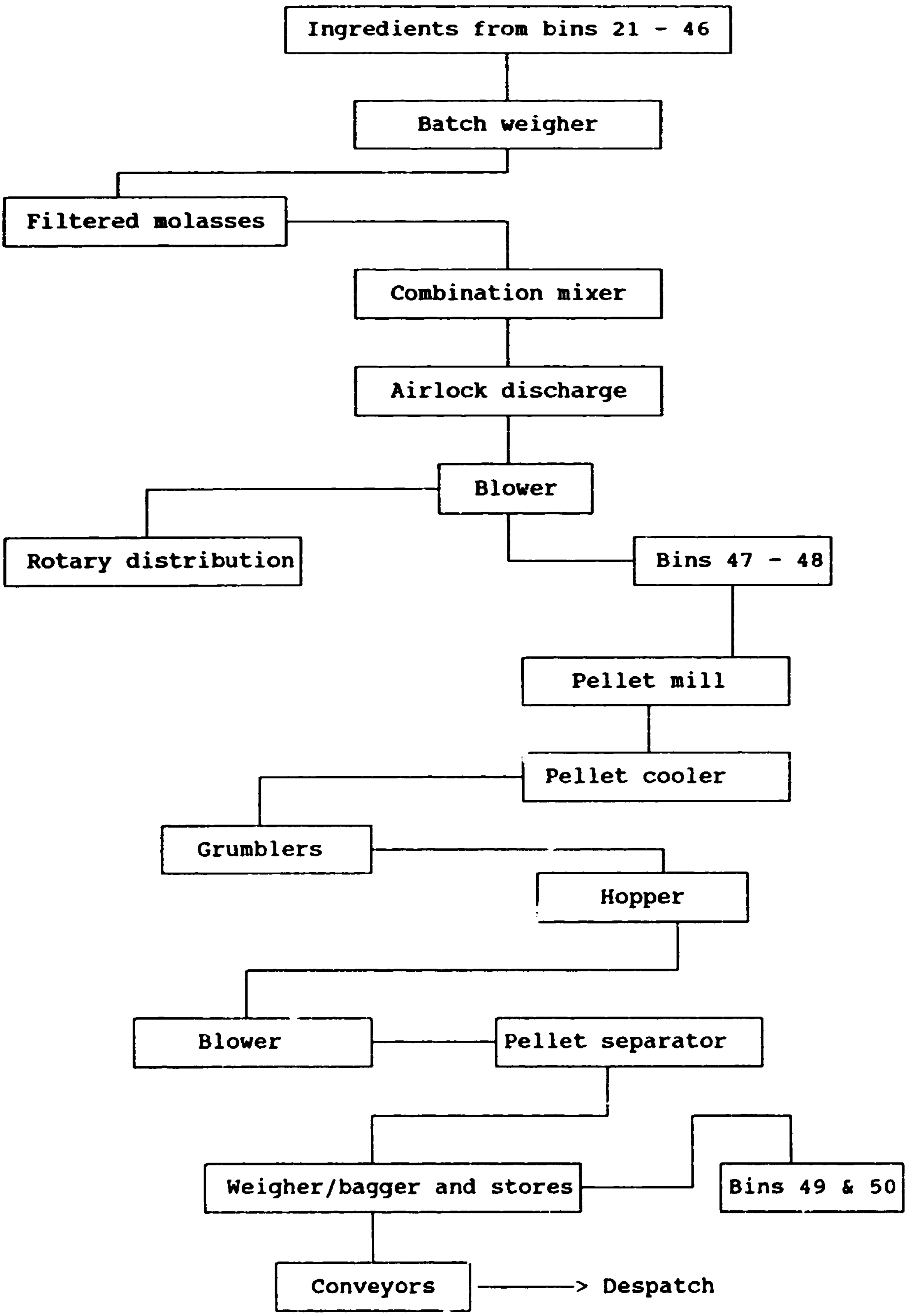
(e) Pre-mixing Operations



ANNEXURE IV (Cont'd.)

TAFCO process flow diagram

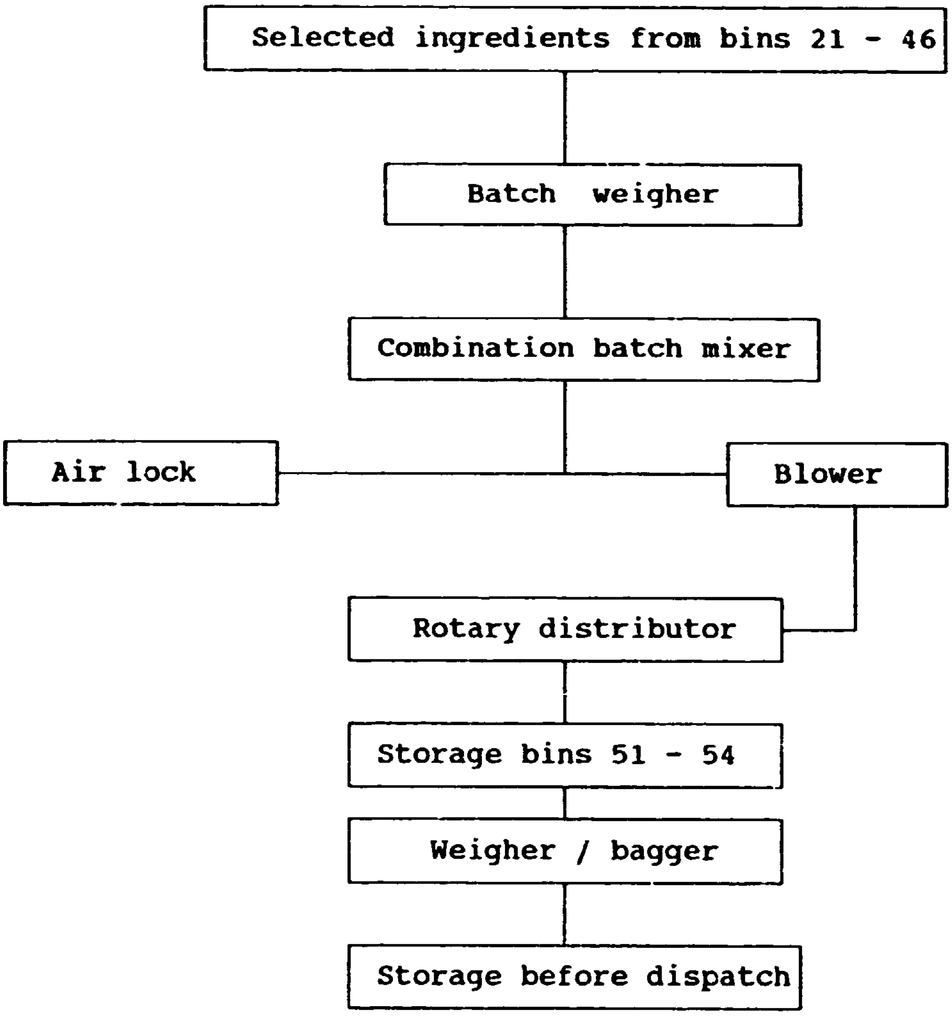
(f) Pelleting Operations



ANNEXURE IV (Cont'd.)

TAFCO process flow diagram

(g) Batch Weighing Operations



ANNEXURE V

COMBINED ANNUAL PRODUCTION OF TAFCO'S THREE PLANTS (IN TONNES)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92
Pugu Road	27,703	29,660	30,653	19,295	10,028	7,127	4,337	1,646	722
Moshi	-	-	1,596	6,132	837	2,900	2,330	1,355	618
Mbeya	2,067	2,400	2,487	2,429	1,953	2,849	2,946	1,850	1,299
Total	29,770	32,060	34,736	27,856	12,818	12,876	9,613	4,851	2,649

NOTE: The Factory at Mwanza was not operational till 1992; therefore it is not shown on this chart.

ANNEXURE VI

PRODUCTION OF ANIMAL FEED FROM AUGUST 1992 TO DECEMBER 1992

(bags of animal feed produced)

	1992					
Type of Feed	August	September	October	November		December
Broiler Mash	395	333	433	-	167	1328
Layers Meal	103	131	216	89	226	765
Growers Mash	40	45	60	13	72	230
Chick & Duck Mash	25	14	47	-	-	86
Breeders Mash	24	11		-	23	58
Dairy Meal	89	56	95	33	51	324
Horse Meal	65	46	109	44	67	331
Sow & Weaner Meal	-	-	-	25	-	25
Pig Creep	-	-	-	44	-	44

ANNEXURE VII

INGREDIENTS USED IN THE PRODUCTION OF TAFCO'S MAIN FEEDS

(% of each ingredient used)

I. Layers complete meal

1. Sunflower Cake	-12.00%
2. DCP	- 1.50%
3. Limestone	-10.10%
4. White maize	-56.40%
5. Fishmeal	- 3.50%
6. Cotton Seed Cake	-10.00%
7. Wheat flour	- 4.50%
8. Layers micro concentrate (see below)	- 2.00%
	100.00%

II. Broiler mash

1. Sunflower Cake	-12.00%
2. DCP	- 0.70%
3. Limestone	- 2.00%
4. White maize	-52.30%
5. Fishmeal	- 8.00%
6. Cotton Seed Cake	-14.00%
7. Wheat flour	- 9.00%
8. Layers micro concentrate (see below)	- 2.00%
	100.00%

Layers micro concentrate

1. White maize	- 1.47%
2. Layers Pre-mix	- 0.10%
3. Dl. Methionine	- 0.08%
4. Salt	- 0.35%
	2.00%

Layers micro concentrate

1. White maize	- 1.32%
2. Layer Pre-mix	- 0.10%
3. Dl. Methionine	- 0.13%
4. Elanco Coban	- 0.08%
5. Zinc Bacitracin	- 0.02%
6. Salt	- 0.35%
	2.00%

III. Dairy meal

1. Maize	-16.50%
2. Wheat flour	-48.50%
3. Cotton Seed Cake	-17.00%
4. Sunflower Cakes	-14.00%
5. Limestone	- 3.50%
6. Salt	- 0.50%
	100.00%

IV. Sow weaner meal

1. Maize	-49.90%
2. Wheat flour	-20.00%
3. Cotton	-14.00%
4. Sunflower Cakes	-12.00%
5. Limestone	- 2.50%
6. Salt	- 0.30%
7. DCP	- 1.20%
8. Broiler Pre-mix	- 0.10%
	100.00%

COPY OF QUESTIONNAIRE FILLED AND SUBMITTED BY TAFCO

ANNEXURE VIII

1. GENERAL INFORMATION

(a) Enterprise trade-name: TANZANIA ANIMAL FEED Co. LTD.

(b) Addresses: Headquarters: P.O. BOX 4045Q D'SM

Plant(s): ....

(c) Telephone: 63180 .... Fax: .... Telex: 41343TZ.

(d) Type of activity: ANIMAL FEED PROCESSING, DISTRIBUTION AND SELLING

(e) Legal status: public corporation* ✓ joint stock company proprietorship ....

(f) Date of establishment: 1.8.1983

(g) Initial equity/capital TS 30 mln ... Present equity/capital TS 30 mln

(h) Owner(s) or shareholder(s):

Name:	Percentage of assets:
THE NATIONAL MILLING CORPORATION (NMC)	100%

(i) Name of Director General: A. MWAIPOPO

(j) History of enterprise (describe briefly all major changes which affected enterprise such as extension, merger, new investment, relocation, lay-off, shut down of plants/workshops): PUGU ROAD STARTED UNDER NMC IN 1982

(k) Has legal process because of insolvency been initiated against enterprise. If yes, describe proceedings and present legal status of enterprise: NO

* Please check the appropriate box

(l) Was enterprise already subject to external audit, strategic diagnostic:
yes ✓ no
If yes, please attach copy of audit report and/or diagnostic report

(m) Has enterprise been already turned around?
yes no ✓
If yes, please indicate when and describe results of turnaround.
....
....
....

(n) Has enterprise received technical assistance from national or international private partner and/or from multilateral or bilateral organization (UN system, European Development Fund etc...)
yes no ✓
If yes, describe technical assistance received (name of donor, objective, results).
....
....
....
....

2. SALES

(a) Products (P):

(b) Sales by products (quantity and value)

	National market		International market	
	quantity	value(currency)	quantity	value(currency)
year (n) P1 P2 31.7.89	12876 Tns	Tsh 303 mln	—	—
year (n-1) P1 P2 31.7.88	9613 Tns	Tsh 289 mln	—	—
Year (n-2) P1 P2 31.7.87	4853 Tns	Tsh 188 mln.	—	—

(c) Main clients: 1. INDIVIDUAL FARMERS
2. GOVERNMENT INSTITUTION/DEPARTMENTS

(d) Main competitors: 1- INTER-CHICK Co.
2- RAIAN INDUSTRIES
3- BAKHRESSA INDUSTRIES
4- SUKITA
5- MBEZI FEEDS

(e) Distribution network:
(1) EX-FACTORY SITE
(2) MOBILE VEHICLES

(f) Describe sales problems encountered, if necessary product by product:
1. ERATIC PRODUCTION HENCE REGULAR AND UNRELIABLE AVAILABILITY OF FINISHED PRODUCTS
2. IN-ADEQUATE, OLD/UNRELIABLE DISTRIBUTION VEHICLES.

3. **PRODUCTION**

(a) Production capacity and actual output:

Plants/workshops	production capacity	actual output year (n-2) 1990/91	year (n-1) 1989/90	year (n) 1988/89
1. PUGU ROAD, DSM	10tns per hour	1646.5	4337	7127
2. MOSHI	5 " " "	1355.5	2330.2	2900.2
3. MBEYA	3 " " "	1850.7	2946.4	2849.4
4. MWANZA*	5 " " "	—	—	—

* Recently Commissioned

(b) Reasons why enterprise does not function at maximum sustainable production capacity: Old and Warnout plant And Machinery

(c) Describe production processes and technology used: Combined manual and semi-automatic process are used in all plants

(d) Raw materials. maize, sunflower cotton seed cake sardines salt, limestone, premixes — PRIVATE INDIVIDUALS and COOPERATIVES
Main suppliers: Maize bran, Rice Polish, Wheat feed — N.M.C

Materials	Unit	Product	consumption per product year (n-2)	year (n-1)	year (n)

(e) Equipment: main facilities and machinery

Type	origin.	technology	Date of purchase	Present condition

(f) Reasons why deficient equipment does not function (preventive maintenance, repair, spare parts...): (i) Spares not available locally
(ii) Old age

(g) Pollution problems and measures taken: NONE

(h) Energy (audit, savings and problems): Electricity — Frequent power cuts in all plants
Steam Boiler – Needs overhaul and Repair

5. HUMAN RESOURCES

(a)	technical (number)	administrative (number)
Senior management	—	4
Middle management	—	
foreman	6	4
workers	161	10

(b) Main staff problems: 27
LACK OF TECHNICA' TRAINING

6. FINANCIAL INFORMATION

(a) Please enclose three last balance sheets, income statements and sources and uses of funds statements.

(b) Outstanding loans (short and long term)

Creditor	loan currency	credit amount	amount still due	installments amount year (n+1)	year (n+2)

(c) assets mortgaged (description and value)......

BUILDINGS OF SIXTY EGHT MILLION

7. REASONS FOR REQUESTING UNIDO TECHNICAL ASSISTANCE:

Describe briefly main causes of enterprise sickness (internal causes specific to enterprise, external causes specific to operating environment) and measures for turnaround already taken by management. Indicate in your opinion what role UNIDO should play in the turnaround process and what should be the objectives and results of UNIDO intervention:

1. TECHNICALLY THE MACHINES (PUGU ROAD PLANT) INSTALLED 22 YRS AGO HAVE NEVER UNDERGONE MAJOR REPAIR OR REHABILITION HENCE ARE WORN OUT

2. GOVT INTERVETION ON PRICES RESULTED INTO OPERATING LOSSES AND ACCUMULATION OF DEBTS

APPENDICES

TANZANIA ANIMAL FEEDS COMPANY LIMITED

LIST OF APPENDICES

APPENDIX - I

TANZANIA ANIMAL FEEDS COMPANY LIMITED

COMPARATIVE BALANCE SHEETS

	As on 31.07.92	As on 31.07.91	As on 31.07.90	As on 31.07.89
Fixed assets (net)	84,731,554	91,257,161	97,412,103	103,466,280
Capital work in progress	47,467,538	43,650,322	42,751,337	29,068,779
	132,199,092	134,916,483	140,163,440	132,535,059
Current assets:				
Inventory	50,285,295	50,538,745	63,233,097	123,820,452
Trade & sundry debtors	19,290,778	24,927,682	27,060,435	42,356,462
Cash & bank balances	4,403,687	3,278,855	3,687,887	13,217,051
Total of current assets	73,979,760	78,745,282	93,981,369	179,393,985
Total assets	206,178,852	213,661,765	234,144,809	311,929,044
Current liabilities:				
Creditors and accrued charges	486,807,026	428,342,611	387,224,376	409,796,002
Bank overdraft	-	39,566,266	39,589,670	39,589,670
Total liabilities	486,807,026	467,908,877	426,814,046	449,385,672
Net worth(negative)	280,628,174	254,247,112	192,669,237	137,456,628
Represented by:				
Share capital	30,000,000	30,000,000	30,000,000	30,000,000
Capital reserves	131,087,569	131,087,569	131,087,569	118,810,569
Retained loss	441,715,743	415,334,681	353,756,806	286,267,197
Total (negative)	280,628,174	254,247,112	192,669,237	137,456,628

APPENDIX - II

TANZANIA ANIMAL FEEDS COMPANY LIMITED

COMPARATIVE PROFIT & LOSS STATEMENTS

	for years ending on			
	31.07.92	31.07.91	31.07.90	31.07.89
Sales	133,493,210	188,508,460	288,977,601	303,033,254
Less: Cost on sales	125,275,279	198,452,416	312,604,491	324,400,450
Gross profit/(loss)	8,217,931	(9,943,956)	(23,626,890)	(21,367,196)
Other income	21,469,328	15,209,588	10,580,591	25,609,959
Operation expenses	55,768,321	67,456,207	54,978,715	52,736,081
Loss for the year	26,381,062	62,190,580	68,025,014	48,493,318
<u>Accumulated losses</u>				
Opening balance	415,334,681	353,756,806	286,267,197	237,773,879
Loss for the year	26,381,062	62,190,580	68,025,014	48,493,318
Period adjustment	-	(612,705)	(535,405)	-
Closing balance	441,715,743	415,334,681	353,756,806	286,267,197

APPENDIX - III

TANZANIA ANIMAL FEEDS COMPANY LIMITED

FACTORY OPERATING COSTS FROM 1989 - 1991

(in TSh.)

	for years ending on		
	31.07.1991	31.07.1990	31.07.1989
Casual wages	1,978,475	3,930,802	4,508,331
Transport inwards	758,396	1,610,728	2,245,826
Laundry & soap	551,255	504,710	262,825
Handling charges	1,179,999	-	-
Electricity & water	9,292,629	6,399,549	3,038,187
Oil & lubricant	730,195	557,808	1,731,751
Fumigation	360,923	180,500	231,770
Vehicle maintenance	11,138,675	29,549,844	21,702,624
Repairs & maintenance	5,844,463	7,371,233	5,940,500
Factory insurance	-	-	3,153,753
Cleaning expenses	32,590	92,556	65,884
Depreciation	6,708,882	8,977,320	10,629,698

APPENDIX - IV

TANZANIA ANIMAL FEEDS COMPANY LIMITED

PRODUCT SALES FROM 1989 - 1991:

(in TSh.)

	for the years ending on			
	31.07.1991	31.07.1990	31.07.1989	31.07.1988
Chick & duck mash	7,365,190	9,405,225	13,995,475	2,606,126
Growers mash	12,547,760	20,486,240	30,731,504	24,607,378
Layers complete meal	65,053,695	122,921,100	110,711,507	94,077,016
Broilers mash	72,644,930	86,666,090	100,388,714	86,277,219
Breeders mash	12,499,730	31,264,731	36,205,811	14,468,836
Dairy meal	15,894,580	13,984,265	7,113,301	7,517,949
Pig croop meal	39,215	221,875	10,422	201,090
Saw & weaver meal	807,065	2,085,910	2,112,675	3,640,533
Mice meal	267,505	414,750	239,530	235,250
Ewe & lamp ration	40,480	40,425	45,225	16,000
Horse meal	1,187,450	1,318,600	1,277,860	1,011,471
Rabbit-guinea pigmeal	21,185	1,210	7,000	5,550
Calf early weaner meal	54,395	167,180	194,230	-
Pig finisher	85,280	-	-	-
TOTAL SALES FOR YEAR	188,508,460	288,977,601	303,033,254	234,664,418

APPENDIX - V

TANZANIA ANIMAL FEEDS COMPANY LIMITED

PROVISION FOR BAD & DOUBTFUL DEBTS

(in TSh.)

	As on				
	31.07.92	31.07.91	31.07.90	31.07.89	31.07.88
Trade debtors	15,257,905	23,824,420	27,549,714	29,519,806	25,747,811
Less:Provision for bad & doubtful debts	11,457,820	11,366,602	11,366,602	11,366,602	6,834,694
Net from debtors	3,800,085	12,457,818	16,183,112	18,153,204	18,913,117

Analysis od bad debt account:

1. Increase/(Decrease) in trade debtors per year	(8,566,515)	(3,725,294)	(1,970,092)	3,771,995	Not available
2. Increase in provision for bad & doubtful debts per year	91,208	-	-	4,531,908	Not available
3. (Decrease)/increase in net debtors over previous year	(8,657,733)	(3,725,294)	(1,970,092)	759,913	Not available
% provision for bad & doubtful debts	75.09%	47.71%	41.26%	38.50%	26.54