

No. 23346

**UNITED NATIONS
(UNITED NATIONS DEVELOPMENT PROGRAMME),
ZAIRE AND INTERNATIONAL
FINANCE CORPORATION**

**Agreement for the SOTEXKI cotton farm project, Zaire
(with attachments). Signed at Kinshasa on 20 March
1985 and at New York on 25 April 1985**

Authentic text: English.

Registered ex officio on 25 April 1985.

**ORGANISATION DES NATIONS UNIES
(PROGRAMME DES NATIONS UNIES
POUR LE DÉVELOPPEMENT),
ZAÏRE ET SOCIÉTÉ FINANCIÈRE INTERNATIONALE**

**Accord relatif au projet d'exploitation cotonnière de la
SOTEXKI au Zaïre (avec documents connexes). Signé à
Kinshasa le 20 mars 1985 et à New York le 25 avril
1985**

Texte authentique : anglais.

Enregistré d'office le 25 avril 1985.

AGREEMENT¹ BETWEEN THE REPUBLIC OF ZAIRE AND UNITED NATIONS DEVELOPMENT PROGRAMME AND INTERNATIONAL FINANCE CORPORATION FOR SOTEXKI COTTON FARM PROJECT, ZAIRE

This Agreement entered into by and between the Government of the Republic of Zaire (hereinafter called "the Government"), represented hereunder by La Caisse de Stabilisation Cotonnière, the Government agency responsible for the cotton industry, the United Nations Development Programme (hereinafter called the "UNDP"), and the International Finance Corporation, an affiliate of the World Bank (hereinafter called the "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 developing countries, primarily the least-developed countries, to finance pre-investment feasibility studies and, at the same time, approved the establishment of a special account of US\$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 if the study results in further investment activity; and

Whereas, the 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 activities referred to herein;

Now therefore, the Government, UNDP and IFC agree as follows:

1. IFC, in connection with its consideration of financing the SOTEXKI Cotton Farm Project (hereinafter referred to as the "Investment Project") will undertake the reconnaissance survey (hereinafter referred to as the "Survey") which is described in Attachment A. The purpose of the Survey is to provide the necessary data for IFC and the local sponsors of the Investment Project to make a prompt decision on whether or not to proceed with a full Feasibility Study. The purpose of such a Feasibility Study is to assess the viability of the Investment Project and to design the Pilot Operations required for its successful implementation.

2. UNDP will make available an amount of up to Fifteen Thousand U.S. dollars (US\$15,000) from the Facility for the purpose of providing financing of the costs of the Survey incurred by IFC. UNDP's liability to finance the costs of the Survey is limited to the dollar amount referred to in this paragraph.

3. IFC will be solely responsible as an independent contractor for all aspects of the Survey. The Survey will be conducted by IFC in association with

¹ Came into force on 25 April 1985 by signature, in accordance with paragraph 9 (a).

9. (a) This Agreement shall enter into force upon signature by the Parties 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 the Government, 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 Survey shall be deemed a waiver of any of the privileges and immunities of 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 on-going 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.

10. Any notice, request or approval required or permitted to be given or made under this Agreement shall be in writing in the English language. Such notice, request or approval shall be deemed to be duly given or made when it shall have been delivered by hand, mail, telex or cable to the Parties to which it is required to be given or made at such Parties' addresses specified below, or at such other addresses as the Parties will have specified in writing to the Party giving such notice, or making such request:

For the Government:

Président Délégué Général
La Caisse de Stabilisation Cotonnière
Avenue des Palmiers
Boîte Postale 3058
Kinshasa/Gombé, Zaire
Telex No. 21174

For IFC:

Vice President for Engineering and Technical Assistance
International Finance Corporation
1818 H Street, N. W.
Washington, D.C. 10433, U. S. A.
Telex Nos. ITT 440098, RCA 248423, WUI 64145

For UNDP:

Chief, Investment Development Office
United Nations Development Programme
1 United Nations Plaza
New York, N.Y. 10017, U. S. A.
Ref. ZAI/85/001
Telex Nos. 236286 DPNYUR or 422862 DPNYUR

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 Zaire:

By: [Signed]
Name: JEAN-MARIE MOREAU
Title: Président Délégué général à la Caisse
de stabilisation cotonnière¹
Date: March 20, 1985

International Finance Corporation:

By: [Signed]
Name: MAKARAND V. DEHEJIA
Title: Vice President, Engineering and Technical Assistance
Date: 25 April 1985

United Nations Development Programme:

By: [Signed]
Name: PIERRE-CLAVER DAMIBA
Title: Assistant Administrator and Regional Director for Africa
Date: April 25, 1985

ATTACHMENT A

December 14, 1984

ZAIRE: SOTEXKI COTTON FARM PROJECT PROFILE

Description

Establishment of a large scale cotton farm (4,000 ha.), where cotton would be grown in rotation with maize (staple crop) and legumes (for soil improvement). The seed cotton produced by this farm will be ginned in an existing ginnery that may also need some modernization.

Technology

Conventional farming methods will be used; the cost-benefit analysis of more labor intensive methods (like hand picking) will be evaluated.

¹ President, General Delegate to the Agency for the stabilization of the cotton Industry.

Project Cost

The preliminary estimate of project cost is US\$ 10 million.

Market

All the cotton lint output will be consumed by the local sponsors' (SOTEXKI) textile mill that currently needs some 2,100 MT of cotton; in effect, SOTEXKI will have to buy another 25-30% of its needs from other local sources. SOTEXKI is the leading local textile mill with an excellent track record on profitability. A probable IFC investment in a large modernization/expansion project for SOTEXKI is currently in an advanced stage of processing. The cotton seed, after provision for replanting, will be sold to local oil crushing mills.

Technical Partner

Compagnie Française pour le Développement des Fibres Textiles (CFDT), a well-known organization in Africa, has been active for the actual production and processing of cotton and in the regional development planning (such as in the Imbo Valley near Bujumbura, Burundi).

Local Sponsor

SOTEXKI (Société Textile de Kisangani), the leading textile mill in Zaire sponsored by Maurer Textiles (Swiss) is the principal local sponsor. SOTEXKI currently holds 55% stock of SOTEXCO, which is in the cotton production business in partnership with the Government.

IFC's Role

IFC is encouraging this project by assisting in the feasibility study stage, and, subsequently, by participating in the pilot farm through setting up of a promotional company with the local sponsor and the foreign technical partner. IFC is also expected to participate in funding of the main project.

Government Support

The project should have strong support of the Government of Zaire. It is viewed as an important means of improving the cotton supply for the benefit of the local textile industry.

Developmental Merits

- (i) Introduction of organized approach to cotton farming;
- (ii) Creation of significant employment opportunities, especially rural agricultural labor;
- (iii) Saving of foreign exchange (import substitution); and
- (iv) Strengthening the local textile industry with increased supply of cotton thereby resulting in better utilization of facilities and some import substitution.

Pre-investment Study: Scope, Cost and Timetable

The study would provide some clear indications on viability of the project and establish key parameters, i.e., selection of optimal location (from yield, labor, and transportation points of view); method of farming; quality of cotton (including modernization of existing ginning capacity); cost of cotton lint and margins based on local prices of cotton (or international price); project cost and timing; management and training; market prospect; and financial/economic rates of return.

If the study, based on an intensive appraisal, indicates clearly a viable project, a pilot farm (say 100/200 ha.) will be implemented to establish the yields/quality to avoid risks associated in agricultural projects in an untried land. After this, the main project will be undertaken.

The study is to be undertaken by the technical partner (CFDT) with active assistance from the local sponsor (SOTEXKI). The feasibility study (prior to the pilot farm operation)

is to be done in two phases. The first phase (timing: February-May 1985) is to be undertaken essentially to identify an optimal location for the project and is expected to cost US\$ 15,000; the second phase (timing: July-December 1985) will cover preparation of the full feasibility study and is estimated to cost about US\$ 100,000. If appropriate, the pilot farm will then follow, and the main project is expected to be ready for implementation by the end of 1987.

At this stage, we are requesting only US\$ 15,000 from the UNDP Facility to fund phase I of the study. This fund is expected to be reimbursed from the promotional company on satisfactory completion of the phase I. The advantage would be to get quicker funding from the UNDP to facilitate processing of this phase of the study. Following that, we may request, if needed, further funding (say US\$ 40-50,000) towards the processing of phase II and the pilot farm. The estimated costs of phase II (US\$ 100,000) and the pilot farm (US\$ 350,000) are expected to be financed through setting up of a promotional company with all the parties involved including IFC; copy of a Memorandum of Agreement for the proposed promotional company with an authorized capital of US\$ 500,000 is enclosed.

The timetable for phase I is as follows:

Mid-February 1985: Commencement of Study

March 1985: Completion of the Study

April 1985: Discussion on Draft Report

May 1985: Submission of Final Report

Attachment:

ESTABLISHMENT OF PROMOTIONAL COMPANY FOR PROPOSED COTTON FARM IN ZAIRE

MEMORANDUM OF UNDERSTANDING between SOCIÉTÉ TEXTILE DE KISANGANI (SOTEXKI); MAURER TEXTILES S.A., SOCIÉTÉ BEAUJOLIN & CIE, INTERNATIONAL FINANCE CORPORATION.

Background

Société Textile de Kisangani (SOTEXKI) operates a textile mill in Kisangani, north-central Zaire, in which Maurer Textiles and Société Beaujolin are shareholders. SOTEXKI has requested the International Finance Corporation (IFC) to provide financing for a modernization and expansion project, and this request is at an advanced stage of consideration. The success of this project, and of SOTEXKI's current operations, depends on an adequate and secure supply of cotton, the principal raw material.

Extensive areas of Zaire are well suited to cotton cultivation, and Zaire was formerly a major producer and exporter of cotton. Current production of cotton in Zaire is, however, insufficient to meet the needs of Zaire's textile industry. Establishment of a modern large-scale cotton farm would help Zaire to regain self-sufficiency in cotton production, and yield significant benefits in foreign exchange savings.

To ensure that cotton supplies are adequate in the future, SOTEXKI, Maurer Textiles, and Société Beaujolin (the Sponsors) are studying the possibility of establishing a large-scale cotton farm. To move this project forward as rapidly and effectively as possible, the Sponsors intend to establish a promotional company, and they have requested IFC to participate in this promotional company to help finance the required feasibility studies and associated expenses. The Sponsors also wish to associate IFC with the planning of the proposed cotton farm and to involve IFC, in particular, with reviewing the terms of reference, analysis, and conclusions of the feasibility studies, and in mobilising financing for the full-scale project.

Action to be Taken

SOTEXKI will retain Compagnie Française pour le Développement des Fibres Textiles (FDT) to carry out a reconnaissance mission to identify a suitable site in the Maniema region of Zaire for a cotton farm of about 4,000 hectares. The costs of this mission, which will utilize the results of earlier work by CFDT in northern Zaire, will be borne in the first instance by SOTEXKI but may be transferred to the promotional company with the agreement of its shareholders.

Following the favorable review by the proposed shareholders of the CFDT report, the proposed promotional Company will be established and subscribed to as set forth below. The parties hereto shall, as expeditiously as possible, come to agreement on the management structure and various other matters relative to the proposed Company.

Legal formalities for the establishment of the promotional company will be carried out shortly, including the drafting of the Company's Memorandum and Articles of Association.

Promotional Company

The parties to this Memorandum of Understanding intend to establish a promotional company, which will coordinate planning for the proposed cotton farm. The initial subscribed share capital of the promotional company will total US\$500,000 (or the equivalent in another currency). This amount will, however, be paid in successive calls upon the shareholders according to the actual financial requirements for the promotional company's activities. To the extent that other financing sources can be obtained on terms satisfactory to all the parties, the amount of the share capital may be reduced proportionately. The shareholding in the promotional company is intended to be subscribed as follows:

SOTEXKI.....	40%
Maurer Textiles.....	20%
Société Beaujolin.....	20%
IFC.....	<u>20%</u>
	100%

The proposed technical partner, being CFDT or any other technical partner acceptable to all proposed shareholders, will be offered a 15% shareholding in the promotional company. In the event that these shares are taken up by the technical partner, Maurer Textiles, Société Beaujolin, and IFC would reduce their respective shareholding to 15% of the total.

The investment proposed to be made by Société Beaujolin may instead be made by any other company controlled by Société Beaujolin and acceptable to all parties hereto.

IFC's intention to participate in the promotional company on this basis is subject to the agreement and formal authorization of IFC's management and Board of Directors.

Dated: December 14, 1984.

Signed:

For Société Textile de Kisangani (SOTEXKI):

By: [Signed]

Mr. L. Picciotto, General Manager

For Maurer Textiles S.A.:

By: [Signed]

Mr. F. de Picciotto, Chairman

For Société Beaujolin & Cie:

By: [Signed]

Mr. J. P. Louppe, Authorized Representative

For International Finance Corporation:

By: [Signed]

Mr. M. A. K. Alizai, Director
Department of Investments, Africa II

December 14, 1984

ZAIRE: SOTEXKI COTTON FARM PROJECT

Phase I. Reconnaissance Survey

Terms of Reference

The proposed Reconnaissance Survey is primarily meant to identify one or more suitable sites for the establishment of a large cotton farm (4,000 ha.), to provide basic raw material (cotton lint) to the SOTEXKI Textile Mill at Kisangani.

The survey will be carried out by one cotton specialist over a period of three weeks, in an area within a fairly narrow radius of Kisangani. Site selection should be based on the following criteria:

1. The site to be selected should be:
 - (a) Easily accessible, by all-weather roads, to Kisangani for the supply of crop production inputs, and transport of crop harvest to a suitable ginnery, and, subsequently, cotton lint to the SOTEXKI Textile Mill;
 - (b) Have a climate and land/soil characteristics suitable to the growing of cotton and maize or one or more other rotation crops;
 - (c) Supplied with sufficient rainfall to make dry-land cropping of cotton and maize possible and/or a sufficiently large surface or groundwater source available for supplementary irrigation;
 - (d) Ready availability of both permanent and seasonal labor for either a mechanized or a labor-intensive farm operation;
 - (e) Sufficiently large to accommodate the establishment of either one large 4,000 ha. farm, or that of several sizeable parcels within relatively short distance of each other to make a total aggregate of a 4,000 ha. operation possible. (This also assumes that the same land will be available for either purchase or long-term lease.)

Given a choice, preference should be given to one contiguous site of 4,000 ha. with nearly level land, good soils, sufficient rainfall which, if necessary, can be supplemented with irrigation water, and an ample supply of labor.

2. The cotton specialist, carrying out the survey, should make maximum use of existing aerial photographs and road, topography, soil, hydrology maps as well as of existing information on cropping within the same general area, either from farmers, large scale private or government enterprises or research centers.

3. Upon completion of the reconnaissance survey, a report should be prepared justifying the selection of one or more suitable sites, and describing in detail the essential parameters of each.