

No. 22472

---

**UNITED NATIONS  
(UNITED NATIONS DEVELOPMENT PROGRAMME),  
MALAWI and  
INTERNATIONAL FINANCE CORPORATION**

**Agreement for Liwande Pulp and Paper Project (with  
attachment). Signed at Lilongwe on 12 October 1983  
and at New York on 17 November 1983**

*Authentic text: English.*

*Registered ex officio on 17 November 1983.*

---

**ORGANISATION DES NATIONS UNIES  
(PROGRAMME DES NATIONS UNIES  
POUR LE DÉVELOPPEMENT),  
MALAWI et  
SOCIÉTÉ FINANCIÈRE INTERNATIONALE**

**Accord relatif au projet de construction d'une usine pour  
la fabrication de pâte à papier et de papier à Liwande  
(avec pièce jointe). Signé à Lilongwe le 12 octobre 1983  
et à New York le 17 novembre 1983**

*Texte authentique : anglais.*

*Enregistré d'office le 17 novembre 1983.*

AGREEMENT<sup>1</sup> BETWEEN THE UNITED NATIONS DEVELOPMENT PROGRAMME AND THE REPUBLIC OF MALAWI AND INTERNATIONAL FINANCE CORPORATION FOR LIWANDE PULP AND PAPER PROJECT

---

Dated November 17, 1983

Agreement Number UNDP 1 (Malawi)

This Agreement, entered into by and between the UNITED NATIONS DEVELOPMENT PROGRAMME (hereinafter called "UNDP"), the GOVERNMENT OF THE REPUBLIC OF MALAWI (hereinafter called the "Government"), represented hereunder by Viphya Pulp and Paper Corporation, a Malawi corporation, and INTERNATIONAL FINANCE CORPORATION, an affiliate of the World Bank (hereinafter called "IFC").

WITNESSETH

WHEREAS, at its twenty-ninth session, the Governing Council of UNDP, under its Decision 82/9, established a Facility to assist the governments of its member recipient countries to finance pre-investment feasibility studies, primarily in the least-developed countries, and at the same time approved the establishment of a special account of \$1 million from UNDP's Special Programme Resources for this purpose for the third programming cycle (1982-1986);

WHEREAS, the Facility is to be used only where the cost of such studies cannot be met out of a country's UNDP Indicative Planning Figure;

WHEREAS, a condition of UNDP's provision of such financing is that the cost of each study is to be reimbursed to UNDP's account for the Facility upon an investment having been made in the project for which the study was made; and

WHEREAS, UNDP and the Government have signed a Project Document whereby the Government has requested that certain funds from the Facility be used to finance the particular study referred to herein;

NOW, THEREFORE, the Government, UNDP and IFC agree as follows:

1. IFC, in connection with its consideration of financing the Liwande Pulp and Paper Project in Malawi (hereinafter referred to as the "Investment Project") will undertake the investment feasibility study (hereinafter referred to as the "Study") which is described in Attachment A. The purpose of the Study is to provide data necessary to assist IFC in making a prompt decision on whether or not to finance the Investment Project.

2. UNDP will make available an amount of up to sixty thousand U.S. dollars (US\$60,000) from the Facility for the purpose of providing financing of the costs of the Study incurred by IFC. UNDP's liability to finance the costs of the Study is limited to the dollar amount referred to in this paragraph.

<sup>1</sup> Came into force on 17 November 1983 by signature, in accordance with paragraph 9 (a).

3. The Study will be conducted by IFC or by consultants engaged by IFC, which will be solely responsible as an independent contractor for all aspects of the Study. Consultants will be engaged in accordance with IFC's financial regulations, rules, practices and procedures, to the extent they are appropriate. Where such sources do not provide the required guidance, UNDP regulations, rules and directives shall apply.

4. The Study is expected to be completed within three months of its commencement. If the Study does not commence within ninety (90) days of the date of this Agreement, UNDP may, after consultation with IFC and the Government, terminate or suspend its commitment to finance the Study without any financial liability on the part of UNDP.

5. In order to facilitate the administration of the financing of the Study, IFC will provide the following information to UNDP and the Government:

- (a) Written notice of the date and manner of commencement of the Study, including a copy of any consultant's agreement;
- (b) Relevant information on the status and progress of the Study;
- (c) Written notice of the date of completion of the Study;
- (d) A copy of the final report resulting from the Study;
- (e) Written notice of IFC's decision whether or not to proceed with the Investment Project; and
- (f) If IFC proceeds to finance the Investment Project, written notice of IFC's receipt from the proposed borrower of the first request for disbursement of funds with respect to the Investment Project, and the anticipated date of such disbursement.

6. (a) UNDP will account separately for the amount referred to in paragraph 2 required to finance the Study and will make disbursements to IFC in accordance with the following schedule:

- (i) Fifty per cent (50%) upon receipt of notice from IFC that the Study has commenced, as contemplated by paragraph 5 (a); and
- (ii) Fifty per cent (50%) within one month after the submission of the Study's final report and evidence satisfactory to UNDP of expenditures incurred and duly certified by IFC.

(b) Disbursement to IFC by UNDP will be made into an account designated by IFC.

7. (a) If IFC indicates pursuant to paragraph 5 (e), that it intends to proceed with financing the Investment Project, IFC will reimburse UNDP, in U.S. dollars, the total amount disbursed by UNDP pursuant to paragraph 6 concurrently with IFC's first disbursement of funds for the Investment Project. However, if such disbursement of funds shall not have occurred within twenty-four (24) months from the date of this Agreement, IFC will consult with the other Parties hereto from time to time as necessary to keep them fully informed of the reasons for the delay in disbursement and the efforts being made to resolve any existing problems.

(b) If IFC indicates that it does not intend to proceed with financing the Investment Project, whether pursuant to paragraph 5 (e) or, after an initial positive notification, upon the failure to implement an appropriate agreement, IFC will specify the reasons for its adverse decision. In any such case, IFC shall have no

obligation to reimburse the costs of the Study to UNDP, unless IFC subsequently finances the Investment Project. Should any other financial institution or agency subsequently use the Study in deciding to finance the Investment Project, IFC will endeavour to assist UNDP in recovering the costs of the Study from such institution or agency.

(c) If IFC does not elect to finance the Investment Project, IFC will not take any action that will interfere with the further use of the Study.

8. In no event will IFC charge any party interest in respect of the financing UNDP has provided for the Study.

9. (a) This Agreement shall enter into force upon signature by the Parties hereto and shall continue in force until UNDP receives full reimbursement of the sums disbursed by UNDP pursuant to paragraph 6, unless sooner terminated under sub-paragraph (d) below.

(b) This Agreement or any date referred to herein may be modified only by written agreement between the Parties hereto. Any relevant matter for which no provision is made in this Agreement, or any controversy between the Parties hereto, shall be settled in keeping with the relevant agreement between IFC and UNDP or the relevant resolutions and decisions of the appropriate organs of the United Nations, as may be necessary in the particular case. Each Party will also give full and sympathetic consideration to any proposal advanced by any other Party under this sub-paragraph.

(c) Nothing in or relating to this Agreement or the Study shall be deemed a waiver of any of the privileges and immunities of the UNDP, the United Nations (including its subsidiary organs), or IFC. It is understood that performance hereunder shall be subject to the confidentiality requirements of all Parties.

(d) This Agreement may be terminated by any Party by written notice to the others, provided that such termination shall become effective with respect to ongoing activities only with the concurrence of all Parties.

(e) This Agreement shall survive its expiration or termination to the extent necessary to permit an orderly settlement of accounts between the Parties.

IN WITNESS WHEREOF the authorized representatives of the Parties hereto have signed this Agreement on the dates indicated beneath their respective signatures.

The Republic of Malawi:

*By:* [Signed]  
*Name:* W. J. MABVIKO  
*Title:* Deputy Secretary  
*Date:* 12 October 1983

United Nations Development Programme:

*By :* [Signed]  
*Name:* G. ARTHUR BROWN  
*Title:* Deputy Administrator, United Nations Development Programme  
*Date:* 17 November 1983

International Finance Corporation:

*By:* [Signed]  
*Name:* MAKARAND Y. DEHEJIA  
*Title:* Vice-President, Engineering and Technical Assistance,  
International Finance Corporation  
*Date:* 17 November 1983

## A T T A C H M E N T A

### REQUEST FOR FINANCIAL SUPPORT FROM THE UNDP FACILITY FOR A PRE-INVESTMENT STUDY

#### MALAWI: PULP AND PAPER COMPANY—PROJECT PROFILE

##### *Description*

A 40 ton/day integrated pulp and paper mill to produce a range of paper grades (broadly split into industrial and cultural grades). It will utilize local wood species (essentially pine and eucalyptus) mainly from plantation forests in the Zomba area.

##### *Technology*

Established technology but appropriate for a smaller plant to keep the investment cost low, make optimum use of local raw materials, and be simple but versatile enough to produce economically small volumes of a range of paper grades.

##### *Project Cost*

The preliminary estimate of project cost prepared by IFC is US\$ 37 million.

##### *Market*

Recent annual local consumption of all grades of paper and paper board is estimated at 15,000-17,000 tons; however, a pent-up demand is likely to exist due to import restrictions caused by foreign exchange shortage, and high local prices caused by excessive inland transportation cost (US\$ 200-250/ton of paper).

### *Technical Partner*

Efforts are under way to identify a suitable technical partner having adequate exposure to a similar mill and with ability to provide experienced technical staff to successfully implement the project and then efficiently manage the mill.

### *Local Sponsors*

VIPCOR, a Malawian company that was established in the early seventies to promote utilization of local forest products is currently sponsoring this project. It is expected that a new company will be formed, which will include VIPCOR, the technical partner, and IFC as shareholders.

### *IFC's Role*

IFC has been promoting this project, at the Government's request, by reshaping the concept of a larger mill (originated since mid seventies) through introduction of appropriate technology for a small but simple and versatile mill to limit investment cost and to match modest local demand. IFC has also established an outline of the project concept, and prepared preliminary estimates of capital and operating costs to enable assessment of the project's viability. Eventually, IFC is also expected to participate in funding of this project.

### *Government Support*

The Government of Malawi supports the proposed project which will utilize surplus local forest resources and save valuable foreign exchange by substituting imports.

### *Developmental Merits*

- (i) Introduction of appropriate technology by building a smaller mill to meet modest local demand;
- (ii) Optimum use of surplus natural resources;
- (iii) Saving of foreign exchange through import substitution; and
- (iv) Prospect of repeating this concept in similar circumstances, especially in Africa, through IFC's promotional initiatives.

### *Pre-investment Study: Scope and Cost*

The study should include: technical description of a 40 ton/day mill covering definition of the project's scope, comments on site and infrastructure, description of facilities (layout and general specifications for major fixed assets including effluent treatment unit) based on mill balance calculations, updated estimates of project and operating costs, detailed analysis of local market to estimate demand for specific products, estimate of manning, and scope for needed technical assistance.

The study is to be undertaken by a suitable consultant, to be selected by IFC, and is expected to take about eight weeks to substantially complete it. The Consultant should work in collaboration with the nominated technical partner and with VIPCOR. The study should enable the new company to seek quotations for plant and machinery from potential suppliers, these would be subsequently reviewed by the consultant to enable selection of best suppliers. The study should also provide a sound basis for IFC's eventual field appraisal work.

Based on the attached terms of reference, the consultant's fee is estimated at \$50,000; in addition, another \$10,000 is expected to be spent on travel and out of pocket costs making a total cost of \$60,000.

### *Issues*

- (i) Selection of a suitable technical partner;
- (ii) Formation and role of a new company with IFC's participation.

*ANNEX TO ATTACHMENT A*

## MALAWI: PROPOSED PULP AND PAPER MILL

*Draft Terms of Reference for a Feasibility Study*

A feasibility study is required for the establishment of an integrated pulp and paper mill to be located at Liwonde, 52 km from the town of Zomba. The local sponsor of the project is Viphya Pulp and Paper Corporation Limited (VIPCOR), a Malawian private company set up by the Malawi Government to promote the pulp and paper industry and other activities in the country supported by the International Finance Corporation (IFC), a developmental institution that at the request of the Government of Malawi has prepared a preliminary outline of a project and has been assisting VIPCOR to locate a technical partner to participate in the project. For purposes of carrying out the feasibility study—the services of a competent consultant will be required. The consultant will:

- (1) Undertake a market survey of all grades of paper consumed in Malawi in order to determine a product mix that could be produced by the mill. The consultant will also prepare demand projections for the next 15 years and determine capacity of the mill taking into account export potential.
- (2) Review the availability of the pulpwood from Zomba forest with reference also to environmental and aesthetic considerations to determine whether it would be sufficient to sustain the recommended mill capacity and to identify other areas from where supplementary pulp wood could be obtained in the event that the resources on Zomba would not, on a sustained yield basis meet the mill requirements.
- (3) Recommend mill capacity that is technically and economically feasible based on the identified raw material resources and also prepare a technical description and basic design of the mill.
- (4) Determine the suitability of the proposed mill site at Liwonde selected by VIPCOR or recommend an alternative site.
- (5) Determine availability of manpower with sufficient skills for the project and the organization structure that would be appropriate for the implementation and operation of the mill. The consultant will also advise on the training needs of the company.
- (6) Estimate the operating costs, including pulpwood, other raw materials, utilities, labour and management. Prepare an inventory and logging plan for the period of recommended pulpwood rotation.
- (7) Determine the capital cost based on quotations from potential suppliers.
- (8) Prepare financial forecasts for 15 years and a financial plan showing debt/equity structure.
- (9) Estimate cost of requisite infrastructure components (e.g. roads, water, electricity, housing and any other components) in sufficient detail to give a reliable capital and operating cost estimate.
- (10) Calculate economic and financial rates of return based on prevailing costs and prices.

The consultant in the preparation of the conceptual engineering for the recommended mill, will consider as his main design criteria incorporation of simple technology and low capital and operating costs combined with appropriate versatility. Prior to undertaking this study he will visit IFC for a detailed review of those terms of reference.

More specifically, but without restriction, the consultant is required to:

- (i) Visit Malawi and acquaint himself fully with the previous studies on pulp and paper production in Malawi carried out in the last twelve years. In this context, the consultant shall also independently confirm that the production of both pulp and paper is the most suitable production alternative for Malawi at the present time and that other development options such as importing pulp and/or waste paper are not as preferable on economic, financial and technical grounds.

- (ii) Submit preliminary findings to VIPCOR and IFC before his departure from Malawi. A copy will also be submitted to the organization which will finance the study.
- (iii) Prepare a draft report based on the results of the visit which must be presented to VIPCOR before the consultant's departure from Malawi. The consultant will then prepare a final report which should be submitted to VIPCOR and IFC not later than six weeks from the consultant's departure from Malawi.

The consultant's report must cover in sufficient detail, the following:

- (1) A description of the forest operations, logging techniques, definition of the project's scope involving all the areas of the mill from standing tree to the finished paper. It will also cover utilities such as steam, water effluent and emission control, waste disposal, workshop, quality control, laboratory and other necessary services. It will include details of the consultant's preliminary findings at (ii) above and to include any refinements and additions where applicable.
- (2) An outline of various industrial manufacturing processes which might be suitable for Malawi and justify the selection of the recommended process for paper and/or pulp production. The consultant will choose the various features of the mill on the basis mentioned earlier, namely simplicity, low cost, and ease of operation and maintenance. He will justify his choice in each case.
- (3) The consultant will also suggest the general layout of the mill and give an approximate indication as to the size of buildings and civil works required. He will provide general specifications for major plant and equipment based on mill balance calculations and identifying key assumptions such as recovery rate, yield and efficiency. The consultant will review the forest management plans for the Zomba area and comment on such plans for ensuring raw material supply to the recommended processing plant and make necessary recommendations where applicable.
- (4) The consultant will bear in mind that the description he will prepare is to be used by VIPCOR as a basis for seeking quotations from potential suppliers. Accordingly the description will not specify make or a special design unless it is necessary.
- (5) The consultant will provide the scope of outside technical assistance needed for efficient project implementation and successful operation of the project that will include training of local staff. He will work closely with VIPCOR and the nominated technical partner.
- (6) After VIPCOR and the technical partner have received the aforementioned offers and quotations, the consultant will assist in reviewing, analysing and comparing those quotations to make it possible for them to select the best supplier for the machinery. This task will require the consultant to visit Malawi to discuss the bid evaluation and to provide comments and findings with reference to the feasibility study which will include updated estimates of capital cost and operating cost clearly stating the underlying assumptions.
- (7) The results of the consultant's work will be included in a final report to VIPCOR (10 copies), the technical partner (5 copies) IFC (2 copies) and the organization financing the study (2 copies) to be submitted within three weeks of completion of the report.