A SURVEY ON PARASTATAL ENTERPRISES IN SOUTHERN AFRICAN COUNTRIES

REPORT BY

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and

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2000 Pennsylvania Avenue, N.W. - Washington, D.C. 20006

Project No. 72 July 1988

Prepared for the
BUREAU FOR PRIVATE ENTERPRISE
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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CHAPTER I

SUMMARY

Privatization prospects are vastly different in each of the three countries included in this survey.

1. Malawi has never nationalized any private companies, has already divested all or parts of its holdings in several companies which it was instrumental in starting, and is currently about to begin implementation of a major program for privatizing large portions of one of its two major holding companies.

2. Mozambique has nationalized some companies and is still operating, in an "intervened" status, several companies which were abandoned by their Portuguese private owners at the time of independence. It is now, however, searching openly and pragmatically for ways in which to make these enterprises operate more efficiently - including such moves toward privatization as joint venture, management contract, etc.

3. Tanzania continues to cling to the concept of state control, with Party offices and flags prominent at each of the parastatals. Successful operation of at least two of its industrial enterprises by foreign management contracts is, however, starting to open discussion about and possibilities for additional moves toward greater acceptability of privatization.

In each country, this survey narrowed the field successively from its "universe" of all parastatals through those which:

- have existing or potential export orientation;
- depend to some extent on scarce foreign exchange for importation of raw materials and spare parts; and
- have some foreseeable expectation for movement toward the private sector.

The final list of enterprises which are considered to be currently or potentially eligible for PERF financing follows:

<u>MALAWI</u>

<u>Currently Eligible</u>

ADMARC Canning Company Ltd

<u>Potentially Eligible</u>

Wood Industries Corporation Ltd (WICO)

MOZAMBIQUE

Currently Eligible

Caju de Mozambique EE
Manufactora de Borrocha SARL (MABOR)

Potentially Eligible

Empresas Mozambique de Cha (EMOCHA)
Fabrica de Conductores Electricos de Mozambique SARL (CELMOQUE)
Vidreira de Mozambique EE

TANZANIA

Currently Eligible

None

Potentially Eligible

Morogoro Ceramic Wares Ltd
Tanganyika Tegry (Plastics) Ltd

Although easier access to foreign exchange is certainly one major requirement for improved and expanded operations of many enterprises, both public and private, it must be emphasized that input of additional raw materials (purchased with additional foreign exchange) does not by itself generate expanded production of international quality products and greater sales. The quality, enthusiasm and dedication of the managers contacted during the survey are generally impressive, but it is recognized that in some cases enterprises lack the ability and experience required to successfully enter the international free marketplace. In other cases there is a lack of accounting and financial expertise or some other element essential to successful growth. To provide only foreign exchange could in many such cases lead to frustration rather than to success. Where this is found to be the case, the required development (through training) or acquisition (by joint venture, management contract or some other means) of such essential requirements should come before even the first PERF loan is approved for that enterprise.

Some amount of follow-up to this survey would seem beneficial, especially in the case of Mozambique. Government officials and enterprise managers are actively considering moves toward the private sector as one means of making businesses work better, but they need much better understanding of "how to" actually move in that direction.

Demand for PERF financing by individual enterprises would, while vital to their export expansion and strengthening, probably be relatively short-term if they are also permitted to retain for their own use some reasonable amount of their ever-increasing foreign exchange earnings. Overall demand for PERF would thus continue over a long-term only insofar as more and more enterprises without their own reserves begin new export activities and need outside foreign exchange inputs to get their operations going.

If PERF is for some reason not established on a SADCC regional basis, AID should actively consider:

1. Establishing a country-specific export revolving fund for Mozambique under the same timetable now being considered for PERF; providing hands-on "how to" technical assistance to enhance the climate for and move specific enterprises down the road toward privatization.

2. Topping up the Malawi Export Revolving Fund (MERF) with country-specific funds if firm-level demand forecasts indicate a need for more financing than currently available through MERF.

3. Providing in Tanzania advice on the benefits of free-market efficiency which would strengthen the insights of those government officials now starting to consider such possibilities and help move the country further toward the point where it could utilize its own country-specific fund.

CHAPTER II

INTRODUCTION

As required by the project's original Terms of Reference (shown as Attachment A), the survey was conducted according to the Methodology (shown as Attachment B) developed by Center For Privatization (CFP) consultants in Washington and then modified during discussions with USAID/Harare. This modification included shifting Study 2B from CFP to the Deloitte Haskins & Sells/Imani Development team conducting Study 3A. It also reduced the number of countries to be included from six to three and modified the schedule to that shown in Attachment C.

The basic survey instrument used, i.e. the list of State Owned Enterprise (SOE) Eligibility Criteria For Participation In PERF (shown as Attachment D), was also developed by CFP consultants and then agreed to by USAID/Zimbabwe. Details of information obtained during survey interviews with each candidate-enterprise, together with reasons for including or not including that enterprise on the final list of candidates for PERF financing, make up the body of this report.

As the survey was completed in each country, the final list of candidates for that country was immediately passed through the local USAID Mission and USAID/Zimbabwe to the Study 3A team for inclusion in its demand quantification exercise on the same bases used for its quantification of demand by the private sector.

Also as required by the Terms of Reference, a set of Benchmarks For Measuring Progress of SOEs Toward Divestiture was developed by CFP consultants while in Washington and then agreed with USAID/Harare upon arrival in Zimbabwe. These benchmarks are shown as Attachment E. The specific path toward privatization will, of course, be different for each enterprise. No attempt has been made in this short time to define those paths, but as agreed in the Methodology this basic list of suggested benchmarks can be used by later experts and/or PERF managers as a basis for negotiating with the government and the enterprise management a time-scheduled sequence of specifically identifiable progress unique and specially tailored to that particular enterprise. Evaluation and approval of each successive loan request by that enterprise would then depend on accomplishment of the relevant benchmark events agreed to in that initial negotiation.

CHAPTER III

MALAWI

A. GENERAL

Of the three countries visited, Malawi is by far the most advanced in its move down the road to privatization of its parastatals. This is not suprising, as it has been government's intention right from the beginning, when the various SOEs were established to fill gaps not being taken up by the private sector (not by nationalization of existing private businesses), to shift many of these enterprise into private ownership when they become attractive enough for potential buyers to become interested. Some of these parastatals have been established on their own, as separate and independent organizations, while others exist under the umbrella of one of the two major parastatal holding companies - Agricultural Development and Marketing Corporation (ADMARC) and Malawi Development Corporation (MDC). Government has also taken minority positions (not more than 35% of shares) in many other new and expanding companies though the Investment and Development Bank of Malawi Ltd. (INDEBANK). All three of these institutions have sold or are in process of divesting themselves of some of their holdings.

For purposes of establishing a starting point, the survey team went first to the Deputy Comptroller of Statutory Bodies in Lilongwe, who made available the Statement of Development Policies, 1987-1996, in which Chapter 20, *The Parastatal Sector,* is of particular interest. It might be noted that this statement of government policy is one of the best seen by the consultants to date. The list of the country's 35 parastatal organizations contained in that document (shown as Exhibit III-1) became the survey's "universe". Following discussions with the Deputy Comptroller, and also with ADMARC and MDC senior management, the list of commercial companies was narrowed down to those which might be interested in and eligible for PERF assistance due to their export orientation and need for foreign exchange with which to import raw materials and spare parts. As a result, visits were made to five enterprises, and the following are recommended for PERF financing:

CURRENTLY ELIGIBLE: ADMARC Canning Co. Ltd

POTENTIALLY ELIGIBLE: Wood Industries Corp Ltd

1. Agricultural Development and Marketing Corporation (ADMARC)

ADMARC was established in 1971 under the Ministry of Agriculture. Its objectives, as defined in the enabling legislation, were to increase the volume of exportable crops, improve the standards of agricultural production, produce and supply agricultural requirements of the farmers, and improve domestic and export marketing programs for agricultural produce. The company was also given broad powers to assist other organizations in developing the economy of Malawi. Over the years, ADMARC has used this latter power to build an extensive portfolio of investments, both equity and debt. A list of its current equity holdings is shown in Exhibit III-2.

At Government's instigation, ADMARC has recently begun a major restructuring program, with the goal of returning the company to the original objectives cited above. A Divestiture Committee has been established with membership from Treasury, Department of Statutory Bodies, Department of Economic Planning and Development, Ministry of Agriculture, and ADMARC. This committee has technical assistance from Deloitte Haskins and Sells. At its first meeting on January 15, 1988, this committee agreed on an implementation schedule for dealing with twenty one of its investments. This schedule places each investment in one of five categories: 100% divestiture, divestiture via unit trust, partial divestiture, restructuring before divestiture, and retention by ADMARC. Enterprises in each category are shown in Exhibit III-3. Discussion with ADMARC management in Blantyre narrowed the list of this company's holdings which are a) slated for divestiture and b) export oriented, to one possible candidate for PERF financing - i.e. ADMARC Canning Co., which is discussed in Section C.

2. Malawi Development Corporation (MDC)

The Malawi Development Corporation was established in 1964 with a mandate "to develop the agricultural, commercial, industrial and mineral resources of the economy of Malawi using sound business principles".* MDC promotes joint ventures between public and private sectors and between foreign and local investors and initiates investment in enterprises which, for one reason or another, are not attractive to private investors.

MDC's current equity holdings in 18 enterprises are shown in Exhibit III-4. Of these, MDC management suggested three possibilities for consideration by this survey. Although each of these is in desperate need of foreign exchange and would be readily divested by MDC under the right conditions, none has any export possibilities and for practical reasons none are therefore considered to be even potentially eligible for PERF financing.

3. Investment and Development Bank of Malawi Ltd (INDEBANK)

INDEBANK was established as a development bank at the end of 1972 to serve Malawi as a development bank by investing overseas funds in Malawian productive enterprises. The Bank is jointly owned by ADMARC, the Commonwealth Development Corporation (CDC), the Netherlands Development Finance Company (FMO), the German Finance

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* *Statement of Development Policies, 1987-1996*, Office of the President and Cabinet, Department of Economic Planning and Development.

Company for Investments in Developing Countries (DEG), and the International Finance Corporation (IFC). The first four of these each hold 22.22% of equity and the latter holds 11.12%.

Priority for investment is given to those activities which promote exports or otherwise save foreign exchange, including agriculture, agro-processing, textiles and engineering. Support has also been provided to the tourist and hotel industry.

INDEBANK invests by way of local and foreign currency loans and/or shareholdings in enterprises having development value and operated on a commercial basis. It will not develop infrastructure and it does not take management responsibility, although any loan or investment appraisal must include assurances that capable management is in place. Since INDEBANK does not take an equity position exceeding 35% in any enterprise, none of its holdings could be considered by this survey of parastatals.

B. MALAWI EXPORT REVOLVING FUND (MERF)

World Bank and other donors are developing a major program of assistance to Malawi known as the Industrial Trade and Policy Adjustment Credit (ITPAC). One component of this program is the Malawi Export Revolving Fund (MERF), which has the same general goals as PERF but with perhaps fewer restrictions as regards required movement toward privatization. USAID has agreed to participate in ITPAC by supporting employment and income generation. This assistance is, however, conditioned on prior establishment of the Malawi Export Revolving Fund from general ITPAC resources. PERF funds might later be used to "top up" MERF if the firm-level demand estimates being developed under Study 3A exceed the amount currently being allocated to MERF, but there is no intention of establishing a separate PERF facility for Malawi.

C. PROFILES AND QUESTIONNAIRES

This Section contains profiles and questionnaires on the following State Owned Enterprises visited during the course of this survey:

1. ADMARC Canning Company Ltd
2. Malawi Iron & Steel Corporation
3. Packaging Industries Malawi Ltd
4. Portland Cement Company (1974) Ltd
5. Wood Industries Corporation Ltd

ADMARC Canning Company Ltd

ADMARC Canning Company is a wholly-owned subsidiary of the Agricultural Development and Marketing Corporation of Malawi (ADMARC). It was established in 1973 to purchase, can, and market fruits and vegetables produced by small farmers in Malawi. The company also provides inputs to small farmers.

Under the direction of an ADMARC-appointed board and with management guidance by ADMARC's Development and Investment Division, the company's emphasis on a political and social role and virtual exclusion of commercial orientation resulted in consistent losses which have accumulated to over MK4 million. Domestic sales have never risen to expected levels, and exports have been hurt by the company's inability to meet quantity and quality demands on schedule.

With the appointment of a new general manager early last year, the company began a massive restructuring. Operating more as a commercial entity and recognizing more and more of its natural advantages (e.g. wide variety of low-cost good-quality raw materials and labor, lack of significant competition, well-accepted brand name, etc.), the company is making a significant turnaround. So much so that it reports a MK200,000 operating profit for the last twelve months. Additional corporate restructuring and a possible shift of site to be closer to a transport center remain, but the process seems to be well under way.

One major unresolved problem remains - i.e. lack of foreign exchange with which to import tins of the quality and in the quantity required. This lack is especially hurting its potential export expansion. Products are already being shipped Germany, Portugal, South Africa and others, but the company cannot accept such orders as Portugal's demand for pineapple or respond to inquiries from Saudi Arabia and Australia for other products because it cannot import the required tins.

The ADMARC Divestiture Committee has (as shown on Exhibit III-3) decided that this company should be divested once its restructuring has proceeded to a point which makes it attractive to prospective buyers. Discussions have already begun with two interested investors - Press Holdings and Chillington. Company management tends to favor the Press Holdings possibility because of its indication that it would, if successful in this acquisition, also establish a local company to make the required tins.

With considerable export potential, the possibility for assisting in company rehabilitation by supplying needed foreign exchange, and moves to divestiture already under discussion, ADMARC Canning is considered to be a prime candidate for current eligibility for PERF financing.

ADMARC CANNING CO. LTD
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

A. GENERAL BACKGROUND	Favorable	Unfavorable
1) Government and/or SOE management has expressed a desire to move this enterprise into the private sector.	X	
2) Evidence of larger export market for this company's products exists.	X	
3) Lack of foreign exchange is having a significant impact on operations of this enterprise.	X	
4) Product prices are not prescribed by the government.	X	
5) The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B. MANAGEMENT/ORGANIZATION		
1) The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2) The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.	X	
3) Current management is adequate for leading the company through a growth/transition period.	X	
4) The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5) Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL

	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	X	
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.	X	
4. The company's accounting records and procedures are adequate and informative.	X	
5) The company's accounts are being audited by outside independent auditors.	NA	
6) Assets are realistically valued on the company's books.	NA	
7) The company's financial structure can support additional growth. a) Debt service is manageable.	NA	
b) Adequate equity is in place.	NA	
8) Current physical plant is adequate for increased production.	NA	

If not, a) What additional investment would be required to put plant into good condition? (US$)

b) Have sources of financing been identified?

D. SUMMARY

	Favorable	Unfavorable
1) This enterprise has a good chance of existing and prospering as a private enterprise.	X	

Malawi Iron and Steel Corporation (MISCO)

The Malawi Iron and Steel Corporation is jointly owned by the Malawi Development Corporation (44.95%), the Industrial and Development Bank of Malawi Ltd. (22.22%), and Ranite and Company (33.33%). Ranite is a UK company based in the Channel Islands.

The Company was established in 1976 as a steel factory with one arc furnace, then closed in 1978. In 1984, with the assistance of Ranite and the Malawi Development Corporation, it was rehabilitated as a producer of ferrous and non-ferrous castings using cupulo furnaces. This is an obsolete technology in many cases, but one appropriate to this company's operations. With its active management, the company had its first profit in 1987 and promises to be profitable in 1988.

The company produces a variety of products, including brake drums, manhole covers, pipes, dover stoves, gear wheels, machinery for tea factories, boat propellers, and agricultural tools and implements. It has recently been experimenting with promotional items, such as brass ashtrays.

MISCO has need for a modest amount of capital improvement, and a reconstruction plan developed by Ranite and Company has been pending at the Reserve Bank for the past two years without action. This program involves an additional investment of only about $100,000 and would serve to improve quality control and thus increase the company's competitiveness.

The Company uses only scrap iron, with a plentiful supply available in Malawi. Its only imports are coke, imported from Zimbabwe. Other raw materials such as fire clay, wood and sand are available in Malawi.

MISCO neither imports in significant volume nor exports finished goods at the present time, and is thus not a candidate for PERF.

MALAWI IRON & STEEL CORPORATION
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

		Favorable	Unfavorable
A.	**GENERAL BACKGROUND**		
1)	Government and/or SOE management has expressed a desire to move this enterprise into the private sector.		X
2)	Evidence of larger export market for this company's products exists.		X
3)	Lack of foreign exchange is having a significant impact on operations of this enterprise.		X
4)	Product prices are not prescribed by the government.	X	
5)	The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B.	**MANAGEMENT/ORGANIZATION**		
1)	The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2)	The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.	NA	
3)	Current management is adequate for leading the company through a growth/transition period.	X	
4)	The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5)	Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL

	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	X	
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.	X	
4. The company's accounting records and procedures are adequate and informative.	X	
5) The company's accounts are being audited by outside independent auditors.	X	
6) Assets are realistically valued on the company's books.	X	
7) The company's financial structure can support additional growth. a) Debt service is manageable.	X	
b) Adequate equity is in place.	X	
8) Current physical plant is adequate for increased production.	X	

If not, a) What additional investment would be required to put plant into good condition? (US$)

b) Have sources of financing been identified?

D. SUMMARY

	Favorable	Unfavorable
1) This enterprise has a good chance of existing and prospering as a private enterprise.	X	

Packaging Industries (Malawi) Ltd

Packaging Industries (Malawi) Ltd is a manufacturer of polyethylene-coated beverage containers, corrugated cardboard boxes for tobacco export, multi-wall paper sacks, paper pulp egg trays, tea sacks, and water-proof bitumen-laminated kraft paper. The company is owned 85% by the Malawi Development Corporation and 15% by Nampack.

Since no paper is being manufactured in the country, all raw material is imported from Europe and USA. The company reports that necessary foreign exchange is usually made available, although there are frequent problems with timing.

With the exception of a recent order for millet beer cartons from Zimbabwe, the company does not export directly. Its tea and tobacco packaging material becomes a component of export commodities, but no foreign exchange accrues to Packaging Industries from these products.

The Company is operating profitably at about 60% of production capacity.

With no plans for privatization, and with no substantial export program, this company is not eligible for access to PERF funds.

PACKAGING INDUSTRIES MALAWI LTD
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

		Favorable	Unfavorable
A.	**GENERAL BACKGROUND**		
1)	Government and/or SOE management has expressed a desire to move this enterprise into the private sector.		X
2)	Evidence of larger export market for this company's products exists.		X
3)	Lack of foreign exchange is having a significant impact on operations of this enterprise.		X
4)	Product prices are not prescribed by the government.	X	
5)	The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B.	**MANAGEMENT/ORGANIZATION**		
1)	The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2)	The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.	X	
3)	Current management is adequate for leading the company through a growth/transition period.	X	
4)	The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5)	Wage/Salary structure is not prescribed by government.	X	

C. <u>FINANCIAL</u>

		Favorable	Unfavorable
1)	The company is self-supporting or able to become so in the near future.	X	
2)	The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	NA	
3)	The company is not dependent on government support (loans, budget allocations) for its continuing existence.	X	
4.	The company's accounting records and procedures are adequate and informative.	NA	
5)	The company's accounts are being audited by outside independent auditors.	NA	
6)	Assets are realistically valued on the company's books.	NA	
7)	The company's financial structure can support additional growth. a) Debt service is manageable.	NA	
	b) Adequate equity is in place.	NA	
8)	Current physical plant is adequate for increased production.	X	

If not, a) What additional investment would be required to put plant into good condition? (US$)

b) Have sources of financing been identified?

D. SUMMARY

		Favorable	Unfavorable
1)	This enterprise has a good chance of existing and prospering as a private enterprise.	X	

Portland Cement Company (1974) Ltd

This company is a wholly-owned subsidiary of the Malawi Development Corporation, operating a limestone quarry and clinker and cement factories. The company has a management contract with Irish Cement Consultancy Services, which has three people on site, including the General Manager.

Portland Cement Company has not been profitable during recent years, although management reports that at the present time it is operating at a small profit and expected to be profitable in 1988-89. It is presently rehabilitating its plant and equipment under a loan of MK10.89 million from the European Investment Bank; this work is to be completed in early 1989 and loan repayments will commence in 1990.

Demand for company products is very low at present, and the company has no prospects of exporting cement. Management hopes that if construction activity accelerates in the next several years, the company should then become profitable.

With no prospects for exports or privatization, and with imports limited to spare parts, this company is not a candidate for access to PERF funds.

PORTLAND CEMENT CO. (1974) LTD
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

		Favorable	Unfavorable
A.	GENERAL BACKGROUND		
1)	Government and/or SOE management has expressed a desire to move this enterprise into the private sector.		X
2)	Evidence of larger export market for this company's products exists.		X
3)	Lack of foreign exchange is having a significant impact on operations of this enterprise.		X
4)	Product prices are not prescribed by the government.	X	
5)	The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B.	MANAGEMENT/ORGANIZATION		
1)	The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2)	The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.	NA	
3)	Current management is adequate for leading the company through a growth/transition period.	NA	
4)	The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5)	Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	X	
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.	X	
4. The company's accounting records and procedures are adequate and informative.	X	
5) The company's accounts are being audited by outside independent auditors.	X	
6) Assets are realistically valued on the company's books.	NA	
7) The company's financial structure can support additional growth.		
a) Debt service is manageable.	NA	
b) Adequate equity is in place.	NA	
8) Current physical plant is adequate for increased production.	X	

If not, a) What additional investment would be required to put plant into good condition? (US$)

b) Have sources of financing been identified?

D. SUMMARY	Favorable	Unfavorable
1) This enterprise has a good chance of existing and prospering as a private enterprise.		X

Wood Industries Corporation Ltd (WICO)

Wood Industries Corporation evolved out of the Forestry Department and was incorporated under the Companies Act in 1984. Its board has membership from both the private sector and relevant government ministries. Government intended from the very beginning that this company should be privatized as soon as possible.

Government's original intention was to transform the Forest Industries Division of the Forestry Department into a commercial operation. Its first idea was to produce pulp, but after some 10 years of study it decided instead to develop its timber potential. After a difficult beginning, the company received a $5 million World Bank loan to rationalize its entire operation - closing some saw mills and consolidating others, and diversifying into other products such as furniture.

The company's first production was for the local market, but last year it started to export furniture to UK, Germany, France and Belgium. It now exports 4-6 containers per month of do-it-yourself kits and believes that a ready market exists for about three times that volume. This type of product has been selected to minimize the need to import raw materials. Management feels that exports of more sophisticated furniture could expand several times if more foreign exchange was available with which to import hinges, handles, etc.

Four other constraints have also prevented the company from meeting all of its potential demand, but each is being resolved as follows:

1. A question as to the supply of logs is being studied and a report (believed to be favorable) is to be completed in June.

2. Factory capacity, especially its kilns, is not adequate, but funds for correcting this problem are included in this year's capital budget.

3. Technical and managerial personnel need strengthening, but a training program is being developed.

4. From the company's beginning there has been a shortage of working capital, especially of foreign exchange necessary to import fittings, finishes, spare parts, etc. Resolution of this problem could be assisted by PERF.

Government and IBRD both overestimated market demand in their initial project appraisal. Seeing that demand would not develop as projected, management has drawn down only about $3 million of the IBRD loan. The company has recently requested that the undisbursed portion be cancelled so as to avoid further commitment charges. Even at this lesser amount, however, the company is still saddled with a large foreign debt which came in at US$1 = MK1 but must be repaid at a current US$1 = MK2.4.

The company's board and Government are actively exploring possibilities for a merger with or sale to private interests. They hope to either sell the company and use the proceeds to retire this debt, or to convert some or all of this debt into equity and then sell the shares. The company is already generating an operating profit which could be extended to a net profit without this overhanging debt service requirement.

Wood Industries Corporation meets all criteria for inclusion in the PERF program and is considered to be currently eligible for the program.

WOOD INDUSTRIES CORPORATION LTD
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

		Favorable	Unfavorable
A.	GENERAL BACKGROUND		
1)	Government and/or SOE management has expressed a desire to move this enterprise into the private sector.	X	
2)	Evidence of larger export market for this company's products exists.	X	
3)	Lack of foreign exchange is having a significant impact on operations of this enterprise.	X	
4)	Product prices are not prescribed by the government.	X	
5)	The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B.	MANAGEMENT/ORGANIZATION		
1)	The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2)	The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.	X	
3)	Current management is adequate for leading the company through a growth/transition period.	X	
4)	The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5)	Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	X	
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.	X	
4. The company's accounting records and procedures are adequate and informative.	NA	
5) The company's accounts are being audited by outside independent auditors.	NA	
6) Assets are realistically valued on the company's books.	NA	
7) The company's financial structure can support additional growth. a) Debt service is manageable.	NA	
b) Adequate equity is in place.	NA	
8) Current physical plant is adequate for increased production.		x

If not, a) What additional investment would be required to put plant into good condition? (US$ NA)

b) Have sources of financing been identified? YES

D. SUMMARY

1) This enterprise has a good chance of existing and prospering as a private enterprise. X

D. MALAWI CONTACTS

ENTERPRISES

ADMARC Canning Co. Ltd. P O Box 80043 Blantyre Tel: 652305	Francis K. Mfune, General Manager
Malawi Iron & Steel Corp. (MISCO) Macleod Road P O Box 2165 Blantyre 8 Tel: 671455, 671713	Bill Thompson, General Manager
Packaging Industries (Malawi) Ltd P O Box 30533 Chichiri Blantyre 3 Tel: 670533	E.B. Kadzako, General Manager
Portland Cement Co. (1974) Ltd. P O Box 523 Blantyre Tel: 671933	J.L. Henderson, Consultant (former General Manager)
Wood Industries Corp. Ltd (WICO) P O Box 30359 Chichiri Blantyre 3 Tel: 670144	Jerry A.A. Jana, General Manager

OTHER

Agricultural Development and Marketing Corp. (ADMARC) P O Box 5052 Limbe, Blantyre Tel: 640044	E.B. Salifu, Asst. General Manager
Department of Economic Planning & Development P O Box 30136 Lilongwe 3 Tel: 731777	Joseph C.K. Mhango, Principal Economist John K.B. Kanyenda, Senior Economist

Deloitte Haskins & Sells Unit House, Victoria Avenue P O Box 187 Blantyre Tel: 636277	John A. McLean, Partner Charles G. Twyman, Investment Coordinator
Investment and Development Bank of Malawi Ltd (INDEBANK) Delamere House P O Box 358 Blantyre Tel: 620055	David H. Bishop, Head of Project Investigations
Malawi Development Corp. (MDC) Development House P O Box 566 Blantyre Tel: 620100	James G. Naphambo, Co. Secretary
Malawi Export Promotion Council Delamere House P O Box 1299 Blantyre Tel: 620055	J.B.L. Malange, General Manager Stocker O. Hara, Deputy Gen. Mgr. W.J. Nakoma, Sr. Marketing Officer Robert J. Salama, Sr. Marketing Officer
Ministry of Trade, Industry and Tourism P O Box 30366 Capital City Lilongwe 3 Tel: 732711	Ernest W. Mponela, Asst. Chief Economist M.B. Nyirenda, Senior Economist
Office of the President & Cabinet Dept. of Statutory Bodies P O Box 30061 Capital City Lilongwe 3 Tel: 733244	Dr. Cornelius T. Mwalwanda, Deputy Comptroller P.C.C. Chirwa, Asst. Chief Economist
USAID Malawi NICO House P O Box 30455 Lilongwe Tel: 731093, 731632	Richard Shortlidge, Asst. Director John Chaika, Asst. Project Officer

EXHIBIT III-1

MALAWI PARASTATALS, 1987

A. COMMERCIAL

1. Agricultural Development and Marketing Corporation (ADMARC)
2. Malawi Railways (MR)
3. Electricity Supply Commission of Malawi (ESCOM)
4. Malawi Development Corporation (MDC)
5. Air Malawi
6. Malawi Housing Corporation (MHC)
7. Blantyre Water Board (BWB)
8. Lilongwe Water Board (LWB)
9. Mining Investment and Development Corporation (MIDCOR)
10. Wood Industries Corporation (WICO)
11. Malawi Book Service (MBS)
12. Malawi Dairy Industries (MDI)

B. QUASI-COMMERCIAL

13. Kasungu Flue-Cured Tobacco Authority (KFCTA)
14. Smallholder Tea Authority (STA)
15. Smallholder Coffe Authority (SCA)
16. Smallholder Sugar Authority (SSA)
17. Malawi Tobacco Research Authority (MTRA)*
18. Tobacco Control Commission (TCC)*

C. SUBVENTED

19. University of Malawi
20. Malawi Broadcasting Corporation (MBC)
21. Malawi National Examinations Board (MANEB)
22. Malawi College of Accountancy
23. Malawi Bureau of Standards
24. Malawi Institute of Education (MIE)
25. National Library Service (NLS)
26. National Celebrations Council (NCC)
27. Malawi Export Promotion Council (MEPC)
28. Development of Malawian Traders Trust (DEMATT)
29. Petroleum Control Commission (PCC)
30. Tree Nut Authority (TNA)
31. Malawi Council for the Handicapped (MACOHA)**
32. Chichewa Board
33. Malawi National Council for Sports
34. National Road Safety Council
35. Malawi Accountancy Board/Examination Council

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* These are fully funded by the tobacco industry
** The bulk of the subvention comes from foreign and local private donors

Source:Department of Statutory Bodies

EXHIBIT III-2

AGRICULTURAL DEVELOPMENT AND MARKETING CORPORATION (ADMARC)
Equity Investments as of March 31, 1986

	% of issued shares held
ADMARC Canning Company Limited	100
Advanx (Blantyre) Limited	50
Auction Holdings Limited	58
Buwa Tobacco Estates Limited	100
Cattle Feedlot Company Limited	50
Central Grading and Packing Company Limited	55
Chasato Estates Limited	40
Cold Storage Company Limited	100
Cory Mann George (Malawi) Limited	50
Cotton Ginners Limited	
Ordinary Shares	49
Redeemable Preference Shares	50
David Whitehead & Sons Limited	49
Dwangwa Sugar Corporation Limited	38
Finance Corporation of Malawi Limited	100
Grain and Milling Company Limited	100
Hotels and Tourism Limited	0.25
Investment and Development Bank of Malawi Limited	22
Kasikidzi Estates Limited	100
Lever Brothers (Malawi) Limited	20
Livilidzi Estate Limited	100
Maldeco Fisheries Limited	100
Malawi Tea Factory Company Limited	40

Manica Freight Services (Malawi) Limited	50
Mangani Estates Limited	100
Mpira Estates Limited	100
National Bank of Malawi	33
National Oil Industries Limited	100
National Seed Company of Malawi Limited	72.5
Optichem (Malawi) Limited	33.5
P.E.W. Limited	87
Spearhead Holdings Limited	4
Sugar Corporation of Malawi Limited	49
Tikondane Estate Limited	100
Tobacco Estates Limited	50
Tobacco Marketing Company of Malawi Limited	100
United Transport (Malawi) Limited	35

Source: ADMARC 1986 Annual Report

EXHIBIT III-3

ADMARC DIVESTITURE PROGRAM
Implementation Schedule as agreed at first meeting of the Divestuture Committee
January 15, 1988

TIER ONE	**100% DIVESTITURE**
CATTLE FEEDLOT	
MALDECO	
FARMS AND ESTATES	
TIER TWO	**TO BE DIVESTED VIA A UNIT TRUST**
FINCOM	
NATIONAL BANK	
OPTICHEM	
UNITED TRANSPORT	
TIER THREE DIVESTITURE	**PARTIAL DIVESTITURE**
AUCTION HOLDINGS	KEEP 51% HOLDING
NATIONAL SEED COMPANY	KEEP MAJORITY HOLDING
KAVUZI TEA ESTATE	ADMARC FLEXIBLE AS TO HOLDING
GRAIN AND MILLING	DIVEST TO MINORITY HOLDING
SUCOMA	DIVEST TO 20% HOLDING
DAVID WHITEHEAD	DIVEST TO 20% HOLDING
NATIONAL OIL INDUSTRIES	KEEP 51% HOLDING
TIER FOUR	**RESTRUCTURING BEFORE DIVESTITURE**
ADMARC CANNING	
DWANGWA	DIVEST TO 20% HOLDING
TIER FIVE	**RETENTION BY ADMARC**
INDEBANK	
MALAWI TEA FACTORY	
MANICA	
COTTON GINNERS	
PRESS INCOME NOTES	

Source: Minutes of First Meeting, ADMARC Divestiture Committee

MALAWI DEVELOPMENT CORPORATION (MDC)
Equity Investments as of December 31, 1985

Company	%	Partners	Main Activities
PROPERTY DEVELOPMENT			
Malawi Property Investment Company (Through MPICO (Holdings) Ltd.)	25.6	Old Mutual 45.5% Lincoln Investments Ltd 4.3% Malawi Government 24.6%	Development ownership and management of commercial and industrial property
TRADING COMPANIES			
Import & Export Company of Malawi (1984) Ltd	86.0	John Holt (UK) Ltd 14% Ltd 14%	Has two wholeselling divisions. Main Trading for textiles and other consumer goods. Marketing Services for consumer goods only
Guthrie (Malawi) Ltd	20.0	Guthrie Group 80%	Wholesaler and retailer of both locally manufactured and imported goods
HOTELS			
Capital Hotels Limited City,	84.5	Carlsberg (Malawi) Brewery 9.5% EDESA 1.2% Indebank 4.8%	Operating biggest hotel in Malawi's Capital Lilognwe. Managed by HMI
Malawi Hotels Limited Malawi	47.4	Carlsberg (Malawi) Brewery 26.3% Commonwealth Development Corporation 26.3%	Operates four hotels: Mount Souche in Blantyre, Kuchawe Inn on Zomba Plateau, Lilongwe Hotel in Lilongwe, and Nkopola Lodge on Lake
Mzuzu Hotel	100.0	-	A division of MDC: the hotel is Managed by HMI
INDUSTRY			
Agrimal (Malawi) Ltd	40.0	Chillington Tool Co. Ltd 60%	Manufactures agricultural implements
Bata Shoe Company (Malawi) Ltd	49.0	Bata International Ltd 51%	Manufactures gents, ladies and childrens shoes, industrial boots and slip on sandals

Company	%	Partners	Main Activities
B & C Metal Products Ltd	25.0	Brown & Clapperton 75%	Makes steel windows, doors, door frames and furniture
Encor Products Ltd.	23.3	Treger Products 76.7%	Manufactures and sells five main categories of products: aluminium ware, enamelware, galvanised ware, tea chest fittings and wheelbarrows
Malawi Iron & Steel	44.45	Ranite & Company 33.33% Indebank 22.22%	Produces castings in ferrous and non-ferrous metals
Match Company (Malawi) Ltd	30.0	Lion Match of Zimbabwe 70%	Manufactures and distributes Leopard matches and imports for sale Minora razor blades
Packaging Industries (Malawi) Ltd	85.0	Nampack 15%	Manufactures corrugated paper boxes, local beer packets and cement and lime bags.
Plastic Products Ltd. (through Pipe Extruders Ltd.)	36.0	Company owned 100% by Pipe Extruders Ltd.	Manufactures polthene bags sheets, polypipes and hosepipes
Pipe Extruders Limited	36.0	MCE 54.55%	Manufactures and sells plastic pipes, fittings and pump valves
Portland Cement Co. (1974) Ltd.	100.0	-	Manufactures portland cement
SERVICES			
Commercial Bank of Malawi Ltd	30.0	Malawi Government 40%	Commercial banking Press Corporation Ltd. 30%
National Insurance Company Ltd.	20.0	Press Corporation Ltd. 65% Guardian Assurance 15%	Largest insurance company in Malawi

Source: Malawi Development Corporation Annual Report 1985

CHAPTER IV

MOZAMBIQUE

A. GENERAL

The Government of Mozambique, in its pragmatic search for ways in which to make things work better, seems to be moving realistically down the path toward decreasing regulation of its business community and privatization of many of the enterprises which it controls both as direct owners and as intervenors (i.e. caretakers of enterprises abandoned by their former private owners).

1) Selling prices are now generally being set by most enterprises rather than by central direction.

2) Wages are flexible within each enterprise to the extent that government now establishes only a minimum and an upward range.

3) Enterprise managers are now free to hire and fire employees as they deem necessary to the profitable operation of their company.

4) Exporting enterprises are now able to negotiate with government the retention of a certain portion of the foreign exchange generated by their sales. Although this portion has previously ranged from 20% to 100%, current indications are that government may now centralize this range closer to 50%.

5) Officials of the Bank of Mozambique, the People's Development Bank, and the Ministry of Industry and Energy interviewed during the survey all indicated their enthusiasm for current moves toward privatization.

Managers of several SOEs expect that the government will quite soon move their enterprises in the direction of market-orientated private activity. In each case, they welcome this move and are already enthusiastically taking advantage of the steps indicated above.

This move may not necessarily, however, lead to total sale of an enterprise's shares to private owners in the near future. Several managers of currently-mixed enterprises indicated that they prefer to retain some amount of government "partnership" as a useful vehicle for seeking government assistance in solving "our" problems as they may arise. Indeed, private participants in two of these mixed ventures emphasized that they asked for continuing government participation (20% in one case, 50% in another) when they negotiated acquisition (or re-acquisition) of the shares which they did get. It should be added that they also negotiated managerial control of the enterprise, retention of some export earnings, and whatever additional matters they considered to be appropriate to the successful operation of their enterprise.

Upon arrival in Mozambique, the only "list" of parastatals available was an October 1987 Arthur D. Little International study done for the World Bank and titled *Factual Summaries of 40 Industrial and Agro-Industrial Companies of Mozambique*. State-owned and intervened enterprises were selected from this list as a starting point for this survey; the resulting sub-list is shown in Exhibit IV-1. Various contacts during the course of the survey produced a few additions to this sub-list - e.g. the attached List of Enterprises Licensed to Export in 1987 (Exhibit IV-2), which was received only near the end of the survey. It is attached here for the use of the private sector study team and for possible future expansion of the eligible parastatal list.

Selecting from all of these sources, the survey team visited 14 parastatal enterprises while in Mozambique. Profiles of these enterprises, including reasons for selection of or rejection from the final list of candidates for PERF assistance, follow in Section B.

Of the SOEs visited, two were selected as currently eligible and three as potentially eligible for PERF assistance. They are:

<u>CURRENTLY ELIGIBLE</u>:

Caju de Mozambique EE
Manufacturas de Borrocha SARL (MABOR)

<u>POTENTIALLY ELIGIBLE</u>:

Empresas Mozambique de Cha (EMOCHA)
Fabrica de Conductores Electricos de Mozambique SARL (CELMOQUE)
Vidreira de Mozambique EE

It should be noted, of course, that expanded production and export depends to a certain extent on an easing in the country's security situation.

Many international donors (IBRD, SIDA, Portugal, Italy, etc.) are now providing many forms of assistance (e.g. technical training, foreign exchange grants, etc.) to Mozambique, much of it seemingly without coordination or even knowledge of one by the other. AID might consider taking the lead in developing some form of coordinating mechanism to prevent either redundancies or unexpected gaps and thereby assure a more effective and steady development of this country's business community. One possible nucleus for such coordination might be the already-existing Institute de Desenvolvimento as Industrias Locais (IDIL), Institute for the Development of Local Industries. Although it currently deals only with small scale industries, its director is dynamic and well-connected and very much interested in foreign aid, joint ventures, and privatization.

Another peripheral but important issue to be considered is the process by which the Mozambique government is transforming its custodianship of intervened companies into legal entities. In those cases where the government does not expect the former (and still legal) owners of an enterprise to return to the country and reclaim their ownership, it is initiating (and has completed in some cases) a lengthy process of converting the enterprise to an Empresa Estatal (EE) status. In this State Enterprise status, the balance sheet does not break ownership into capital shares but leaves it all together as one block belonging to government. It would seem preferable, however, especially in those enterprises which may likely become eligible for later privatization, to establish the legal status of these companies as SARL or LTD, where ownership is composed of individual shares (SARLs have more than 20 shareholders, LTDs have less) which can later be sold to private interests in whole or in part as the situation may require without going through yet another lengthy legal transformation.

MOZAMBIQUE

B. PROFILES AND QUESTIONNAIRES

This section contains profiles and questionnaires on the following State Owned Enterprises visited during the course of this survey:

1. Agro-Alfa EE
2. Caju de Mozambique EE
3. Empresas Mozambique de Cha (EMOCHA)
4. Empresa Nacional de Calcado Texteis EE (ENCATEX)
5. Fabrica de Conductores Electricos SARL (CELMOQUE)
6. Fabricas de Tintas SARL (PINTEX)
7. Industria Mozambicana de Aco SARL (IMA)
8. Intermetal EE
9. Lusalite de Mozambique SARL
10. Manufactora de Borracha SARL (MABOR)
11. Mozambique Sugar Board
12. Productos Alimentares LDA (PROTAL)
13. Spanos-Empreendimentos (Beira) SARL
14. Vidreira de Mozambique EE

Agro Alfa E.E.

Agro-Alfa is an intervened company in process of transformation to Empresa Estatal (EE) status. Its cast iron foundry has a capacity of 500-600 tons per year but is currently operating at only about 40%. It can make 30 different ox-drawn and tractor-drawn agricultural implements but currently produces only 16 products and uses only about 45% of that capacity. It also has a blacksmith forge which can produce some one million knives, axes, hammers, pliers, scissors, etc. per year but which currently utilizes only about 5% of this capacity.

The company's domestic sales are made mostly through AGRICOM (a government trading company) and also increasingly through a network of private dealers which it is building up. In Maputo, it also makes some direct retail sales. Its only export activity so far has been an order for 2,000 ox-drawn ploughs to Angola, but it is currently negotiating a barter sale of Agro-Alfa implements for Tanzanian tractors.

The company imports flat bar and round bar from Zimbabwe and Sweden.

SIDA is providing technical assistance through a $1.7 million grant which will expire in 1992. Under this program, technical assistance is being provided through a 5 year contract with OVERUM, a large Swedish manufacturer of agricultural equipment. Among other things, this program provides a one year training program for foremen (currently in scarce supply) in some twenty different skills. The company is still weak, however, in engineering, project development, and international commercialization.

Since the government has no intention of moving this company toward privatization, it cannot be considered for PERF financing at this time.

AGRO-ALFA EE
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

		Favorable	Unfavorable
A.	**GENLRAL BACKGROUND**		
1)	Government and/or SOE management has expressed a desire to move this enterprise into the private sector.		X
2)	Evidence of larger export market for this company's products exists.	X	
3)	Lack of foreign exchange is having a significant impact on operations of this enterprise.		X
4)	Product prices are not prescribed by the government.	X	
5)	The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B.	**MANAGEMENT/ORGANIZATION**		
1)	The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2)	The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.	X	
3)	Current management is adequate for leading the company through a growth/transition period.	X	
4)	The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5)	Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	X	
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.	X	
4. The company's accounting records and procedures are adequate and informative.	X	
5) The company's accounts are being audited by outside independent auditors.	X	
6) Assets are realistically valued on the company's books.	X	
7) The company's financial structure can support additional growth. a) Debt service is manageable.	X	
b) Adequate equity is in place.	X	
8) Current physical plant is adequate for increased production.	X	

If not, a) What additional investment would be required to put plant into good condition? (US$)

b) Have sources of financing been identified?

D. SUMMARY		
1) This enterprise has a good chance of existing and prospering as a private enterprise.	X	

Caju de Mozambique EE

Cashews have been a major traditional export from Mozambique, and in normal times the country has been the world's major exporter. From a peak of 216,000 tons in 1974/75, production fell to 15,000 tons in 1983/84 and then recovered to 40,000 tons in 1986/87. Production in 1987/88 is anticipated to be in the range of 45-50,000 tons. Of a 150,000 tons per year estimated total capacity, the company believes that currently viable acreage could produce about 60,000 tons per year.

The cashew industry is comprised of fourteen factories. Eight of these were intervened and brought together into this one state owned enterprise. Two of these have been destroyed by armed bandits and one is closed for lack of raw materials because of the war. Of the six private companies, three went bankrupt during the lean years of 1982/84, one was abandoned by its owners, and two are working. Caju de Mozambique now manages these latter three as well as its own.

Cashews are harvested mostly by small farmers who typically own 40 to 50 trees and harvest three to five kilograms from each tree. During recent years, there has been little or no incentive to harvest the nuts. As a result, the company has been importing consumer goods for sale to small holders as an inducement to harvesting. (The tea company, Emocha, is also importing consumer goods for its tea pickers.) Other imports include spare parts and packing materials. The company estimates that about US$3 million is needed each year in foreign exchange. The company is permitted to retain 40% of its earnings to finance these imports, but it still has some problems because Banco de Mozambique frequently cannot supply its requirements on a timely basis.

Virtually all of the company's production is exported, 50% to the USA and 25% to Europe, and the company could easily continue this practice even at full production. To achieve full production, however, will require major agricultural rehabilitation. For this purpose, the African Development Bank is expected to provide $20 million to establish a nursery and to buy tractors and equipment. Italy is also considering assistance for a nursery, etc. and IBRD is discussing another project for a different area.

Current sales are $38-40 million. The Company is profitable, even at present levels of production, since most expenses (including labor) are variable and controllable.

The government is interested in returning this company to the private sector whenever possible.

The Company is thus currently eligible for access to PERF funds.

CAJU de MOZAMBIQUE EE
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

	Favorable	Unfavorable
A. GENERAL BACKGROUND		
1) Government and/or SOE management has expressed a desire to move this enterprise into the private sector.	X	
2) Evidence of larger export market for this company's products exists.	X	
3) Lack of foreign exchange is having a significant impact on operations of this enterprise.	X	
4) Product prices are not prescribed by the government.	X	
5) The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B. MANAGEMENT/ORGANIZATION		
1) The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2) The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.	X	
3) Current management is adequate for leading the company through a growth/transition period.	X	
4) The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5) Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL

	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	X	
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.	X	
4. The company's accounting records and procedures are adequate and informative.	X	
5) The company's accounts are being audited by outside independent auditors.	NA	
6) Assets are realistically valued on the company's books.	NA	
7) The company's financial structure can support additional growth. a) Debt service is manageable.	NA	
b) Adequate equity is in place.	NA	
8) Current physical plant is adequate for increased production.	X	

If not, a) What additional investment would be required to put plant into good condition? (US$________)

b) Have sources of financing been identified?

D. SUMMARY

	Favorable	Unfavorable
1) This enterprise has a good chance of existing and prospering as a private enterprise.	X	

Empresas Mozambicanas de Cha (EMOCHA)

EMOCHA is the government-owned holding company for 21 tea gardens which were abandoned by their owners at independence. There are also two privately-owned estates - MADAL, which is not presently operating, and Cia de Zambezia, a Portuguese company with interests also in copra. Each of the 21 estates has its own factory and management. Total tea-growing area is about 15,000 hectares, with a total production capability of 30,000 tons. Current production is about 22,000 tons.

Some 60% of the company's production is exported to the UK, 20% to the USA, and 20% to the EEC under LOME III. Exports have declined drastically since the peak years of 1981 and 1982, when earnings were over US$30 million, to US$1.2 million in 1985. Six factories have been destroyed in the insurgency, and transportation within the country has been a major problem. As a result, the Company is not currently profitable and receives an operating subsidy from Government. (At "normal" production levels, net profits were approximately 20% of sales.)

The company is allowed a retentior rate of 50% to 60% of its foreign exchange earnings to finance the import of fertilizers, pesticides, herbicides, fuel, tea boxes, spare parts, and other necessary tools and implements. Emocha also imports consumer goods for its employees. Foreign exchange, even when allocated to the company through the retention scheme, is frequently not available when needed. Timeliness is critical here, as in any agricultural activity - e.g. if fertilizer is not applied at the right time, an entire growing season can easily be lost.

It is estimated by management that, with an end to the war, the company will require at least two years to restore its tea gardens and factories to normal production. Access to the pre-export revolving fund could significantly assist the company during this interim restoration period. The company will need additional access to foreign exchange for importing increasing amounts of chemicals, tea boxes, spare parts, and other necessary materials during the renovation period, but once production is restored to normal its foreign exchange retention program should make it self-sufficient in its operations and it should require no further external assistance.

It appears from the forgoing that EMOCHA is potentially eligible for access to the PERF, pending the acquisition of capital investment necessary for restoration of tea gardens and factories. Government has indicated its willingness to privatize the industry as profitability is restored. Access to PERF funds for the importation of chemicals and raw materials would be of great assistance to the restoration program.

EMOCHA
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

		Favorable	Unfavorable
A.	**GENERAL BACKGROUND**		
1)	Government and/or SOE management has expressed a desire to move this enterprise into the private sector.	X	
2)	Evidence of larger export market for this company's products exists.	X	
3)	Lack of foreign exchange is having a significant impact on operations of this enterprise.	X	
4)	Product prices are not prescribed by the government.	X	
5)	The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B.	**MANAGEMENT/ORGANIZATION**		
1)	The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2)	The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.	X	
3)	Current management is adequate for leading the company through a growth/transition period.	X	
4)	The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5)	Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL

		Favorable	Unfavorable
1)	The company is self-supporting or able to become so in the near future.	X	
2)	The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	X	
3)	The company is not dependent on government support (loans, budget allocations) for its continuing existence.	X	
4.	The company's accounting records and procedures are adequate and informative.	X	
5)	The company's accounts are being audited by outside independent auditors.	X	
6)	Assets are realistically valued on the company's books.	X	
7)	The company's financial structure can support additional growth. a) Debt service is manageable.	X	
	b) Adequate equity is in place.	NA	
8)	Current physical plant is adequate for increased production.	X	

If not, a) What additional investment would be required to put plant into good condition? (US$25 MILLION)

b) Have sources of financing been identified? NO

D. SUMMARY

		Favorable	Unfavorable
1)	This enterprise has a good chance of existing and prospering as a private enterprise.	X	

Empresa Nacional de Calcado Texteis EE (ENCATEX)

ENCATEX was created in 1978 from formerly private intervened textile companies and is now wholly owned by the Ministry of Commerce. It operates as a trading company.

The Company does not export. It imports cloth material and higher-quality shoes for sale to local garment manufacturers and wholesalers. Shoes are also manufactured for the local market. Individual manufacturers and fabricators are increasingly importing their own raw materials, although small scale enterprises still make use of ENCATEX import facilities.

Management reports that the company is operating profitably and could also do so as a private trading company.

Operating as an importer only for domestic consumption, ENCATEX is not eligible for access to PERF funds.

ENCATEX EE
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

		Favorable	Unfavorable
A.	GENERAL BACKGROUND		
1)	Government and/or SOE management has expressed a desire to move this enterprise into the private sector.	X	
2)	Evidence of larger export market for this company's products exists.		X
3)	Lack of foreign exchange is having a significant impact on operations of this enterprise.	X	
4)	Product prices are not prescribed by the government.	X	
5)	The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B.	MANAGEMENT/ORGANIZATION		
1)	The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2)	The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.		X
3)	Current management is adequate for leading the company through a growth/transition period.	X	
4)	The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5)	Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	X	
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.	X	
4. The company's accounting records and procedures are adequate and informative.	X	
5) The company's accounts are being audited by outside independent auditors.	X	
6) Assets are realistically valued on the company's books.	X	
7) The company's financial structure can support additional growth. a) Debt service is manageable.	X	
b) Adequate equity is in place.	X	
8) Current physical plant is adequate for increased production.	NA	

If not, a) What additional investment would be required to put plant into good condition? (US$)

b) Have sources of financing been identified?

D. SUMMARY		
1) This enterprise has a good chance of existing and prospering as a private enterprise.	X	

Fabrica de Conductores Electricos de Mozambique SARL (CELMOQUE)

This company is a manufacturer of high and low tension cables and insulated wire for automotive, television and telephone use. The company was intervened in 1978 and has since 1981 been controlled by Electromoc EE, which in turn is 100% owned and controlled by the Ministry of Industry and Energy.

One production line, which was installed in 1961 but is still in good condition, has a capacity of 1,000 tons per year of copper wire and cable. A second line, which has never operated since it was installed in 1974, has a similar capacity for heavier gauge products. The original line is presently operating at about 50% of capacity, or 500 tons per year, mainly because of insufficient foreign exchange with which to import raw materials. IBRD is considering assistance in activating the second line. Management is also actively exploring a joint venture with its former Portuguese owners.

CELMOQUE imports all raw materials, including copper wire, polyvinylchloride and steel wire from Portugal, Sweden, Zambia, Zimbabwe and Italy.

Since the domestic market could not absorb full production, there would then be a surplus available for export to countries in the region lacking such manufacturing facilities. Additional expertise, through joint venture or management contract, would most likely be required to exploit this export market.

Company employment is about 160 at present. Management reports that, like so many other Mozambican companies, it suffers from a shortage of skilled technical staff and is in great need of a training program.

With financial and technical assistance for rehabilitation and export marketing, CELMOQUE has a good chance to expand it domestic sales and introduce an export campaign. As this program is established, the company becomes potentially eligible for PERF financing.

CELMOQUE SARL
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

A. GENERAL BACKGROUND	Favorable	Unfavorable
1) Government and/or SOE management has expressed a desire to move this enterprise into the private sector.	X	
2) Evidence of larger export market for this company's products exists.	X	
3) Lack of foreign exchange is having a significant impact on operations of this enterprise.	X	
4) Product prices are not prescribed by the government.	X	
5) The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B. MANAGEMENT/ORGANIZATION		
1) The company has a board of directors which is able and has demonstrated its ability to act independently.		X
2) The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.		X
3) Current management is adequate for leading the company through a growth/transition period.	X	
4) The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5) Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL

	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	X	
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.	X	
4. The company's accounting records and procedures are adequate and informative.	NA	
5) The company's accounts are being audited by outside independent auditors.	X	
6) Assets are realistically valued on the company's books.	X	
7) The company's financial structure can support additional growth. a) Debt service is manageable.	X	
b) Adequate equity is in place.	NA	
8) Current physical plant is adequate for increased production.		X

If not, a) What additional investment would be required to put plant into good condition? (US$200,000)

b) Have sources of financing been identified? YES

D. SUMMARY

	Favorable	Unfavorable
1) This enterprise has a good chance of existing and prospering as a private enterprise.	X	

Fabricas de Tintas SARL (PINTEX)

Pintex is a paint manufacturer owned 50.2% by government and 49.8% by Portuguese interests. The company was intervened in 1977; government ownership has gradually increased to its present level, and there is a possibility that the company may be converted to State Enterprise (EE) status. The Portuguese stockholders are inactive and do not ask for or receive any reports from the company. The company appears to be well managed and is reported to be profitable.

The company had a peak production of 1.1 million liters before independence, but this declined to a low of 118,000 in 1983. Production in 1987 was 850,000 liters. The company was subsidized until 1985, but with a breakeven point of 235,000 liters, it is now profitable. Production for 1988 is forcast at 750,000 liters and had reached 230,000 liters at the end of April. The company has factories in Maputo and Beira, but the Beira facility has been closed for the past four years.

All raw materials are imported, and customers in the country make available the necessary foreign exchange. The company does not export, and there is no export market in the region since Mozambique's neighbors all have paint factories. Management reports that they have had enquiries from Tanzania but declined to sell to them due to payment problems.

Pintex will likely remain a state-owned enterprise, does not export, and is therefore ineligible for access to PERF.

PINTEX SARL
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

A. GENERAL BACKGROUND	Favorable	Unfavorable
1) Government and/or SOE management has expressed a desire to move this enterprise into the private sector.		X
2) Evidence of larger export market for this company's products exists.		X
3) Lack of foreign exchange is having a significant impact on operations of this enterprise.		X
4) Product prices are not prescribed by the government.		X
5) The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.		X
B. MANAGEMENT/ORGANIZATION		
1) The company has a board of directors which is able and has demonstrated its ability to act independently.		X
2) The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.		X
3) Current management is adequate for leading the company through a growth/transition period.	X	
4) The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5) Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL

	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	NA	
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.	X	
4. The company's accounting records and procedures are adequate and informative.	NA	
5) The company's accounts are being audited by outside independent auditors.	NA	
6) Assets are realistically valued on the company's books.	NA	
7) The company's financial structure can support additional growth. a) Debt service is manageable.	NA	
b) Adequate equity is in place.	NA	
8) Current physical plant is adequate for increased production.	NA	

If not, a) What additional investment would be required to put plant into good condition? (US$)

b) Have sources of financing been identified?

D. SUMMARY

	Favorable	Unfavorable
1) This enterprise has a good chance of existing and prospering as a private enterprise.	NA	

Industria Mozambicana de Aco SARL (IMA)*

This company is a steel fabricator of galvanized pipe, irrigation pipe, and corrugated steel sheet roofing. The company was intervened in 1979, but in 1985 the former Portuguese owners were invited to return. In negotiating their return, the Portuguese insisted on management control and 50% ownership, believing it to be convenient to retain government as an equal partner in resolving any future problems.

Production at the present time is at less than 10% of capacity, i.e. about 2,000 tons per year against a rated capacity of 27,000 tons per year. The principal problem is a lack of foreign exchange for the importation of raw materials. The company imports cold and hot rolled steel and supplies necessary for galvanizing pipes and sheets. Most foreign exchange for imported raw materials is presently provided by donors. Loan funds have also been used for repair and rehabilitation of equipment and facilities.

The Company is not exporting at the present time, and output is presently being marketed to domestic agricultural and construction firms. It is attempting to develop an export market and has made a trial shipment to the United States. Management estimates that 50% of production could be exported as they achieve full capacity.

Since government ownership is already less than 51%, it cannot be included as a parastatal candidate for PERF financing. Because of its good export prospects, however, it is recommended for consideration by the private sector study team.

* No Questionnaire attached

Intermetal EE

Intermetal EE is the result of the merger of several enterprises intervened by Government in 1978 and later converted into a state enterprise within the Ministry of Commerce.

The Company was originally the sole importer of steel products for fabrication by local Mozambican industry. Imports are made both on order and for inventory, and the company maintains facilities at Beira and other locations throughout the country.

Intermetal functions as a trader and importer only, and does not export. Since 1982, local fabricators have increasingly imported their own raw materials, and Intermetal participation in the market has contracted accordingly. It is presently searching for an export market. One consideration was scrap metal, but here also fabricators are disposing of their own scrap. Management seems to be aware that the role of Intermetal in the steel industry is increasingly redundant.

INTERMETAL EE
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

		Favorable	Unfavorable
A.	GENERAL BACKGROUND		
1)	Government and/or SOE management has expressed a desire to move this enterprise into the private sector.		X
2)	Evidence of larger export market for this company's products exists.	X	
3)	Lack of foreign exchange is having a significant impact on operations of this enterprise.	X	
4)	Product prices are not prescribed by the government.	X	
5)	The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B.	MANAGEMENT/ORGANIZATION		
1)	The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2)	The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.	X	
3)	Current management is adequate for leading the company through a growth/transition period.	X	
4)	The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5)	Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL

	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	(Trading Company) NA	
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.	X	
4. The company's accounting records and procedures are adequate and informative.	NA	
5) The company's accounts are being audited by outside independent auditors.	NA	
6) Assets are realistically valued on the company's books.	NA	
7) The company's financial structure can support additional growth. a) Debt service is manageable.	NA	
b) Adequate equity is in place.	NA	
8) Current physical plant is adequate for increased production.	NA	

If not, a) What additional investment would be required to put plant into good condition? (US$)

b) Have sources of financing been identified?

D. SUMMARY

	Favorable	Unfavorable
1) This enterprise has a good chance of existing and prospering as a private enterprise.	NA	

Lusalite de Mozambique SARL*

Lusalite, established in 1949, was intervened after independence. Following negotiations begun in 1984, the former Portuguese owners resumed active management and 80% of the share capital in January 1987. DIMAC, a state owned trading company, holds the other 20% of equity and distributes some, but not all, of Lusalite products in the local market.

Lusalite is a manufacturer of asbestos pipe and corrugated roof sheeting. Asbestos and cellulose are imported from Zimbabwe, and cement is supplied by the State Cement Company. There are plants in both Beira and Maputo, although the Maputo plant is presently being restored after being destroyed by insurgents last October. An IBRD loan was negotiated for this rehabilitation and the plant is expected to be back in production in March 1989.

The company has the potential for increasing its share of the domestic market and for exporting to other countries in the region. It presently exports to Swaziland and is exploring markets in the Republic of South Africa and elsewhere.

It is handicapped by the uncertainty of foreign exchange availability, both as regards its own imports of asbestos and cellulose and in the supply of cement, for which foreign exchange is also currently required (with Mozambican limestone quarries inaccessible because of hostilities, the cement company is now having to import clinker). This company is, therefore, also recommended to the private sector survey team for inclusion in its study.

* No Questionnaire attached

Manufactora de Borracha SARL (MABOR)

MABOR was established in 1973 and began production in 1979. It has a modern, efficient plant based on technology from General Tire International USA. It produces tires and tubes for automobiles, trucks, and tractors, and also materials for tire and tube repairs.

MABOR is owned 73.8% by the Mozambican government interests and 26.2% by foreign interests as shown below:

Mozambique	
Banco de Mozambique	71.00%
Banco Popular de Desenvolvimento	0.72%
Fabrica de Cerveja Reunidas SARL	1.80%
Cia de Cerveja e Refrigerantes MacMahon SARL	0.28%
	73.80%
Foreign	
Manufatora Nacional de Borracha SARL	16.92%
General Tire International Company	3.60%
Banco Borgas & Irmao	3.56%
Industria Textil do Ave.	0.60%
Lisinur - Cia. Investmentos Urbanos Lis	0.52%
Atlas - Companhia de Seguros	0.40%
Miguel Quina	0.40%
Infa - Iniciativas Fabris	0.20%
	26.20%

Its board of directors is composed of three members: the Chairman who is also Chairman of Banco Popular de Desenvolimento, one member representing Banco de Mozambique, and the company's Administrator. The company is jointly supervised by the Ministry of Industry and Energy and the Ministry of Transportation.

MABOR has a production capacity of 7,000 tons per year. After meeting domestic needs, it could export about 4,000 tons to the SADCC region and beyond. Management expressed the opinion that Angola alone could buy a substantial portion of the exportable surplus, but the Company intends to diversify its export market rather than rely on only one market. The Consultants later encountered a MABOR salesman in Malawi who reported that he had just signed a sales contract for 500 automobile and 200 truck tires. In developing export markets, the company can draw on the expertise of General Tire.

Actual production over the past four years has been at an average of 40% of capacity, due entirely to a lack of foreign exchange to finance imports of raw materials. All raw materials are imported from the USA, Europe, and Japan and include rubber, nylon, carbon black, and chemicals. Much of the company's foreign exchange in recent years has been provided by donors.

The factory and equipment have been well maintained, and a trained workforce is in place.

The Company is a good candidate for further privatization, and this movement could be accelerated by access to PERF and consequent development of the export market.

MABOR SARL
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

	Favorable	Unfavorable
A. GENERAL BACKGROUND		
1) Government and/or SOE management has expressed a desire to move this enterprise into the private sector.	X	
2) Evidence of larger export market for this company's products exists.	X	
3) Lack of foreign exchange is having a significant impact on operations of this enterprise.	X	
4) Product prices are not prescribed by the government.	X	
5) The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B. MANAGEMENT/ORGANIZATION		
1) The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2) The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.	X	
3) Current management is adequate for leading the company through a growth/transition period.	X	
4) The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5) Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL

	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	X	
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.	X	
4. The company's accounting records and procedures are adequate and informative.	X	
5) The company's accounts are being audited by outside independent auditors.	X	
6) Assets are realistically valued on the company's books.	NA	
7) The company's financial structure can support additional growth. a) Debt service is manageable.	X	
b) Adequate equity is in place.	X	
8) Current physical plant is adequate for increased production.	X	

If not, a) What additional investment would be required to put plant into good condition? (US$)

b) Have sources of financing been identified?

D. SUMMARY

	Favorable	Unfavorable
1) This enterprise has a good chance of existing and prospering as a private enterprise.	X	

Mozambique Sugar Board (Instituto Nacional do Acucar)

The Mozambique Sugar Board is responsible for five intervened and one Portuguese-owned sugar mills. Two of these, in the Zambezi Valley, with a capacity of 49% of total production, were destroyed in 1985. A third mill, presently closed due to lack of spare parts and trained labor, is also in need of rehabilitation.

Potential production in the country is estimated at about 350,000 tons per year, with 200,000 tons necessary for internal consumption. With present production at 40,000 tons, domestic needs are not close to being met. There have been no exports since 1982, and there is no near-term prospect for resuming such activity.

Commonwealth Development Corporation (CDC), African Development Bank (ADB), IBRD and others are presently discussing plans to rehabilitate factories, improve irrigation, etc. and thereby increase production to some 200,000 tons within the next five years.

With no plans for export activity or prospects for privatization, this parastatal cannot be considered for PERF financing.

MOZAMBIQUE SUGAR BOARD
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

A. GENERAL BACKGROUND	Favorable	Unfavorable
1) Government and/or SOE management has expressed a desire to move this enterprise into the private sector.		X
2) Evidence of larger export market for this company's products exists.		X
3) Lack of foreign exchange is having a significant impact on operations of this enterprise.	X	
4) Product prices are not prescribed by the government.	X	
5) The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B. MANAGEMENT/ORGANIZATION		
1) The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2) The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.	X	
3) Current management is adequate for leading the company through a growth/transition period.	X	
4) The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5) Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL

	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.		X
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.		X
4. The company's accounting records and procedures are adequate and informative.	NA	
5) The company's accounts are being audited by outside independent auditors.	NA	
6) Assets are realistically valued on the company's books.	NA	
7) The company's financial structure can support additional growth. a) Debt service is manageable.	NA	
b) Adequate equity is in place.	NA	
8) Current physical plant is adequate for increased production.		X

If not, a) What additional investment would be required to put plant into good condition? (US$ NA)

b) Have sources of financing been identified? YES

D. SUMMARY

	Favorable	Unfavorable
1) This enterprise has a good chance of existing and prospering as a private enterprise.		X

Productos Alimentares LDA (PROTAL)*

PROTAL is a family-managed dairy products company, founded in 1925. Its owners did not leave at independence, and at the present time the Company is owned equally by the Macropulas family, the brewery (which was intervened from another branch of the family and whose shares are currently held in trust by Standard Totta Bank), and Ministry of Commerce. The family has applied to purchase the one-third portion owned by Government and feels confident that it will be allowed to obtain at least some part of those shares.

PROTAL does not export. It has exported condensed milk to Portugal and other countries (up to 40% of its production), but it presently has problems with quality control and with availability of raw materials. Its imports are made indirectly through Unidade de Direcao do Ramo Alimentar e Tabacos (UDRAT), a state trading company.

This company is not at the present time a candidate for access to PERF since it does not plan to export, but it is an example of an enterprise which is moderately successful in difficult circumstances and may be more so in the future.

* No Questionnaire attached

Spanos-Empreendimentos (Beira) SARL*

Spanos is an intervened company in Beira which has been closed for several years. It manufactures metal furniture for office, hospital and domestic use.

The company is being purchased by three private entrepreneurs who intend to renovate the plant and restore it to production. They plan to export up to 90% of production to Zambia, Zimbabwe and Malawi. Some 80% of raw materials will be imported from the Republic of South Africa.

The new owners sought out the consultants under a misapprehension that funds are immediately available for rehabilitation of the company and for the initial importation of raw materials. They estimate that they will require about one million U.S. dollars - 25% for plant renovation and 75% for initial supplies of raw materials. If these plans materialize, they could become eligible for import assistance as a private enterprise. They are not eligible for access to PERF funds as a parastatal, but they do represent an example of the nascent entrepreneurial spirit that exists in Mozambique.

* No Questionnaire attached

Vidreira de Mozambique EE

Vidreira is a manufacturer of glass products, including ornamental glassware, illumination items, and glass containers of all descriptions, and is the only such enterprise in the SADCC region. It is wholly owned by government and supervised by the Ministry of Industry and Energy, but management is confident that the company is headed toward privatization.

The company has two furnaces with a total capacity of 24 tons per day, but with current import restrictions only one furnace is operating at about 10 tons per day or about 40% of capacity. Until two years ago, the company received a government subsidy for production of beer and soda bottles, but with a price increase at that time it is now self-sustaining.

Exports of lamp shades, chimneys, etc. are presently being made to Zimbabwe and the Republic of South Africa. Inquiries have been received from Malawi and Tanzania, but with present production rates the company is unable to respond. Tanzania was an importer of Videira products until 1985 when production levels went down. The company is able to retain 50% of its foreign exchange requirements.

The company imports raw materials from France, Italy, and Portugal; these represent about 30% of finished products by volume and 99% by value. It has been receiving foreign exchange assistance grants from SIDA, and has also had grants from the Netherlands for both spare parts and raw materials. It reports that at present production levels it has raw materials and spare parts adequate to mid-1989.

In order to achieve a production level at or near capacity and thereby develop its export market, the company needs both a reliable continuing source of foreign exchange and additional skilled labor. Technical assistance and training are necessary to reach desired production goals.

Assuming development of a plan to resolve its skilled labor problem, Vidreira is considered to be potentially eligible for PERF financing.

VIDREIRA de MOZAMBIQUE EE
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

		Favorable	Unfavorable
A.	**GENERAL BACKGROUND**		
1)	Government and/or SOE management has expressed a desire to move this enterprise into the private sector.	X	
2)	Evidence of larger export market for this company's products exists.	X	
3)	Lack of foreign exchange is having a significant impact on operations of this enterprise.	X	
4)	Product prices are not prescribed by the government.	X	
5)	The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B.	**MANAGEMENT/ORGANIZATION**		
1)	The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2)	The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.	X	
3)	Current management is adequate for leading the company through a growth/transition period.	X	
4)	The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5)	Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL

	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	X	
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.	X	
4. The company's accounting records and procedures are adequate and informative.	NA	
5) The company's accounts are being audited by outside independent auditors.	NA	
6) Assets are realistically valued on the company's books.	NA	
7) The company's financial structure can support additional growth. a) Debt service is manageable.	NA	
b) Adequate equity is in place.	NA	
8) Current physical plant is adequate for increased production.	X	

If not, a) What additional investment would be required to put plant into good condition? (US$)

b) Have sources of financing been identified?

D. SUMMARY

	Favorable	Unfavorable
1) This enterprise has a good chance of existing and prospering as a private enterprise.	X	

C. MOZAMBIQUE CONTACTS

ENTERPRISES

Agro-Alfa EE Av. 24 de Julho, 2755 P O Box 1318 Maputo Tel: 22341, 22928	Anibal Francisco Afonso, Economist Mikael Asen, SIDA Project Coordinator
Automatica Electrica Portuguesa SA Av Karl Marx, 501 1./Apt. 12 Maputo Tel: 25618, 21407	Carlos Alberto D. Carvalho, Director
Caju de Mozambique EE Av. des Industries, Parc.80-Machava P O Box 124 Maputo Tel: 23988, 752135	Alfredo Gamito, General Manager and Secretary of State for Cashews Dula Magide, Commercial Manager
Empresas Mozambicanas De Cha (EMOCHA) P O Box 4123 Maputo Tel: 30718	Marco Basto, Chairman and Director Ministry of Agriculture Office of Studies and Investments
Empresa Nacional de Calcado Texteis EE (ENCATEX) Av. 24 de Julho, 2969 Maputo Tel: 734404	Adielo Soverano Jose Belchior, General Director
Fabrica de Condutores Electricos de Mozambique SARL (CELMOQUE) Beira: P O Box 117 Tel: 721043 Maputo: P O Box 1974 Tel 27125	Gilberto Faria, General Manager Adelino J.T. Zunguza, Marketing Manager
Fabricas de Tintas SARL (PINTEX) Av. das Industrias - Machava P O Box 1665 Maputo Tel: 752061/4	Jose Vergamota, Director

Industria Mozambicana de Aco SARL (IMA) Av 24 de Julho, 2373-12 Maputo Tel: 23515, 21141	Jose M.C. Serejo, Director
Intermetal EE	Jorge Guinda, Director
Lusalite de Mozambique SARL P O Box 1177 Maputo Tel: 21529, 21181	Jorge Bandeira, Director
MABOR SARL Estrada Nacional No. 1, KM 13 P O Box 2341 Maputo Tel: 71551, 73117	Hermenegildo Maria Cepeda Gamito, Chairman Luis Filepe Rodrigues, Administrator
Mozambique Sugar Board (Instituto Nacional do Acucar) P O Box 4472 Maputo Tel: 26550, 28972	Rosario Cumbi, Director Antonio Costa, Commercial Manager
Productos Alimentares LDA (PROTAL) P O Box 1852 Maputo Tel: 733054/5	Alkis Jorge Macropulos, Director Diogo E. Guilando, General Manager
Spanos-Empreendimentos (Beira) SARL P O Box 2862 Maputo Tel: 20816, 21320	Roberto Dos Santos, General Manager
Vidreira de Mozambique EE P O Box 590 Maputo Tel: 752054, 753076/8	Amandio S. Jaimo Guirrugo, Director General Inacio Manjate, Technical Director

OTHER

Banco de Mozambique Av. 25 de Setembro, 1695 P O Box 423 Maputo Tel: 29186, 28818	Andriano Afonso Maleiane, Administrator Domingos Augusto, Director Alberto da Costa Calu, Director Paulo Borges Garcao, Director
Banco Popular de Desenvolvimento (BPD) Av. 25 de Setembro, 1184 Maputo Tel: 21011, 28125	Hermenegildo Maria Cepeda Gamito, Chairman
Banco Standard Totta de Mozambique P O Box 2086 Maputo Tel: 28107, 24597	T.K. Smart, Joint Managing Director
Ministry of Industry & Energy Industrial Rehabilitation Program Praca 25 de Junho, 2 P O Box 4379 Maputo Tel: 20251, 26952	Lars T. Hogblom, SIDA Coordinator
Ministry of Trade Foreign Trade Operations P O Box 698 Maputo Tel: 26908	Carlos Pacheco Faria, Director
State Secretariate for Light and Food Industries International Relations Department Av. 25 de Setembro, 1184 P O Box 2983 Maputo Tel: 29633, 27447	Jordao Xavier Jr., Head

State Secretariate for Light & Food Industries
Insituto de Desenvolvimento as Industrias Locais (IDIL)
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Neves Correia, Director General
Henny Matos, Head, Dept. of International Relations

USAID Mozambique
Rua Faria de Sousa, 107
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Tel: 741689

Julius Schlotthauer, Representative
James Purcell, Program Officer
Jose Carreira, Program Operations Officer

MOZAMBIQUE PARASTATALS

Company Name	Government Ownership	Product	Export Market Current	Export Market Potential	Imported Raw Materials
Acucereira de Mozambique	Intervened	Sugar	0	?	-
Algodao de Mozambique	100%	Cotton, corn, beef	0	East Germany, West Europe	Pesticides, fertilizer, tools
Boror	Intervened	Cattle, salt, etc. Copra	50% 100%	50% 100%	- -
Caju de Mozambique EE	Intervened	Cashew nuts, oil	100%	100%	-
CARMOC	50%	Paperboard, cartons, linerboard	0	0	Kraft paper, fluting
CELMOQUE SARL	100%	Cable, wire	0	Malawi, Burundi, Botswana, Madagascar	Copper wire, PVC, steel wire
CIFEL EE	100%	Cast iron, steel rebar, etc.	0	0	Billets, bars.
Cimentos de Mozambique EE	100%	Bulk and sacked cement	0	0	Clinker now (local limestone later)
Citrinos de Manica EE	100%	Orange, grapefruit, lemon, lichee	60%	?	-
COMEC de Mozambique	Intervened	Tableware, plumbing fixtures, cutlery, kitchen equip.	0	0	Brass alloy, steel bars & sheets, stove kits
ECOME	100%	Sheet metal products (tanks, towers, etc)	0	0	Steel sheet and bars, welding rod
Embral Agens Van Leer Mozambique Ltd	100%	Steel drums, plastic sheeting	0	0	Steel sheet, plastic granules
EMOCHA	Intervened	Tea	95%	95%	Tools, equipment, tea boxes
EXTRASOL EE	100%	Salt	0	176,000 tons	-

Company Name	Government Ownership	Product	Export Market Current	Export Market Potential	Imported Raw Materials
FACOSA Ltd	Intervened	Cotton blankets	0	0	Artificial fibres
FASOL SARL	Intervened	Vegetable oils	0	0	Crude oil, containers
IFLOMA EE	100%	Lumber, particle board, poles	0	0	Glue, chemicals
IMA SARL	50%	Galvanized pipe, roofing sheets	0	1/3 capacity to USA	Steel sheets, zinc, lead, acids, flux
Impresa Agricola de Lionde	100%	Seed rice	0	0	Improved seed
Industria Ceramica de Mozambique	100%	Ceramic Tiles	0	0	Aggregate
Lusalite de Mozambique SARL	Intervened	Corrugated roof sheeting, pipe	0	Zimbabwe, South Africa, Swaziland	Asbestos, cellulose
MABOR SARL	71%	Tires and tubes	0	1982 exported 2,050 tons	Rubber, nylon, carbon black, chemicals
Madeiras de Cabo Delcago EE	100%	Ebony & rosewood logs, sawn wood	Most	All	-
MECANAGRO	Intervened	Agricultural equipment repair	0	0	-
PROSUL EE	100%	Crushed stone, bricks, roof tiles, cement pipes and sheets	0	0	Equipment, spare parts
SOGERE SARL	Intervened	Beer, soft drinks	0	0	Malt, barley, hops
UFA	Intervened	Shoes, boots, industrial rubber products	0	0	Rubber

Source: *Factual Summaries of 40 Industrial and Agro-Industrial Companies of Mozambique* Arthur D. Little International Inc., October, 1987 (Private companies excluded).

EXHIBIT IV-2

Mozambique
List of Enterprises Licensed to Export in 1987

Name of Enterprise	Legal Status
Agro-Alfa	State
Agropal-Agro-Pecuario Alberto	Private
Artesanato-Loja Galeria	State
Caju de Mozambique	State
Citrinos	State
Compa. Ind. J.F. Santos	Private
Cicomo-Compa. Ind.Cooardaria de Mozambique	Private
Cipesca-Compa.Ind.Pescas das Beiras	Private
Enacomo	State
Emofauna	State
Empresa Metalurgica de Mozambique	Private
Carbomoc	State
Emocha	State
Electromoc	State
Efripel	State
GPL-Gemas e Pedras Lapidadas	Mixed
HIDAG - Hidraulica Agricola	State
Ind. Confeccoes Ferreiras	Private
INAL	Private
J.D. Marques	Private
Lomaco	Mixed
Limetal	Private
Magma-Minas Gerais de Mozambique	State
Mademo	State
Mozambique Produtora	Private
Mabor de Mozambique	Mixed
Petromoc	State
Pescom Internacional	State
Pescamar	Mixed
Produtos Selecto	Private
Spence & faure	Private
Tempografica	Private
Unidade de Dir.Ind.Sal	State
Uniao de Sucata	Private
Vidreira de Mocambique	State
IMA Ind. Moc. Aco	Private

Source: Ministry of Trade

CHAPTER V

TANZANIA

A. GENERAL

The Government of Tanzania dces not seem likely to divest completely any of its parastatals in the near future. Moves in that direction, such as joint venture or management contract, are increasingly acceptable and even sought where an enterprise is in such a bad condition that no other remedy is deemed feasible. Establishment of new private businesses is quite acceptable. But sale of a majority share position in any of the existing SOEs will probably not occur for at least the next few years.

Nonetheless, this survey includes two candidates for PERF assistance:

POTENTIALLY ELIGIBLE:

Morogoro Ceramic Wares Ltd
Tanganyika Tegry (Plastics) Ltd

Both of these companies have considerable export potential, operations of both are presently heavily restricted by lack of foreign exchange with which to import raw materials and spare parts, and both recognize their need for outside management expertise. Tanganyika Tegry is already negotiating with a Norwegian multinational. Morogoro Ceramics is replacing its management team and is open to suggestions for foreign private assistance.

The time is ripe, therefore, for "dangling the carrot" and showing by way of example even in one or two cases that American assistance and private management - which could later be expanded to private ownership - can help to make things work better.

Two real operating examples support this recommendation. In one case, a large manufacturing parastatal which exports most of its production and earns large amounts of foreign exchange is being operated very successfully by a management team from Europe. Government keeps its hands off and allows this team to continue with its success. In the second, another European management team is recognised as being the major factor which keeps the operation alive, and government is considering a recapitalization in order to give the company breathing space and a chance to live as an efficient operation.

When the study team arrived, the local USAID Mission did not have any list of the country's parastatals. As a result, the team had to develop a beginning base on its own. That base was established with the location of the list shown in Exhibit V-1. With the help of the AID Mission's local economist, this was narrowed to a short list of thirteen enterprises which seemed to have some possibility for exporting. Telephone calls to these enterprises and discussions with the various government officials shown on the list of Tanzania contacts further reduced the number of interviews to seven. Summaries of these interviews are shown below in Section C.

B. SEED CAPITAL REVOLVING FUND (SCRF)

Tanzania already has in operation one export revolving fund. The Seed Capital Revolving Fund (SCRF) was established in early 1985 with initial funding of US$1.5 million from the Swedish International Development Agency (SIDA). It is designed to provide the initial foreign exchange required for importing inputs necessary for a company to get started in the export market. The number of participating companies has grown from 18 at the end of 1985 to 32 in December 1986 to more than 45 at present, with total funding currently in access of $3 million.

SCRF requires each participant to deposit the local currency equivalent of the foreign exchange which it is borrowing. When export proceeds are received, the enterprise retains 50% of the net foreign exchange earnings to help cover the cost of imported inputs required to produce for the local market and to start building its own base for future expansion of its exports.

This fund seems to be working quite well, but there are indications that it has been under-funded. Demand has been greater than expected, and the assumption of up to four import-export cycles per year has been overly optimistic. Nonetheless, enterprises which are using it are pleased and two parastatals contacted during the survey indicated their recent utilization of this facility.

C. PROFILES AND QUESTIONNAIRES

This section contains profiles and questionnaires on the following State Owned Enterprises visited during the course of this survey:

1. Friendship Textile Mill Ltd
2. Morogoro Canvas Mill Ltd
3. Morogoro Ceramic Wares Ltd
4. Morogoro Leather Goods Co. Ltd
5. Morogoro Polyester Textiles Ltd
6. Tanganyika Tegry (Plastics) Ltd
7. Tanzania Tea Blenders Ltd

Friendship Textile Mill Ltd

Friendship Textile Mill Ltd, also known as Urafike, is a wholly owned parastatal within the National Textiles Corporation, a holding company for all 14 parastatal textile mills in the Ministry of Industries and Trade. The factory was built, and equipment provided, in 1968 by the Chinese.

The mill produces gray cloth and yarn for the domestic market and for export. At the present time, small amounts of its gray fabric are exported to Mozambique and Sweden and 50% of its yarn production is exported to several countries in Europe. The company is presently negotiating an arrangement with Bulgaria in which 75% of the sale would be paid for in hard currency with the balance bartered for chemicals. The mill is allowed to retain 50% of its export earnings, but this is not sufficient to purchase the required chemicals. To help alleviate this problem, the company has recently gained access to the Seed Capital Revolving Fund.

The Mill is presently operating at less than 40% of capacity due to a shortage of spare parts, but management reports that the company is nevertheless profitable. Despite reduced production, no employees have been laid off and management strongly emphasized its responsibilities to employees and its opposition to privatization.

While this enterprise does export, there is no plan or expectation that it will move toward privatization any time in the forseeable future. It is thus ineligible for access to PERF funds.

FRIENDSHIP TEXTILE MILL, LTD
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

		Favorable	Unfavorable
A.	GENERAL BACKGROUND		
1)	Government and/or SOE management has expressed a desire to move this enterprise into the private sector.		X
2)	Evidence of larger export market for this company's products exists.	X	
3)	Lack of foreign exchange is having a significant impact on operations of this enterprise.	X	
4)	Product prices are not prescribed by the government.	X	
5)	The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B.	MANAGEMENT/ORGANIZATION		
1)	The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2)	The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.	X	
3)	Current management is adequate for leading the company through a growth/transition period.	X	
4)	The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5)	Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL

	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	X	
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.	X	
4. The company's accounting records and procedures are adequate and informative.	X	
5) The company's accounts are being audited by outside independent auditors.	X	
6) Assets are realistically valued on the company's books.	X	
7) The company's financial structure can support additional growth. a) Debt service is manageable.	X	
b) Adequate equity is in place.	X	
8) Current physical plant is adequate for increased production.	X	

If not, a) What additional investment would be required to put plant into good condition? (US$ NA)

b) Have sources of financing been identified?

D. SUMMARY

	Favorable	Unfavorable
1) This enterprise has a good chance of existing and prospering as a private enterprise.	X	

Morogoro Canvas Mill Ltd

The Morogoro Canvas Mill is a wholly owned subsidiary of the National Textiles Corporation under the Ministry of Industries and Trade. The Company started production in 1984.

This Company operates under a management contract with Hebox Engineering of Holland which is funded by the European Economic Community. There are ten expatriate staff at the mill. The present contract expires in November 1988, and it is anticipated that a new contract will be written to extend the project until 1991. One major item in the contract Terms of Reference is training of counterparts to replace the expatriate management upon their departure. This is being done, and there is every indication that the mill will continue as a successful enterprise under Tanzanian management.

Morogoro Canvas Mill produces about five million square meters of canvas annually. Although original intentions were to export only about 50% of production, the company now exports about 70% to Holland, UK, Italy, Canada, etc., and is having to turn down additional export orders. It is profitable and is a major source of foreign exchange to the Government. Its products have virtually no imported content, and the company's concern is not access to foreign exchange but rather one of having enough local currency to purchase local cotton.

The company is an example of a successful parastatal allowed to operate independently by the Government. It has no need for PERF funds.

MOROGORO CANVAS MILL LTD
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

A. GENERAL BACKGROUND	Favorable	Unfavorable
1) Government and/or SOE management has expressed a desire to move this enterprise into the private sector.	X	
2) Evidence of larger export market for this company's products exists.	X	
3) Lack of foreign exchange is having a significant impact on operations of this enterprise.	X	
4) Product prices are not prescribed by the government.	X	
5) The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B. MANAGEMENT/ORGANIZATION		
1) The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2) The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.	X	
3) Current management is adequate for leading the company through a growth/transition period.	X	
4) The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5) Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL

	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	X	
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.	X	
4. The company's accounting records and procedures are adequate and informative.	X	
5) The company's accounts are being audited by outside independent auditors.	X	
6) Assets are realistically valued on the company's books.	X	
7) The company's financial structure can support additional growth. a) Debt service is manageable.	X	
b) Adequate equity is in place.	X	
8) Current physical plant is adequate for increased production.	X	

If not, a) What additional investment would be required to put plant into good condition? (US$)

b) Have sources of financing been identified?

D. SUMMARY

	Favorable	Unfavorable
1) This enterprise has a good chance of existing and prospering as a private enterprise.	X	

Morogoro Ceramic Wares Ltd

Morogoro Ceramic Wares is a manufacturer of ceramic table ware and sanitary ware. It has a capacity of 1,000 tons per year of table ware and 900 tons per year of sanitary ware. The factory was built in 1984-85 with Czechoslovakian assistance; its machinery and equipment came from Czechoslovakia and East Germany. Commercial production began in July 1986, but operations have been restricted by inadequate working capital right from the beginning. The factory has been shut down since November 1987 because it has been unable to pay its electric bill. Its labor force was reduced by 60% at that time, but the company does not feel that it will have any difficulty in getting these people back. Using a line of credit from the National Commercial Bank, the company expected to clear its old bills within a few days of the interview, then start firing its kilns within the week.

The company is owned entirely by the government, with shares being distributed as follows:

Tanzania Sarugi Corp	66.4%
Building Hardware and Electrical Supplies Co. (BHESCO)	30.0%
Household Supplies Co. (HOSCO)	3.6%
	100.0%

The first of these shareholders is a government trading company. The other two are holding companies which, among other things, sell Morogoro's products in the domestic market.

The company seems to have considerable export potential. It received a SKR 120,000 trial order for flower pots from IKEA of Sweden early last year and started production of these pots in June. After plant shutdown in November, IKEA agreed to retain its order. If the refiring schedule is followed, the company should finally complete this Swedish order within 2 to 3 months. The company also has orders from Zimbabwe and Malawi and has received inquiries from U.K., West Germany, and Greece - largely the result of its trade fare exhibits. As for the domestic market, full capacity production would satisfy only some 50% of local demand.

Imported raw materials (chemicals, transfer decorations, plaster of paris, etc.) account for 5-10% of total production costs. Spare parts for its machines and equipment account for another approximately 10%. To finance the imports required for the IKEA order, the company has arranged a credit with the Seed Capital Revolving Fund.

Current plans include a major shift in product mix - more sanitary ware (which has a higher profit margin), less table ware, and introduction of ceramic wall tile (which it sees as a major part of its future production). The factory has already been modified for this purpose, tile-making equipment is now arriving from Czechoslovakia, and the company expects to begin tile production in February.

Management is considered to be (along with inadequate working capital) a major problem and a major reason for the company's inadequate performance thus far. Government has recognized this and top management is being replaced. The Deputy General Manager with whom the consultants spoke was appointed only a few months ago and is already making significant improvements. The company's Board of Directors is discussing the possibility of a joint venture with either local or foreign firms. It is also looking for both technical and international marketing assistance.

With considerable export potential, an increasing requirement for additional foreign exchange, new management coming in, and openness to such moves toward privatization as management contract and/or joint venture, this company is considered to be potentially eligible for PERF assistance.

MOROGORO CERAMIC WARES LTD
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

		Favorable	Unfavorable
A.	GENERAL BACKGROUND		
1)	Government and/or SOE management has expressed a desire to move this enterprise into the private sector.	X	
2)	Evidence of larger export market for this company's products exists.	X	
3)	Lack of foreign exchange is having a significant impact on operations of this enterprise.	X	
4)	Product prices are not prescribed by the government.	X	
5)	The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B.	MANAGEMENT/ORGANIZATION		
1)	The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2)	The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.	X	
3)	Current management is adequate for leading the company through a growth/transition period.	X	
4)	The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5)	Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL

	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	X	
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.	X	
4. The company's accounting records and procedures are adequate and informative.	X	
5) The company's accounts are being audited by outside independent auditors.	NA	
6) Assets are realistically valued on the company's books.	NA	
7) The company's financial structure can support additional growth. a) Debt service is manageable.	NA	
b) Adequate equity is in place.	NA	
8) Current physical plant is adequate for increased production.	NA	

If not, a) What additional investment would be required to put plant into good condition? (US$)

b) Have sources of financing been identified?

D. SUMMARY

	Favorable	Unfavorable
1) This enterprise has a good chance of existing and prospering as a private enterprise.	X	

Morogoro Leather Goods Co. Ltd

This Company is a wholly owned subsidiary of the government holding company, Tanzania Leather Associated Industries, under the Ministry of Industries and Trade. It was established to produce a range of leather goods including wallets, belts, jackets, etc., using leather purchased from the Morogoro tannery. During the past year, the company has switched to canvas products, since leather available is of poor quality and not exportable. It is now producing a range of canvas goods - chairs, tarpaulins, tents, etc. - for the domestic market.

While management is to be commended for its perseverence and creativity in the face of adversity, the company is not likely to export or to be privatized and is therefore not eligible for access to PERF.

MOROGORO LEATHER GOODS CO. LTD
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

A. GENERAL BACKGROUND	Favorable	Unfavorable
1) Government and/or SOE management has expressed a desire to move this enterprise into the private sector.	X	
2) Evidence of larger export market for this company's products exists.	X	
3) Lack of foreign exchange is having a significant impact on operations of this enterprise.	X	
4) Product prices are not prescribed by the government.	X	
5) The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B. MANAGEMENT/ORGANIZATION		
1) The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2) The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.		X
3) Current management is adequate for leading the company through a growth/transition period.	X	
4) The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5) Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL

	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.		X
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.		X
4. The company's accounting records and procedures are adequate and informative.	NA	
5) The company's accounts are being audited by outside independent auditors.	NA	
6) Assets are realistically valued on the company's books.	NA	
7) The company's financial structure can support additional growth.		
a) Debt service is manageable.	NA	
b) Adequate equity is in place.	NA	
8) Current physical plant is adequate for increased production.	NA	

If not, a) What additional investment would be required to put plant into good condition? (US$)

b) Have sources of financing been identified?

D. SUMMARY

	Favorable	Unfavorable
1) This enterprise has a good chance of existing and prospering as a private enterprise.		X

Morogoro Polyester Textiles Ltd (POLYTEX)

This Company is a wholly owned subsidiary of the holding company, National Textiles Corporation, under the Ministry of Industries and Trade. The Company began production in 1986 and has mostly Japanese equipment.

The Company is operating under a management contract with the Belgian firm, UCO Engineering, which has a team of 15 expatriates (the Manager, 13 in production, and a cost accountant) at the mill. The contract expires at the end of April 1989, and counterparts are being trained to assume management responsibility at that time.

POLYTEX was originally designed to produce blended cotton/polyester fabric, which was scarce at that time, for the local market. Shortly thereafter, however, the borders were opened to imports and the company had to shift into all-cotton production in order to survive. Except for some blends which are sold locally at competitive prices (mostly for school and military uniforms), the firm has now switched to all-cotton production. The plant is currently operating at only 45% of capacity because of a shortage of local currency working capital with which to purchase local cotton.

It also has problems in gaining timely access to foreign exchange for importing required dyes, chemicals, spare parts, etc. With the plant operating at 80% of capacity, foreign exchange needs would be an estimated US$5 million annually. A recently concluded line of credit with the Seed Capital Revolving Fund should help to resolve this problem. Management estimates that because of banking problems (e.g. obtaining letters of credit), delays in customs clearance, etc, the company is unlikely to get imported materials within six months of initial order.

The Company exports approximately one-third of its production in the form of 100% cotton yarn and gray cloth. It has also recently begun exporting bedsheets to Scandinavia and it has recently received an order for athletic shorts from the USA. For this last order, Polytex will produce and dye the cloth and Ubongo Textiles (also a subsidiary of the National Textiles Corporation) will sew and export the shorts. A large portion of any increase in production would be exported.

Except for servicing its large foreign long-term debt, the factory is now self-sustaining. This long-term debt was taken onto company books at US$1 = TS6.9, but successive devaluations have shifted this ratio to a current US$1 = TS95. The company is rescheduling its minor suppliers' credits, but it is looking to Government to assume the burden of the major portion which is due to banks. The Parliamentary Committee on Parastatals is backing a restructuring which would convert most of this long-term debt into equity. It must report its final recommendation during the budget session which will begin in June, and positive action is expected before then so that the Minister of Finance can report progress on resolving this widely-recognized problem.

With increasing export potential and with a need for additional steady access to foreign exchange, this company could benefit from PERF assistance. Because of a stated government intention to retain controlling ownership, however, this survey is not able to include it on its list of recommended candidates.

MOROGORO POLYESTER TEXTILES LTD
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

	Favorable	Unfavorable
A. GENERAL BACKGROUND		
1) Government and/or SOE management has expressed a desire to move this enterprise into the private sector.	X	
2) Evidence of larger export market for this company's products exists.	X	
3) Lack of foreign exchange is having a significant impact on operations of this enterprise.	X	
4) Product prices are not prescribed by the government.	X	
5) The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B. MANAGEMENT/ORGANIZATION		
1) The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2) The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.	X	
3) Current management is adequate for leading the company through a growth/transition period.	X	
4) The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5) Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL

	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	X	
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.	X	
4. The company's accounting records and procedures are adequate and informative.	NA	
5) The company's accounts are being audited by outside independent auditors.	NA	
6) Assets are realistically valued on the company's books.	NA	
7) The company's financial structure can support additional growth.		
a) Debt service is manageable.		X
b) Adequate equity is in place.		X
8) Current physical plant is adequate for increased production.	X	

If not, a) What additional investment would be required to put plant into good condition? (US$)

b) Have sources of financing been identified?

D. SUMMARY

	Favorable	Unfavorable
1) This enterprise has a good chance of existing and prospering as a private enterprise.		X

Tanganyika Tegry (Plastics) Ltd

Tanganyika Tegry is a wholly-owned subsidiary of the government holding company, National Chemical Industries, under the general supervision the Ministry of Industries and Trade. The company began production in 1963.

The Company is a manufacturer of plastic pipes and polyethylene film, with a rated capacity of 3,500 tons per year. Machinery and equipment are generally in good condition, but attainable capacity is currently below rated capacity due to a shortage of spares. Production for 1988 is planned at 2,100 tons, but the company is presently assured of raw materials for only about 500 tons for the year, about 15% of rated capacity.

Raw materials are imported from all over the world. Timely acquisition of these raw materials, due to difficulty in obtaining foreign exchange, has made the company an unreliable exporter. It has not exported since 1982, when shipments were made to Rwanda. More recent export potential has been developing in Mozambique and Burundi, and company management believes considerable additional markets can easily be developed when the foreign exchange problem is resolved.

Tanganyika Tegry is presently negotiating a joint venture with the Norwegian Company, Dyno Industries AS of Oslo. Dyno is a large diversified international company with interests in chemicals and plastics, among other things. The most likely arrangement may be a 49% ownership with complete management responsibility by Dyno. The agreement has been approved in principal by the Government and should be in place by the end of the year.

If this joint venture comes to fruition and a steady pool of foreign exchange is provided through PERF, there is a good possibility that Tanganyika Tegry's exports can be expanded. The Company is thus considered to be a potentially eligible candidate for access to PERF funds.

TANGANYIKA TEGRY (PLASTICS) LTD
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

		Favorable	Unfavorable
A.	**GENERAL BACKGROUND**		
1)	Government and/or SOE management has expressed a desire to move this enterprise into the private sector.		X
2)	Evidence of larger export market for this company's products exists.	X	
3)	Lack of foreign exchange is having a significant impact on operations of this enterprise.	X	
4)	Product prices are not prescribed by the government.	X	
5)	The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	X	
B.	**MANAGEMENT/ORGANIZATION**		
1)	The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2)	The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.	X	
3)	Current management is adequate for leading the company through a growth/transition period.	X	
4)	The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5)	Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL

	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	X	
3) The company is not dependant on government support (loans, budget allocations) for its continuing existence.	X	
4) The company's accounting records and procedures are adequate and informative.	NA	
5) The company's accounts are being audited by outside independent auditors.	NA	
6) Assets are realistically valued on the company's books.	NA	
7) The company's financial structure can support additional growth. a) Debt service is manageable.	NA	
b) Adequate equity is in place.	NA	
8) Current physical plant is adequate for	X	

If not, a) What additional investment would be required to put plant into good condition? (US$)

b) Have resources of financing been identified?

D. SUMMARY

	Favorable	Unfavorable
1) This enterprise has a good chance of existing and prospering as a private enterprise.	X	

Tanzania Tea Blenders Ltd

This company was established in 1960 by Brook Bond of U.K. Tanzania Tea Authority assumed a 60% ownership in 1974, and management is now Tanzanian.

Tanzania Tea Blenders is the only company which blends and packages tea in Tanzania. It does not own or operate tea gardens, but each grower is required to sell 27-32% of its production to it. The company has an installed capacity of 8 to 9 million kilograms, and has recently been processing about 6 million. About 25% of its production is exported. Of this, some 70% goes to Sudan (which pays in hard currency) and the rest goes to Holland, Sweden and Germany. The company also roasts, grinds, and packages coffee.

Exports last year were reduced by 50% (to 750,000 Kilos), because the company's 10% retention allowance did not provide enough foreign exchange to import packaging materials. The company has last month arranged access to the Seed Capital Revolving Fund which permits a 50% retention, so this problem should be gradually overcome.

Management believes that the Tanzanian Government might agree to sell some of its shares only if the company were in desperate need of additional capital and its two current shareholders were unable to provide it. Otherwise, no possibility for privatization is foreseen. The company is not, therefore eligible for access to PERF funds.

TANZANIA TEA BLENDERS LTD
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

		Favorable	Unfavorable
A.	**GENERAL BACKGROUND**		
1)	Government and/or SOE management has expressed a desire to move this enterprise into the private sector.	X	
2)	Evidence of larger export market for this company's products exists.	X	
3)	Lack of foreign exchange is having a significant impact on operations of this enterprise.	X	
4)	Product prices are not prescribed by the government.	X	
5)	The company does not depend on government protection (import restriction, exclusive export license, monopo y, etc.) for its continuing existence.	X	
B.	**MANAGEMENT/ORGANIZATION**		
1)	The company has a board of directors which is able and has demonstrated its ability to act independently.	X	
2)	The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.	X	
3)	Current management is adequate for leading the company through a growth/transition period.	X	
4)	The company is appropriately organized and staffed. If not, there is a program in place for reorganizing and/or rationalizing staff.	X	
5)	Wage/Salary structure is not prescribed by government.	X	

C. FINANCIAL

	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	X	
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	X	
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.	X	
4. The company's accounting records and procedures are adequate and informative.	NA	
5) The company's accounts are being audited by outside independent auditors.	NA	
6) Assets are realistically valued on the company's books.	NA	
7) The company's financial structure can support additional growth. a) Debt service is manageable.	NA	
b) Adequate equity is in place.	NA	
8) Current physical plant is adequate for increased production.	X	

If not, a) What additional investment would be required to put plant into good condition? (US$)

b) Have sources of financing been identified?

D. SUMMARY

	Favorable	Unfavorable
1) This enterprise has a good chance of existing and prospering as a private enterprise.		X

D. TANZANIA CONTACTS

ENTERPRISES

Friendship Textile Mill Ltd P O Box 20842 Dar es Salaam Tel: 49101/2	M. Undiri, Sales & Marketing Manager
Morogoro Canvas Mill Ltd P O Box 678 Morogoro Tel: 3320/1	B.D. Leffler, General Manager Maurice Skehan, Production Manager J.G. Kitakwa, Asst. Marketing Manager
Morogoro Ceramic Wares Ltd P O Box 1107 Morogoro Tel: 4350/2	K.O. Almassy, Deputy General Manager A.S. Ibrahim, Materials Manager A.S.B. Yondu, Dep. Quality Controller
Morogoro Leather Goods Co. Ltd P O Box 59 Morogoro Tel: 3220	Mrs. Mary M. Nagu, General Manager
Morogoro Polyester Textiles Ltd (POLYTEX) P O Box 269 Morogoro Tel: 4340/2	Daniel Lenaerts, General Manager
Tanganyika Tegry (Plastics) Ltd P O Box 2219 Dar es Salaam Tel: 63222/4	K.J. Kunulilo, General Manager
Tanzania Tea Blenders Ltd Lugoda Street P O Box 747 Dar es Salaam Tel: 31141/5	George C. Nyongo, General Manager

OTHER

Board of External Trade P O Box 5402 Dar es Salaam Tel: 33524	Mbaruk K. Mwandoro, Director General Donald A. Ngogo, Principal Marketing Research Officer
Ministry of Industries and Trade SADCC Industry and Trade Coordination Division P O Box 9491 Dar es Salaam Tel: 35002	M. M. Rweyemamu, Senior Trade Office Marco J. Kassaja, Senior Trade Officer
Presidential Standing Committee on Parastatal Organizations (SCOPO) IPS Building, 1st Floor P O Box 5085 Dar es Salaam Tel: 29062	Deogratias Aloys Ntukamazina, Secretary Ellias John Mayawalla, Senior Manpower Planning Officer
Tanzania Audit Corporation P O Box 580 Dar es Salaam Tel: 21063, 25470	Hatibu K. Senkoro, Director General
USAID Tanzania Luther House Sokoine Drive P O Box 9130 Dar es Salaam Tel: 22531/4	Joseph Stepanek, Representative Zachary M. Hahn, Project Development Officer Daniel Y.K. Ngoni, Economist
World Bank N.I.C. Building, 7th Floor P O Box 2054 Dar es Salaam Tel: 23543/36240	Ian C. Porter, Resident Representative

TANZANIA NONFINANCIAL PUBLIC ENTERPRISES

Agip (Tanzania) Ltd. (Petroleum)
Air Tanzania Corp.
Aluminium Africa Ltd
Arusha Plantations Ltd. (coffee)
Bagamoyo Frams Co.
Basuto Plantations Ltd. (coffee)
Biashara Transport Co.
Blanket Manufacturers
Board of External Trade (commercial activities)
Board of Internal Trade (holding
company, commercial activities)
Bora Shoe Company
British Petroleum (Tanzania) Ltd
Building Hardware and Electrical Supplies Co.
Bukoba Coffee Products (T) Ltd
Bulckleafe Gold Mine
Capital Development Authority
Cashew Nut Authority of Tanzania
Coastal Dairies Ltd
Coastal Hotels
Cotton Marketing Board
Dakawa Rice Farm
Darbrew Ltd
Dindira Tea Estates
District Development Corps.
Dodoma Bricks and Tiles Works
Fibre Board (East Africa) Ltd
Friendship Textiles
General Foods Co.
General Tyre Tanzania Ltd
Giraffe Extract Co. (wattle extract)
Household Suppliers
Integrated Concrete Industries
Kagera Sugar Company
Kampuni ya Mabasi ya Taifa (transport)
Kariakoo Marketing Corp.
Kibo Paper Industries
Kigamboni Poultry Farms
Kilimanjaro Hotel
Kilimanjaro Textiles
Kilombero Sugar Company
Kisarawe Brick Factory
Kwamtili Sisal Estate
Lake Manyara Hotels and Serengeti Safari Lodges
Lime Products Development
Mang'ula Mechanical and Machine Tools Co. Ltd
Mang'ula Sawmills Ltd
Mbeya Cement Co.
Metal Box Co. of Tanzania

Minjingu Phosphate
Mkata Saw Mills Ltd
Mkomazi Mining Ltd
Mombo Sisal Estate
Morogoro Canvas Mill
Morogoro Ceramic Ware
Morogoro Leather Goods
Morogoro Oil Processing Company
Morogoro Shoe Company
Motor Mart (T) Ltd
Mtibwa Sugar Company
Mtwara Cashew Co. Ltd
Musoma Textiles Ltd
Mwananchi Engineering and Construction Co. Ltd
Mwanza Hotel
Mwanza Textiles Ltd
National Agricultural Co. Ltd
National Agricultural and Food Corp.
National Bicycles
National Cashew Co. Ltd
National Chemical Industries
National Chick Hatchery
National Development Corp. (holding company)
National Distributors (consumer goods)
National Engineering Co.
National Engineering Design
National Estate and Designing Co. Ltd
National Housing Corp.
National Lotteries
National Milling Corp.
National Pharmaceuticals
National Printing Co.
National Ranching Co.
National Shipping Agencies Co.
National Small-Scale Industries Corp.
National Steel Corp.
National Sugar Board
National Transport Corp.
National Urban Water Authority
Northern Dairies Co.
Nuta Press Ltd
Nyanza Salt Mines (Tanzania) Ltd
Printpak (Tanzania) Ltd
Ralli Estates Ltd
20 regional trading companies
8 regional transport companies
Registrar of Building (rent collection and
building maintenance)
Rufiji Basin Development Authority
Sabuni Industries (soap)
Setchet Wheat Co. Ltd
Shirika la Habari Tanzania (news service)
State Mining Corp.

State Motor Corp.
State Travel Services Ltd
Steel-Rolling Mills Ltd
Stone Valley Tea Co.
Sugar Development Corp.
Tabora Msitu Products Ltd. (timber processing)
Tacona (concrete)
Tanesco Ltd. (electricity)
Tanga Cement Co.
Tanganyika Coffee Board
Tanganyika Coffee Curing Co.
Tanganyika Diamond Cutting
Tanganyika Instant Coffee Co. Ltd
Tanganyika Meerschaum Corp.
Tanganyika Packers
Tanganyika Portland Cement Co. Ltd.
Tanganyika Pyrethrum Board
Tanganyika Standard Newspapers Ltd
Tanganyika Tegry Plastics Ltd.
Tanganyika Tobacco Board
Tanita Co. Ltd (cashew nut processing)
Tanzania Audit Corp.
Tanzania Breweries Ltd.
Tanzania Cable Ltd
Tanzania Central Freight Bureau
Tanzania China Shipping Lines
Tanzania Cigarettes Corp.
Tanzania Coastal Shipping Line
Tanzania Crown Cork
Tanzania Dairies
Tanzania Dairy Farming
Tanzania Diamond Cutting Co.
Tanzania Elimu (shool supplies and equipment)
Tanzania Fertilizers Co. Ltd
Tanzania Film Co.
Tanzania Fisheries Corp.
Tanzania Gemstone Ltd.
Tanzania Harbour Authority
Tanzania Hides and Skins Ltd
Tanzania Hotels Investment
Tanzania Industrial Studies
and Consulting Organization
Tanzania Instant Coffee
Tanzania Italian Petroleum Refinery
Tanzania Karatasi Association (holding company,
distribution of printing paper)
Tanzania Legal Corp.
Tanzania Livestock Development
Tanzania Livestock Marketing Board
Tanzania Motor Services Co. Ltd (motor vehicles)
Tanzania National Parks
Tanzania Oxygen Ltd.
Tanzania Petroleum Development Corp.
Tanzania Post and Telecommunications

Tanzania Publishing House
Tanzania Railway Corp.
Tanzania Sheet Glass
Tanzania Shoe Co. Ltd
Tanzania Sisal Corp.
Tanzania Tanneries Ltd-Arusha
Dar-es-Salaam, Morogoro, Moshi and Mwanza
Tanzania Tea Authority
Tanzania Tea Blenders
Tanzania Textile Co.
Tanzania Tobacco Processing Co.
Tanzania Tourist Corp.
Tanzania Tours
Tanzania Wildlife Corp.
Tanzania Wildlife Safaris
Tanzania Wood Industries Corp.
Tembo Chipboards Ltd.
Ubungo Farm Implements Ltd.
Ubungo Garments
Ubungo Spinning Mill
Urafiki (textiles)
Usafiri Dar-es-Salaam (transport)
West Kilimanjaro Farms Co.
Williamsons Diamonds Ltd.
Workers Development Corp.

Source: 1987 IFS Supplement on Public Sector Enterprises

CHAPTER VI

FOLLOW-UP

Although not included in the brief for this study, the Consultants make bold to include a few brief comments on possibly-desirable follow-up with regard to privatization.

MALAWI

The process of privatization is already well under way in Malawi. Assistance being provided by Deloitte Haskins & Sells to ADMARC is moving that company's efforts in the right direction. MDC management has already proven its expertise in negotiating and concluding various moves toward privatization of various of its holdings. Government policy is very firm in insisting that enterprises become self-sufficient and move toward the private sector as quickly as possible. Little need is seen for follow-up assistance by AID at this time.

TANZANIA

In Tanzania, the concept of privatization is only beginning to be considered and is not likely to expand very fast. Acceptance of management contract as a move in that direction does, however, have some credence and provides some hope for additional application.

As a first step, USAID may wish to provide a nudge in that direction by conducting a seminar for selected government officials who deal with parastatals on the real benefits (e.g. decreasing drain on government budget, greater foreign exchange earnings, more effective utilization of labor, etc.) of permitting enterprises to operate under the guidance of free market principles. PPC's privatization specialist, Dr. L. Gray Cowan, would probably be very effective in conducting such a seminar.

MOZAMBIQUE

In Mozambique, real opportunities for follow-up exist now. Government officials are grasping at the concept of privatization as one realistic means of making their enterprises work better. Parastatal managers are generally enthusiastic about the possibility of being "turned loose" and getting things moving. But few, if any, in the country really understand and know "how to" move an individual enterprise down the path toward the private sector, create government policies which would mobilize local financial resources and attract foreign interests necessary to carry out this task, etc. Foreign exchange resources are a definite requirement for improving the health and viability of many enterprises, but additional transfer of hands-on experience with the real nuts-and-bolts of privatization is both required and sought after.

As part of the IBRD/IMF program, the Government established in March 1988 a technical unit with international assistance in the Ministry of Finance to provide, among other things, technical assistance for enterprises in the areas of management and finance. This unit is also to develop by June 1988 a plan for restructuring, divesting and closing specific enterprises. A natural and needed follow-up to this effort could come through USAID/PRE's contract with Center for Privatization (CFP) by helping the government develop its overall strategy for privatization and by providing technical assistance for the beginning stages of privatizing specific enterprises. Of particular utility here would be expansion and development of the technical unit's enterprise-specific analyses and its general analyses of the policy, legal and regulatory environment. As these analyses progress, CFP could easily then move on to assisting individual enterprises work through the various steps leading down their paths toward eventual privatization.

Attachment A

STATEMENT OF WORK FOR PERF PRE-PAIP STUDIES 2A AND 2B

Study Titles: 2A Parastatal Survey and Eligibility Determination.
2B Analysis of Parastatal Demand for PERF Resources.

A. Background

1. A.I.D. Privatization Policy

A.I.D. policy determination 14, Implementing A.I.D. Privatization Objectives stipulates that "A.I.D. projects designed to improve parastatal performance must have identifiable benchmarks upon which substantive progress towards divestiture can be measured". The policy determination further states that "these benchmarks must represent substantive evolutionary progress in moving the parastatal towards market-based operations...".

In a recent guidance cable from the A.I.D. Assistant Administrator for Africa, regional privatization policy is set forth as follows: "The elimination of a parastatal's monopoly status and subsidies can be quite effective interim steps (toward complete government divestiture). Rationalization, however, is not acceptable except as an agreed upon step in an explicit program of divestiture with a definite, specifically agreed upon schedule".

The A.I.D. Bureau for Private Enterprise has commissioned several recent studies by the Center for Privatization which have attempted to define the "on-going process" leading to the privatization of parastatal firms. These studies have identified a sequence of progressive actions which a parastatal may undertake which could constitute evolutionary progress towards market-based operations.

These benchmark actions have not, as yet, been incorporated into Agency policy and the eligibility of any given parastatal to receive A.I.D.-sponsored assistance continues to be reviewed on a case-by-case basis, during which "evolutionary progress" is assessed ad hoc.

2. The Pre-Export Revolving Fund

USAID/Zimbabwe is in the process of developing a proposal to fund a Pre-Export Revolving Fund (PERF), to be administered under then auspices of the Southern Africa Development

Coordination Conference (SADCC). The PERF is designed to address the region-wide problem of a lack of foreign exchange for the importation of inputs required by actual and potential exporters.

An accurate assessment of the demand for PERF resources has been hampered by uncertainties regarding the eligibility of parastatal firms in the SADCC region. This is a particularly critical issue in the PERF design since the industrial and agricultural sectors of many of the SADCC member countries are dominated by state owned and operated enterprises.

B. Study Objectives and Specific Requirements

1. Study 2A.

Under terms of this contract, the Contractor shall:

1) Consult with the A.I.D./Washington Bureau for Africa, Bureau for Private Enterprise (PRE) and Bureau for Program and Policy Coordination (PPC) to assess current Agency interpretation of eligibility of parastatal or otherwise state-owned enterprises under Policy Determination 14 and other relevant A.I.D. policy guidance documents. Discussions with A.I.D./Washington personnel in the above offices will focus specifically on the PERF concept in SADCC countries. The Contractor will request A.I.D./Washington guidance in the design of a set of parastatal eligibility criteria which will be employed in the reconnaissance field survey described below. Estimated time required: 5 days.

2) Employ such guidance as may be obtained in task 1, above, in the development of an operative definition of "benchmarks upon which substantive progress towards divestiture can be measured" and a list of parastatal eligibility criteria in conformance with current Agency policy. The Contractor shall present this list to the USAID/Zimbabwe, Office of Project Development upon arrival in Zimbabwe and participate in discussions and modifications, as appropriate. Estimated time required (home office and Zimbabwe): 2 days.

3) Develop a methodology, acceptable to USAID/Zimbabwe, for the survey of parastatals within the region, to permit a determination of the total number and characteristics of such parastatals as will qualify for participation in the PERF, in conformance with the benchmarks and eligibility criteria previously defined. Estimated time required: 1 week.

4) Conduct a detailed reconnaissance of the parastatal industries in each SADCC member country, excluding Angola. This reconnaissance will include field visits to Malawi, Tanzania, Mozambique, Zimbabwe and Zambia. An additional field visit will be conducted in either Botswana, Lesotho or Swaziland, supplemented by a review of relevant secondary sources for each of the three "BLS" states. During these field visits discussions will be held with government officials and representatives of principal parastatal and otherwise state-owned enterprises. The Contractor will use data collected during these visits to assess the eligibility of all parastatals in each country visited, (in the case of the three southern countries, projecting from the single field visit and secondary sources for all three countries) in conformance with the methodology previously agreed. Estimated time required: 6 weeks.

5) Submit to USAID/Zimbabwe a final list of eligible parastatals sub-divided by country and by sector. The Contractor shall also provide to USAID/Zimbabwe original copies of all raw data (including notes and documents obtained in field visits) used in the compilation of these lists. Estimated time required: 2 weeks.

2. Study 2B

Under terms of this contract, the Contractor shall:

1) Liaise with the financial demand contractor (study 3A) and collect those data which correspond to potentially eligible parastatal firms as censused in study 2A.

2) On the basis of these secondary field survey data, prepare and submit to USAID/Zimbabwe, Office of Project Development, a forecast of anticipated demand for PERF resources originating from potentially eligible parastatal enterprises. This report is to be disaggregated by country and by sector. Estimated time required (Harare): 1 week.

C. Proposed Schedule

1. Study 2A

a) Consultation with AID/W PRE and PPC bureaus: April 11 to 15, 1988.

b) Benchmarks, eligibility criteria and methodology (including a data analysis plan) drafted and submitted to USAID/Zimbabwe: no later than April 22, 1988.

c) Field reconnaissance survey: to be concluded no later than June 1, 1988.

d) Submission of Final Report to USAID/Zimbabwe, Office of Project Development: no later than June 15, 1988.

2. Study 2B

Study 2B will be conducted concurrently with study 2A.

D. Supervision and Reporting Channels

The Contactor will report directly to the Chief, Project Development Office, USAID/Zimbabwe or his designee. Changes in the workplan and reporting requirements will be approved by the Project Development Office.

E. Logistics

The Contractor will be responsible for arranging domestic travel in the United States and international travel between the United States and Harare, Zimbabwe. USAID/Zimbabwe will make all arrangements for intra-SADCC travel. USAID/Zimbabwe will provide or make arrangements for local secretarial and office services, as required.

F. Level of Effort

This is to be a fixed-price contract based upon the provision of a two-person team consisting of: 1) an analyst in the field of privatization with experience in evaluating national policy as it relates to parastatal management and divestiture; 2) a financial analyst with experience in assessing parastatal financial operations and foreign exchange demand.

METHODOLOGY
SOE Survey

1. From the list of a country's SOEs presented by the local AID mission, the team (with the cooperation and agreement of the Mission) will immediately select individual enterprises to be included in the survey on the basis of current and/or possible future export orientation. For purposes of this survey, SOEs are defined as product-generating organizations in which government ownership is 51% or greater.

2. These selected enterprises will be visited by the team. Using our SOE Eligibility Criteria sheet as a guide, we will determine which of the enterprises seem to show enough promise of moving toward divestiture in accordance with PD-14 to be recommended as potential recipients of PERF financing.

3. Since it is not expected that many, if any, of a country's export-oriented SOEs would immediately qualify for PERF assistance, and since current AID policy requires specific evidence of movement toward privatization as a condition for its financial assistance, we have also designed a set of Benchmarks for Measuring Progress of SOEs Toward Divestiture. These benchmarks, which are designed to measure and confirm "substantive progress towards divestiture", would be used by the USAID mission and by PERF management to demonstrate an enterprise's continuing eligibility for participation in the Fund. It would be expected that, prior to initial approval by PERF for utilization by a specific SOE of its foreign exchange resources, an individually negotiated timetable for positive movement toward whatever criteria are initially in the negative category would be formally agreed between the enterprise and its government and the PERF.

4. The end product of this survey will be lists of SOEs in each country which are considered to be (1) currently eligible or (2) potentially eligible in the near future for PERF assistance. These lists will be supported by descriptions of how we proceeded from that country's total SOE universe through the preliminary selections to the final lists.

5. These lists will be supplied as developed in each country to the Deloitte Haskins Sells/Imani Development team which will then estimate potential demand by the selected SOEs on PERF for financial assistance on the same bases which that team is using to forecast similar demand by the private sector.

6. The work of the study team will be done in light of a general understanding of the country's currently stated intention to

privatize its parastatals, but development of specific criteria and benchmarks on the macro level will be left to the Macroeconomic Policy Review Study 1.

7. The team will present its findings in summary form to USAID Harare before leaving the region, and will then complete its draft final report during the first week after returning to Washington.

REVISED SCHEDULE

April 11-22	Consultation with AID Washington Development of Methodology, Eligibility Criteria, and Benchmarks	
April 26-28	Consultation with USAID Zimbabwe	
April 29-May 27	Field Reconnaissance Survey	
	April 29 - May 9	Mozambique
	May 10 - 17	Tanzania
	May 18 - 27	Malawi
May 30 - June 14	Drafting and discussing final report USAID Zimbabwe	
June 17 - 24	Completing draft final report, Center for Privatization Debriefing AID Washington	

Attachment D

____
Name of Enterprise

SOE ELIGIBILITY CRITERIA
For Participation in PERF

		Favorable	Unfavorable
A.	GENERAL BACKGROUND		
1)	Government and/or SOE management has expressed a desire to move this enterprise into the private sector.	________	________
2)	Evidence of larger export market for this company's products exists.	________	________
3)	Lack of foreign exchange is having a significant impact on operations of this enterprise.	________	________
4)	Product prices are not prescribed by the government.	________	________
5)	The company does not depend on government protection (import restriction, exclusive export license, monopoly, etc.) for its continuing existence.	________	________
B.	MANAGEMENT/ORGANIZATION		
1)	The company has a board of directors which is able and has demonstrated its ability to act independently.	________	________
2)	The company has experience in or ability to develop required skills of international marketing such as product design, product differentiation, contract negotiation, etc.	________	________
3)	Current management is adequate for leading the company through a growth/ /transition period.	________	________
4)	The company is appropriately organized and staffed. If not, there is a program in place for recogining and/or rationalizing staff.	________	________
5)	Wage/Salary structure is not prescribed by government.	________	________

C. FINANCIAL	Favorable	Unfavorable
1) The company is self-supporting or able to become so in the near future.	________	________
2) The company's manufacturing costs probably are or could become competitive with present or potential competitors in the export field.	________	________
3) The company is not dependent on government support (loans, budget allocations) for its continuing existence.	________	________
4) The company's accounting records and procedures are adequate and informative.	________	________
5) The company's accounts are being audited by outside independent auditors.	________	________
6) Assets are realistically valued on the company's books.	________	________
7) The company's financial structure can support additional growth.		
a) Debt service is manageable.	________	________
b) Adequate equity is in place.	________	________
8) Current physical plant is adequate for increased production.	________	________

If not, a) What additional investment would be required to put plant into good condition? (US$__________)

b) Have sources of financing been identified? ________

D. SUMMARY		
1) This enterprise has a good chance of existing and prospering as a private enterprise.	________	________

ATTACHMENT E

BENCHMARKS
For Measuring Progress of SOEs Toward Divestiture

	Agreed Completion Date
A. GENERAL BACKGROUND	
1) Market study or other evidence of export potential has been presented.	________
2) Prices of the company's products have been adjusted to realistic market-based levels	________
3) Legislation opening the production of this enterprise to competition has been passed.	________
B. MANAGEMENT/ORGANIZATIONAL	
1) An independent board of directors has been appointed	________
2) Management has been strengthened through hiring or management contract.	________
3) Legislation has been passed allowing individual enterprises freedom to set wage/salary structure and personnel requirements.	________
4) A personnel rationalization plan has been defined and is being implemented.	________
5) Technical expertise in international marketing, product design, product differentiation, contract negotiation, etc. has been acquired through joint venture, management contract, or other appropriate method.	________
C. FINANCIAL	
1) A three year action plan showing the effects on operations and profitability of using PERF resources has been prepared and approved.	________
2) Outside independent auditors have been hired.	________
3) The company's debt/equity ratio has been restructured so as to permit a manageable debt service burden.	________
a) Government has forgiven its portion of thedebt.	________
b) Government has assumed a portion of the debt/overdraft owed to private sources.	________
c) Government/private debt has been renegotiated.	________
d) Additional equity has been provided.	________
4) Assets have been revalued to realistic market levels.	________