PN-ABP-799
84059

# FIELD TRIP ASSESSMENT

AFRICA FUND PROPOSAL

BY MADHVANI INTERNATIONAL, S.A.

AND CONSULTATIONS WITH USAID/KENYA,

KENYA EQUITY CAPITAL

AND KENYA EQUITY MANAGEMENT

October 14-21, 1991

AID/AFR/ONI/PBS
CONTRACT NO. AFR-0138-Z-00-000-00
TASK ORDER 16

by

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JANUARY 13, 1992

TASK ORDER No. 16: "ASSESSMENT OF AFRICA FUND PROPOSAL OF MADHVANI INTERNATIONAL & CONSULTATIONS WITH USAID/KENYA, KENYA EQUITY CAPITAL & KENYA EQUITY MANAGEMENT"

Scope of Work

**A. Assess the structure and design of Madhvani International as well as the structure and design of the Africa Fund, an area-wide (initially, Kenya, Uganda, and Tanzania) venture capital endeavor being proposed by the Madhvani Group.**

**1. The Africa Fund**

a. History

Richard Loth, former AVCP Project Director, met with Christopher Wilson, advisor to Madhvani International, S.A., in Nairobi on July 19, 1991 to discuss a proposed Concept for The Africa Fund. It was understood that AVCP assistance would be limited to early stage costs on a shared basis subject to AFR/ONI approval. Subsequently, a request for funding of a feasibility study for an Africa Fund was received by AFR/ONI in late July 1991. This Task Order is intended, in part, to assess the appropriateness of going forward with the requested feasibility study.

The Private Sector Advisor at USAID/Nairobi, James R. Dry and Gordon Bradford met in Nairobi with Nitin Payant Madhvani, the principal in the Madhvani Group, and Chris Wilson, an English financial advisor who has been working with Madhvani on the venture capital project. Wilson has been on his own in London as a financial advisor for the past two years, prior to which he spent ten years with Salomon Brothers in London, Tokyo, Hong Kong and New York. Before that, he was an officer in the British Army, and an undergraduate at Oxford.

b. Scope of Africa Fund

During our initial conversations, Dry and Bradford pointed out that (1) a fund of $100 million to $500 million covering all of Africa, or even East Africa, is simply out of proportion, (2) any funds expended up until now are a sunk cost and any feasibility or other study to be done in the future would have to be funded at least half by the Madhvani Group before AID might consider a participation, and (3) AID is not in a position to make foreign exchange guarantees available to venture capital investors.

After many discussions with management, we arrived at a fund of minimum $10,000,000, and probably $ 20,000,000 depending upon how much they can raise of which Nitin Madhvani said that he personally will subscribe between $2,500,000 and $3,000,000. The fund will invest in Kenyan projects only at first, but will constantly study opportunities in Uganda and Tanzania, and, more, remotely, Rwanda and Burundi. The fund will, from the first, seek to attract investment from foreign investors. It will work with the appropriate Kenyan authorities in order to take advantage of existing and proposed legislation providing for the registration of incoming foreign capital, and its exit, excluding dividends and capital gains, at the original incoming rate.

c. Fund Management

While no prospective manager is in view, there would appear to be ample talent available in Kenya, all the more so since privatization may free up additional sources.

d. Objectives

Areas for investment include six major sectors, (1) tourism, the source of 40% of Kenya's export earnings, (2) the newly-established export investment zones, (3) mines, (4) parastatals scheduled for privatization, (5) manufacture of consumer goods for the Kenya domestic market as well as exportation to neighboring countries, none of which have very much of a manufacturing sector, and (6) industries based on the transformation of agricultural products, particularly for export, a high priority for the Kenya Government. At the suggestion of AID, Amsco has already been at work to identify suitable projects, and has found about ten to date.

e. Feasibility Study

A feasibility study is estimated to cost between $ 300,000 and $ 400,000, and would be undertaken by Amsco, taking advantage of the work they have already done. Madhvani obligated his group to pay half of the cost, up front, of any feasibility study, with no work done to date to be included.

A time table might involve AID approval of the project by early first quarter of 1992, with the feasibility study to be completed by the end of the first quarter of 1992. The fund would be organized, and a Managing Director engaged, before the end of the second quarter of 1992, so that operations might begin about July 1st, 1992. Admittedly this is a tight schedule, but if the

July 1st, 1992, deadline is not met, the third quarter of 1992 may well be lost, and year end 1992 becomes a target date.

## 2. Madhvani International, S.A.

### a. Management

Over four days, Bradford met continually with management: Nitin Madhvani; Chris Wilson; and two of their associates in the venture capital project, Iddi Simba, a Tanzanian public official who has been a Director of the IMF in Washington, Chief Executive Officer of the East African Development Bank in Kampala, Uganda, and a senior civil servant in several ministries in Tanzania; and Dr.J.K. Mithrai, a Kenyan who after a long career as a professor of economics at the Kenya National University, and several senior posts in the Kenya Government now runs his own financial and economic advisory company.

These four constitute the organizing committee for the proposed Venture Capital Fund, and would be its management committee. Madhvani, Wilson, Simba and Maitha impress favorably.

Wilson has the air of a well-trained professional investment banker, with broad experience in London, New York, Tokyo and Hong Kong, from which he has had considerable experience in venture capital in the third world. Simba and Maitha are characteristic senior African government officials, with experience in the international donor community.

### b. Operations

Attached is an outline of the Madhvani Group, showing 23 companies in 6 countries, with 8,000 personnel, and in excess of $ 325,000,000 in assets.

Scope of Work

**B. The consultant will meet with USAID/Kenya personnel, at Mission request, to explore venture capital development possibilities given the success of the existing Kenya Equity Capital activity. The consultant also will meet with personnel of Kenya Equity Capital and Kenya Equity Management.**

**1. Orientation**

Immediately upon arriving in Nairobi, Gordon Bradford called at the AID Mission and met with James R. Dry, Private Sector Advisor, Pete Ondeng, Banking and Finance Advisor, and Ms. Alfreda Brewer, Private Enterprise Officer, in order to scope the assignment, (1) evaluate the Madhvani Group proposal, (2) become conversant with the progress to date of Kenya Equities, and (3) review the general prospects of Kenya for venture capital.

**2. Kenya Equities**

Later the first day, Bradford called at Kenya Equities and met with Bruce Bouchard, Managing Director, on assignment from Equator Bank, and Michael Power, Operations Director, on assignment from Lonrho London.

**3. Results of operations**

The first exit from the fund has taken place, a computer supply company, in the amount of $145,000, which has been repaid to the AID Kenya Trust Fund, one of the three tools available to the Mission for venture capital, the others being non-reimbursable grants, of which one has been made to Kenya Equities, and bank loan guarantees, up to 50% of loan, none as yet having been done.

The record on other investments ranges from Gringos, a Tex-Mex restaurant now being restructured, to moderately successful small-scale manufacturing. The largest item in the pipeline is Tudor Golf Club, in which Africa Project Development Facility is also interested, with a major privatization project also in view. Operations are not yet profitable.

**4. Venture Capital Environment**

a. Industrial Promotion Service

Bradford met with S.H. Poonawala, of the Industrial Promotion Service, the economic arm of the Aga Khan and the Ismailian community, who express negative feelings about the Madhvani

Group, but was cautiously optimistic on the outlook for venture capital in Kenya.

b. Africa Project Development Facility

Bradford met APDF, the Africa Project Development Facility, and saw Nico Nissen and Patrick Henfrey. APDF is a form of nursery for small-scale venture capital projects. They were somewhat less optimistic than the Industrial Promotion Service.

c. Amsco

Bradford met with Amsco, Ton Retrie, Personal Representative, and reviewed the projects already identified as potential investments for the Madhvani venture capital fund, summary sheets for which are attached.

d. Ministry of Finance

In order to round out the venture capital picture in Kenya, Bradford called on Raj Bhatia, Advisor, at the Ministry of Finance, who is directly in charge of the privatization program including the provision of foreign exchange cover for foreign investors, and also met with James Leonard, a retired securities industry investor assigned to Bhatia to assist in privatization, under an AID contract, who was a little less optimistic about the prospects for privatization.

d. Minister for Planning and Development

Finally, Bradford met with Dr.Z.T. Onon- yonka, the Minister for Planning and Development, who repeated and stressed the Government's commitment to direct foreign investment, and privatization.

Scope of Work

C. **The Consultant will prepare a verbal briefing for USAID Kenya and a final draft report.**

1. **USAID Debriefing**

On the last day in Nairobi, and directly before going to the airport, Bradford had a debriefing meeting with Jim Dry, John Westley, Director, USAID Mission, and Stafford Baker, Chief, Office of Projects. Afterwards, Bradford had a similar, and longer, meeting with Jim Dry and Pete Ondeng, before proceeding to the airport. Issues discussed include:

a. Madhvani Group

Discussed the positive information gathered about the Madhvani Group, as well as the negative tone of some of the comments received. Most of the comments concerned with Madhvani's business reputation and current difficulties with the Kenya Government arising out of a molasses factory started some time ago, but never in production.

b. Venture capital in Kenya

The outlook for venture capital in Kenya, and the investment climate in general arising out of the Government's commitments to privatization and direct foreign investment,

2. Conclusions

a. Madhvani International, S.A.

Despite the occasional negative comments, there can be no doubt as to the financial strength of the Madhvani Group, which have been in business in Uganda and Kenya for over seventy years. While their Uganda properties were nationalized by Idi Amin, they survived that blow, and have recovered some of them from the new government in Uganda.

Both directly and through Chris Wilson, they have extensive knowledge of the London and European markets, and are conversant with modern financial and securities techniques. There is equally no doubt that they have not abandoned the earlier, more ambitious, plans, but they now appreciate that any such size undertaking would involve a public underwriting beyond the Africa Venture Capital Project capacity, or even that of

AID, and they understand that a more modest fund would provide them with the track record necessary for going public.

They also understand how important it is that such a first phase fund be successful if it is to serve as a track record for future expansion.

b. Kenya Equities

While Kenya Equities impresses with its professionalism and its management represents a higher level of skills than is usually met in Africa, the record to date is not overly impressive. The contemplated investment in the golf club may gives some concern, since it is an investment in real property, only related to tourism at a considerable remove. Recoveries on the golf club in the event of restructuring might well be minimal.

c. Prospects for venture capital in Kenya

The prospects for venture capital in Kenya appear to be very interesting and among the best in Africa. West and Central Africa seem firmly entrenched in a subsidiary position to the European Community, and American influence in that area is minimal. Southern Africa appears to be drawing closer to the economic and financial power centers in South Africa, as apartheid moderates. East Africa offers at least a chance of preserving some level of economic independence.

Both SADDEC (Southern Africa Development Coordination Conference), and the PTA (Preferential Trade Area) are too weak to stand up to the economic power of South Africa, but Kenya is far enough away, and has a natural hinterland in Uganda, Tanzania, Burundi, Rwanda and, more remotely, Somalia and Ethiopia.

An additional advantage, from the US standpoint, is the absence of any French presence, so overwhelming in West and Central Africa, and the virtual abandonment of the scene by the British, leaving some room for maneuver by US investment.

## 3. Recommendations

Regarding the Africa Fund proposal, given the uncertain political situation in Kenya, USAID will have to determine whether this is an appropriate time to expand AID's presence in venture capital. Continued monitoring of the situation is warranted as opinion regarding the Madhvani Group is not definitive.

Attachments:

1. Madhvani International, S.A. Group of Companies

2. AMSCO, Evaluation of Potential Investments

## The Madhvani Group of Companies

The Madh·ani Group presently consists of 23 companies based in six countries, employing 8,000 personnel. Total Group investments exceed $325mm.

The Group's origins trace back to a partnership established at the turn of the century in Uganda, East Africa. Upon dissolution of the partnership in 1947, Mr. Muljibhai Madhvani acquired, as his share of partnership assets, a sugarcane estate and processing factory. Over the next decade, Madhvani expanded further in to agro-industry through investments in cotton ginning, tea and coffee plantations and related trading operations.

During the 1960's, the founder's eldest son, Jayant Madhvani initiated a program of product diversification and geographic expansion. The Group rapidly grew to over 60 companies engaged in activities including steel production, textiles, container glass, soap, packaging brewing, edible oils, matches, light bulbs, plastics and metal products. This expansion enabled the Group to establish a significant presence in Kenya, Tanzania, India, Lebanon and Canada. By the mid 1970's, the Group had become the largest industrial and commerical concern in East Africa. The Madhvani family is widely regarded as being the principle family in East Africa and a key factor in the industralization of the region. The family employed over 25,000 person and were a shining example of the contribution that Indians have made abroad.

The death of Jayant Madhvani in 1971 was followed in 1972 by the nationalization of the Group's Ugandan assets by the government of Idi Amin. Following these events, the family relocated to Kenya, which served as a base for the Group's non-Ugandan assets. Responsibility for managing the Group's varied interests devolved to Jayant Madhvani's son, Nitin Madhvani, and the later's. The family returned to Uganda in 1979 immediately after Idi Amin's depature.

Since their return to Uganda, Nitin Madhvani has successfully negotiated for the return to the Madhvani family of most of the assets nationalized. In the case of the sugar and steel buisnesses, in which the Ugandan Government has retained an interest, agreements for compensation have been signed and the government has commenced settlement of amounts due which are in excesss of $40mm.

The Group's non-Ugandan assets are divided between Nitin Madhvani and his four uncles. Through the family's management company, Madhvani International S.A. ("MISA"), a professional team of management executives share responsibility for the territories in which the Group operates. These are divided into regions, under the responsibility of Regional Chief Executives who, in turn, report to the President of MISA.

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**Madhvani Group of Companies**

Manufacturing Companies

Uganda

Kakira Sugar Works Ltd. - sugar/sweets

Muljibhai Madhvani & Co. Ltd.
- Soap Division - soap
- Edible Oil Division - edible oil

Mulco Textiles ltd. - textiles

Mulbox - cardboard packaging

Associated Match Company Ltd. - matches

Uganda Metal Products Ltd. - barbed wire/chain link

Nakigalala and Mwera Tea Estates - tea

E. A. Steel Corporlation (under rehabilitation) - steel/fasteners

Kenya

Emco Steel Works - steel

Emco Glass Works - sodium silicate

Kenya Glass Works - glass

Swedish American Mineral Water Co. - mineral waters

Tanzania

Kioo Ltd. - glass

Emco Soap Industries - soap/confectionery

Lebanon

Maliban - glass

U.K.

Guinness Brothers Group plc. - juvenile products

India

Iron Rolling Mills - steel
Tungbadhra Sugar Works - sugar
Singara Niligiri Tea Plantations - tea

# AMSCO
AFRICAN MANAGEMENT SERVICES COMPANY

Mr. N. J. Madhvani
c/o Emco Ltd
NAIROBI

NAIROBI
17 October 1991

Dear Nitin,

RE: THE PROPOSED AFRICA FUND

Kindly refer to your letter of 7th October, mine of 11th October and our subsequent telephone conversation.

From our telephone conversation, and also from a chat I had with Iddi Simba, it would seem that the investment criteria of the proposed fund might be somewhat more flexible than they appear at present in the concept paper. This would include the Fund's willingness to consider investing amounts smaller than US$ 5 million, starting perhaps with a minimum of US$ 0.5 or US$ 1.0 million.

Also, I understand that the Fund might be prepared to consider investing in parastatals to be privatised fairly early on, if insufficient private sector opportunities would immediately be available.

On this basis, I have been able to come up with a few more possible suggestions than I had originally thought, although detailed information in respect of most of these projects is not yet available at this stage. However, it should assist in giving you and your co-sponsors, as well as the USAID official visiting Nairobi, an initial idea of the kind of project that would be looking for risk capital funds.

Since it is perhaps easier or desirable to keep these project possibilities separate from one another, I have done a brief note on each of them on a separate sheet, which covers the available information that is available at present and all of which is attached.

I should be happy to discuss the attached in some more detail to the extent possible in the next few days as may be required, and I would also much appreciate an opportunity of meeting with the USAID official who is arriving today from Washington.

Dr. C. N. Aspes, General Manager of RAS/PREFUND, would also appreciate having a meeting with the USAID visitor at his convenience.

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– Ton Detrie, Regional Representative, 10th Floor, Finance House, Loita Street, P.O. Box 68073, Nairobi, Kenya
Telephone 218261, 213914, Residence 891881, Telefax 338030, Telex 22662

The following projects are suggested, in the attached, as possible investment opportunities for the proposed Fund:

KENYA

| | | |
|---|---|---|
| 1. | East African Fine Spinners | - Parastatal to be privatised |
| 2. | Mount Kenya Textiles Ltd | - " " " " |
| 3. | Synthetic Fibres Kenya Ltd | - " " " " |
| 4. | Aberdare Oil Millers Ltd | - Private sector company in recieversship |
| 5. | Kenya Glass Works Ltd | - " " " " " |
| 6. | Coast Plastics Ltd | - Private sector company, recently closed down and in a need of rehabilitation. |

TANZANIA

| | | |
|---|---|---|
| 1. | Kagera Sugar Estate | - Parastatal to be privatised |

The attached information is confidential, and it would be appreciated if it is treated as such.

With kind regards,
Yours sincerely,

Ton.

Ton Detrie
REGIONAL REPRESENTATIVE

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## EAST AFRICAN FINE SPINNERS - EAFS

EAFS is a parastatal which the Government has indicated is to be privatised eventually.

As can be seen from the attached, the company was profitable in 1984 - 1988, when it was managed by professional people under a management contract with a UK firm.

Since 1989, when new local management was appointed by the Government, the company has been making large losses due to lack of professional capabilities and experience in management, lack of financial and other controls and corruption.

RAS, who have produced the attached paper, are of the opinion that the project definitely has the potential to become economically and financially viable again and has export potential as well. However, in order to achieve that, the following main measures need to be taken:

- The company should be privatised, its losses have to be written off, and an overall financial restructuring has to be carried out.

- The company's assets should preferably be purchased by a new company (to be incorporated) and the investment required is roughly estimated at between $7 and $10 million, which would include the purchase of some additional balancing equipment and provision of working capital.

- As an alternative to purchasing the company's assets, the company could be sold as a going concern, but, in that case, professional management would have to be introduced first (AMSCO?) in order to improve the performance of the company such that it becomes an attractive proposition for private investors. This would have to be combined with a thorough clean-up of the balance sheet (as part of the financial restructuring mentioned above) in order to eliminate outstanding debts which would be unacceptable to new owners.

The time at which one could commence serious discussions relating to EAFS would depend on the progress which the Kenya Government is going to make in respect of its stated privatisation plans.

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## MOUNT KENYA TEXTILES LTD - MOUNTEX

This is a parastatal company involved in the spinning, weaving and finishing of cotton textiles, based in Nanyuki.

The company has a record of very poor performance and high losses, which, if anything, continue to increase despite a so-called rehabilitation programme which was carried out a couple of years ago by introducing equipment from India and financed by an Indian Government line of credit.

At that time, it was thought that the company, with the newly introduced Indian equipment and by introducing professional management and some additional capital, could be turned round. On that basis, one of the main debentureholders, DEG, on behalf of the other debentureholders which include IDB, EADB and DFCK, produced an outline rehabilitation and restructuring programme, a copy of which is attached. Although the Government agreed verbally and in principle to let the debentureholders proceed with that programme, final Government approval has still not been received.

Meanwhile, RAS, DEG and an outside financial consultant have prepared an update of the situation which is attached under the heading Rehabilitation and Restructuring Concept. This paper, prepared few months ago, comes to the conclusion that, with the existing equipment including the new Indian machinery, Mountex has no hope of recovery, evern with professional management, except in its spinning section. Conclusion of this review is that only the spinning department, as it stands now and with a few improvements, is economically viable for the future. The age and condition of the equipment in the weaving and finishing departments, and the poor quality of the newly introduced Indian equipment, are such that the report recommends the sale of most of that equipment for scrap.

The Government, or anyone who would buy the company's assets in the proposed privatisation process, will have to make a decision to either:

- Continue with spinning only, which would mean abandoning most of the rest of the company's assets and laying off most of its staff. Although this may be a practical step to take in the short term, the Government is unlikely to agree to this as a long term solution in view of political/employment issues. Mountex is the single biggest employer by far in the Nanyuki and surrounding area.

- Or to replace over time the obsolete weaving and finishing equipment with modern machinery, such that Mountex would be able to produce a high qualifty end-product, part of which could be exported. To do this would require a large investment, the size of which has not been determined with any accuracy. However, it would certainly qualify, at least in this respect, the project for the attention of the proposed Africa Fund.

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The conclusion and recommendation of the recent RAS/DEG report have complicated the situation surrounding the project and it is likely to take some considerable time before the Government decides what to do with Mountex in the context of its overall privatisation programme.

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## SYNTHETIC FIBRES (KENYA) LTD

This is a parastatal, based in Nanyuki, which has been established for the local production of synthetic textile fibres, based on imported raw material.

Considering the quantities and values relating to synthetic fibres being imported into Kenya, and considering the requirements of the country's textile industry in this respect, it is generally agreed that the potential for SFKL to be a profitable venture was and is good.

However, for several reasons the project never came off the ground, and its equipment is lying in crates at the project site in Nanyuki. We have no information as to the condition of the equipment and as to whether or not it is complete.

There are no up-to-date valuations available in respect of the company's fixed assets, land, building, machinery and equipment etc, but a guess ventured by RAS puts a figure of roughly Kenya Shillings 100 million on the lot. RAS also very roughly guesses that another Kenya Shillings 150 - 200 million might be required to erect the plant, purchase additional equipment etc. that might be required, and provide sufficient working capital to operate the project.

This means that a total of, roughly, US Dollars 10 million would be required to put the project together and start it up, an amount which would qualify it for attention by the proposed Africa Fund, provided other aspects of the project would be satisfactory. However, no up-to-date and realistic estimates and projections are available.

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ABERDARE OIL MILLERS LTD

This is a private company, under receivership, based in Nyeri and which was set up some years ago for the production of edible oils and, later on, soap.

The project ran into difficulties as a result of poor management, lack of financial and other controls and dishonesty on the part of the owners. In addition, problems were encountered in obtaining sufficient raw materials, most of which (palm oil) have to be imported.

A rehabilitation/restructuring proposal has been prepared by the debentureholders of the company (IDB, DFCK and NBK) the most important part of which is attached.

The receiver/manager of the company, Mr. G. Silcock of Price Waterhouse, as well as the debentureholders, are of the opinion that the project does have long term economic viability, which is also reflected in the attached projections.

The debentureholders are looking for a private investor to invest around Shs 19 million (approximately US$ 665000), but we are of the opinion that a somewhat higher amount may be required. However, provided several important questions are answered satisfactorily (see copy of AMSCO letter of 18th September 1991 to Price Waterhouse, attached), and taking into account the likelihood that the additional investment required is somewhat higher than the figure mentioned earlier, this project might be of interest to the proposed Africa Fund as far as minimum investment size would be concerned. However, it has no export potential and would operate in a relatively competitive environment, which might make the returns insufficiently attractive.

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## KAGERA SUGAR ESTATE

This is a parastatal sugar estate and sugar factory in Western Tanzania, near Bukoba, which the Government wishes to privatise.

Although the potential output of Kagera is around 55,000 tons per annum, recent production performance has been around 1500 -2000 tons per annum. This illustrates the extremely poor condition of the project and, as a result, private sector investors have not been interested in it so far. That is why the Government appointed AMSCO one year ago to take on the management of Kagera and, since then, the project's performance has been improving significantly. AMSCO have put in a three- man team (from Booker Tate, who are one of AMSCO's private sector shareholders though ICD) which is running the project (on a lease basis) with the existing assets and without any new investment. This preliminary phase will be coming to an end in 1992, and it would appear that the targets which have been set for the management team are going to be met.

On that basis, a second, real rehabilitation phase will be entered into and which will involve new investments of nearly US$ 50 million, as outlined in the attached investment proposal.

Although it is likely that a further rehabilitation phase will follow on to the one described in the attached, the analysis shows that stage one of the rehabilitation of Kagera as described is viable in technical, economic and financial terms.

Kagera is well placed to supply sugar markets in Rwanda, Burundi, Zaire and Uganda, and will therefore be able to generate a certain amount of foreign currency. In fact, at present Kagera is already exporting to Uganda and Rwanda.

Although returns in the sugar industry are not as high as in some alternative investment opportunities, Kagera Sugar Estate is presented here as a potential investment possibility for the proposed Africa Fund.

Exports $7.0m p.annum.
Cash-flow $15.0m p.annum
Investment $50.0m.

## VII. F. .NCIAL AND ECONOMIC ANALYSIS

### Assumptions and parameters

7.01 The main assumptions and parameters used in the analysis of the project are as follows. Further details are given in Appendix 1.

a) all costs and benefits are expressed in constant 1991 US Dollars. Local (Tanzanian Shilling) costs are converted to US Dollars at the official exchange rate prevailing in late January 1991 of US$ 1 : TSh 195;

b) taxes and duties are omitted (see Appendix 1);

c) the project is analysed over a 20 year period prior to financing;

d) in the base case analysis the ex-factory domestic sugar price is taken to be equivalent to US$ 634/t, the import parity price at Kagera;

e) a price of US$ 624/t equal to the long term average export parity price for sugar sales to Central Africa is used for export sales, a 100% foreign exchange retention on export sales is assumed;

f) a price equivalent to US$ 10/t is used for local molasses sales and US$ 7/t is assumed for exports;

g) sugar exports are assumed at 35% of production by year;

h) an allowance for incremental working capital is included each year at 40% of the subsequent year's incremental operating costs;

i) no residual value has been imputed to the assets; and

j) foreign costs are assumed to comprise direct foreign exchange items only. Indirect foreign exchange costs (items sourced overseas but purchased locally for Tanzanian Shillings) are regarded as local costs in the financial analysis.

### Project costs

7.02 Capital costs Stage One will comprise the following capital costs:

a) factory plant and equipment including spare parts to rehabilitate the factory up to 80tc/h.

b) purchase of new agricultural plant and equipment and rehabilitation of some existing plant;

c) installation of irrigation equipment and infrastructure to irrigate 3 600 ha;

d) rehabilitation of existing housing and buildings, and the construction [illegible] new buildings and ancilliary services to provide suita[illegible] housing and amenities for s[illegible] and labour; and

e) land redevelopment to bring the total area under cane to 6 700 ha.

7.03 Operating costs Kagera will incur operating costs comprising:

a) agriculture direct costs;
b) irrigation operating costs, including power costs;
c) factory direct costs; and
d) overheads.

7.04 Project cost The project cost, equivalent to the peak cash deficit prior to financing, is US$ 58.0 M in 1991 constant prices as shown in Appendix 1 Table 1.1 and summarised below. The foreign exchange component is estimated at US$ 35.6 M, equal to 61% of the total cost.

Kagera - Project costs : Stage One

| | Stage 1 cost (total) | Foreign exchange component |
|---|---|---|
| | (US $'000 constant prices) | |
| Capital costs | | |
| Factory | 14 145 | 11 316 |
| Housing & infrastructure | 10 218 | 4 087 |
| Agric Plant/Equip. - Rehabilitation | 687 | 618 |
| - Purchases | 4 063 | 3 657 |
| - Replacements | 126 | 113 |
| Irrigation | 12 246 | 9 185 |
| Sundry Agricultural Equipment | 1 173 | 938 |
| Administration capital costs | 1 090 | 872 |
| Land development | 243 | 61 |
| Sub Total | 43 991 | 30 847 |
| Operating costs and overheads less self generated funds | 12 091 | 3 627 |
| Working capital | 1 948 | 1 169 |
| Total | 58 030 | 35 644 |

Production cost

7.05 At steady state, operating and capital replacement costs will amount to some US$ 11.0 M/y. The cost of producing a tonne of sugar will be US $381/t including depreciation but before financing as shown overleaf:

Kagera production costs (at Stage One steady state)

| | | Cane | Sugar |
|---|---|---|---|
| Production tonnage | | 392 201 | 42 511 |
| Cost | | US$/t cane | US$/ts |
| **Agriculture** | | | |
| Cultivation | | 4.1 | 37.5 |
| Irrigation | | 2.4 | 22.5 |
| Harvesting and transport | | 5.0 | 46.5 |
| Fixed costs | | 2.2 | 20.1 |
| | Total | 13.7 | 126.6 |
| **Factory** | | | |
| Direct costs | | | 62.8 |
| Overheads | | | 12.0 |
| Management, Personnel, finance and administration | | | 43.8 |
| | Sub total | | 245.2 |
| Depreciation | | | 135.6 |
| | Total (before financing) | | 380.8 |

## Cash flow projection

7.06 The cash flow projection based upon the above parameters and assumptions is presented in Appendix 1. This shows a net positive inflow by end Year 5 thereby emphasising the viability of the project.

## Rate of return and sensitivity analysis

7.07 The financial rates of return over 20 years in 1991 constant terms are shown below. The base case IRR of 15.2% is satisfactory for a rehabilitation project of this type and size.

| | Project IRR% (1991 constant terms) |
|---|---|
| Base Case | 15.2 |
| 10% increase in capital costs | 14.1 |
| 10% reduction in capital costs | 16.4 |
| 10% increase in export price | 16.2 |
| 10% fall in export price | 14.1 |
| Domestic sales at present ex-factory price | 10.1 |
| Domestic sales at US$ 700/t | 17.2 |
| 10% increase in operating costs and overheads | 11.3 |

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7.08 The sensir' ·ity analysis shows that the I is sensitive to changes i.. .omestic sugar prices and operating costs and overheads but relatively robust to changes in other parameters.

## Economic analysis

7.09 The above financial analysis has shown that the proposed project is viable in financial terms on the basis of estimated costs, current exchange rates and sugar prices. This section presents a brief assessment of the economic viability of the project to the nation of Tanzania.

7.10 Given market distortions within Tanzania and the overvaluation of the Tanzanian Shilling relative to major currencies, it is necessary in the economic analysis to convert financial costs and returns to their respective economic values. Assumptions upon which the economic analysis is based are discussed in Appendix 1 and summarised below:

a) a standard conversion factor of 0.8 has been applied to local (non-traded) cost items to reflect the foreign exchange premium;

b) domestic and export sugar prices are taken at their (financial) import and export parity values;

c) for the purpose of analysis it is assumed that full employment exists in the Kagera area : no shadow pricing of labour is adopted.

7.11 The projected cash flow in economic terms is presented in Appendix 1. This shows an economic IRR of 17.2% which demonstrates that the project is viable and attractive to the Tanzanian economy.

7.12 Social benefits The rehabilitation of Kagera would have substantial employment and social benefits and positive multiplier effects in a remote and underdeveloped part of Tanzania.

## Conclusion

7.13 The foregoing analysis shows that Stage 1 of the rehabilitation of Kagera described in this report, is viable in technical, financial and economic terms.

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AMSCO
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## KENYA GLASS WORKS LTD - MOMBASA

This is a private company, currently under receivership.

The owners, as well as others such as RAS and the receiver/ manager, believe that the company has excellent potential, that the market for its products is good at attractive prices.

However, the company is in financial difficulties for various reasons, and there seem to be two ways of approaching this project:

1. For a new investor, such as the Africa Fund, to become a major shareholder in the company and to bring in sufficient new cash equity to pay off existing debenturehoders and preferential creditors, as well as to provide the necessary working capital, or

2. For a new company to purchase the assets of the existing company, and to invest additional funds for the purchase of balancing equipment, including moulds, as well as working capital. A rough guestimate provided by RAS suggests that a figure of around US$ 3 - 4 million would be needed to cover this particular option.

In principle, this project looks like an attractive opportunity for the proposed Fund.

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EDIBLE OIL PLANT - MOMBASA

The Industrial and Commercial Development Corporation - ICDC - are sponsoring the establishment of a large edible oil plant, to be constructed in Mombasa at a cost of US$ 30 million.

Amongst other raw materials, the plant is to process 200,000 tons of soya beans per annum. Other raw materials would include simsim seed, cotton seed, sunflower seed etc..

The financial structure of the project is being designed at present and, towards the end of November, ICDC should be in a position to come up with more detail in this respect.

The project will definitely be looking for finance as well as for professional management.

Although the sponsoring agency - ICDC - is a parastatal, it is not intended that the project would be a parastatal, and it will be open to (controlling) investment by the private sector.

In view of the general shortage of edible oils and related products in Kenya, the project is likely to be assured of a good market. It could therefore be an attractive investment opportunity for the proposed Africa Fund, although price controls could be cause for concern. However, the Government is committed to further reduce/eliminate such controls.