

TANZANIA INVESTMENT CENTRE

DIRECTORATE OF INVESTMENT FACILITATION



REPORT ON PROJECT VERIFICATION VISIT TO KAIRUKI PHARMACEUTICALS  
INDUSTRY LIMITED CONDUCTED ON 3<sup>rd</sup> MAY 2021

May, 2021

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## 1.0 PROJECT PROFILE

### Company Information

S/N	Item	Description									
1.	Company Name	Kairuki Pharmaceuticals Industry Limited									
2.	Project Location	Plot No's 190-196 located at Zegereni, in Kibaha Town Council, Coast Region									
3.	Projects' Core Activities	To establish and operate a project for manufacturing pharmaceutical products									
4.	Address & Mobile Number	P. O. Box 65300 Dar es salaam +255 717 171 500									
5.	Contact Person	Dr. Muganyizi Kairuki-Principal Promoter									
	Shareholders	<table border="1"> <thead> <tr> <th>Name</th> <th>Nationality</th> <th>Shareholding</th> </tr> </thead> <tbody> <tr> <td>Kairuki Health and Education Network</td> <td>Tanzanian</td> <td>98%</td> </tr> <tr> <td>Kokushubila Kairuki</td> <td>Tanzanian</td> <td>2%</td> </tr> </tbody> </table>	Name	Nationality	Shareholding	Kairuki Health and Education Network	Tanzanian	98%	Kokushubila Kairuki	Tanzanian	2%
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## **2.0 INTRODUCTION**

### **2.1 History of the Company**

Kairuki Pharmaceuticals Industry Ltd (KPIL) P. O. Box 65300, Dar es Salaam (hereinafter referred as investor) is a limited liability company incorporated in Tanzania since 16<sup>th</sup> December 2015 with Certificate of Incorporation No.122371. The Company is registered with TIC and granted Certificate of Incentive No.015068 dated 10<sup>th</sup> February 2018, valid up to 31<sup>st</sup> January, 2021. The Company principal business is to establish a project for manufacturing of pharmaceutical products in form of large volume parenteral-intravenous infusion.

According to progress report submitted on January 2021, the Investor has been implementing the project into two phases concurrently where the following activities are undertaken; Construction of principal manufacturing areas which include Raw Material Warehouse, Finished good stores, Production area, Quality Control Laboratory, Utilities houses for Air Ventilation and Heating Conditioning (HVAC), Water Purification, water tank and boiler. Construction been also done for ancillary areas which included Administration block, hostel and cafeteria and supporting fence and gates, security and power houses which have being constructed to the average of 75%-90% to completion while waste water treatment tank to the average of 5%.

### **2.2 Geographical location**

The project is located at Zegereni industrial area which is within Kibaha Town Council about 30km from the Council via Dar es Salaam–Morogoro road.

## **3.0 PROJECT VERIFICATION VISIT (PVV)**

On 14<sup>th</sup> April, 2021 Kairuki Pharmaceuticals Industry Limited applied for extension of Certificate of Incentive for 1 year period due to unpredicted circumstances which have caused delays of project completion within period mentioned in the

Certificate of Incentive No.015068 of 10<sup>th</sup> February 2018. Unpredicted reasons were as follows;

- i. Global Corona pandemic caused delay of machines which were constructed in China. The machines were supposed to be imported in Tanzania on February 2020 but delayed up to October 2021.
- ii. Poor nature of construction for Zegereni-Visiga Road which caused some trucks carrying cargo containers to stuck on road for about a month henceforth delays in timely delivery of machines/equipment at project site.
- iii. The company budgeted to use industrial gas for power generation however installation of daughter gas station by TPDC area underway but at overdue because of TPDC bid tendering procedures for construction of daughter gas station by third party. Since constructions activities at project site require power, the company opted to purchase diesel generator to fast truck power supply while finalizing discussion with TPDC. This has resulted to additional cost hence time delay for implementation of the project.
- iv. Lack of reliable water supply at Zegereni Industrial area from which has forced the company to drill borehole to accommodate 90% water requirement for production activities. The area also lacks common system for handling waste water which has triggered the need for investor to establish waste water treatment facility which consume time and contribute cost for implementation of the project.
- v. During importation of company's machines the investor had concept that all pharmaceutical machines and equipment are tax exempted though in reality some are not in exemption list. This misconception resulted to delays in clearance and caused the huge tax which was out of project budget.

- vi. Lack of local financial banks for loan acquisition. It was expected by the company that after completing construction of two facilities i.e. Raw material warehouses and Production area could be used as collateral assets to acquire loan from local banks. However after valuation the assets by local banks they did not qualify for loan thus the company had to find an entity in Kenya (African Guarantee Fund) who guaranteed the company to have loan from CRDB.

On 3<sup>rd</sup> May, 2021 a team of four officers from Tanzania Investment Centre visited Kairuki Pharmaceuticals Industry Ltd at Zegereni Industrial Area, in Kibaha Town Council. The team comprised the followings officers:

- |                     |  |
|---------------------|--|
| 1. Dotto Deteba     | TIC (Team Leader)  |
| 2. Paul Sonda       | TIC /TMDA)   |
| 3. Navone Kisaka    | TIC /NEMC)   |
| 4. Mwanamkuu Hashim | TIC / Ministry of Lands, Housing and<br>Human Settlement Development |

### 3.1 Objective of the visit

The main objective of the project verification visit (PVV) was to verify the project development status which would justify the reasons for Certificate of Incentive extension application.

### 3.2 Specific Objectives

The followings were specific objectives for the visit;

- i. To interview and gather information from the applicant regarding the for Certificate of Incentive extension application.
  - ii. To take copies of relevant document /photos as evidence for Certificate of Incentive extension application.
  - iii. To conduct tour visit in the site to verify progress of construction activities
- Findings of the team will facilitate the management to make decision whether the Company qualifies for extension of Certificate of Incentives or not.

### 4.0 FINDINGS

Team of officers from TIC observed the following during PVV;

- i. Main facilities have been constructed to completion namely Raw material warehouse, Production area, Quality Control area and HVAC.
- ii. Main equipment such as (Blow Seal Fill (BSF), Water Purification , Manufacturing tanks, Air Handling Units (AHUs), PP Preform and bottle machines have already been installed to final while some installations are still in progress for laboratory equipment
- iii. One powerhouse has been established where 4 gas generators have been installed waiting for TPDC to construct daughter station which will supply gas to the generators
- iv. One building with two storey (ground + one) for hostel and cafeteria constricted
- v. One administrative building with four storey (ground + three) constructed
- vi. Water Storage Tank with capacity of 1,000,000litres constructed
- vii. Construction of Effluents Treatment Plant(ETP) has just started

The plates below illustrate some developments at site.



**Plate 1: One of the machines installed in the facility**



**Plate 2: Gas generators installed in the facility**

#### **4.1 Major Challenges towards timely completion of the project**

The team held discussion with representative of the investor Ms. Ellen Magita (project plant manager). Discussion with Ellen portrayed that despite the development which has been implemented on the ground, the following reasons have resulted to delays in completing of the project:-

- i. Corona pandemic caused delay of machines which were constructed in China (as per user requirement specifications). The machines were supposed to be imported in Tanzania on February 2020 but delayed up to September 2020. This pandemic also caused travel restriction imposed by countries hence delays of experts for machines installations (Refer *attachment 1*).
- ii. Upon importation of the machines, the consignment could not be delivered on project site timely as some trucks carrying cargo containers stuck on the way for about a month due to roughness and muddy nature of the Zegereni-Visiga access road (Refer *attachment 2*). This caused the company to hire a storage facility along the way which could temporarily store the machines since the containers carrying the consignment had to be returned to the shipping agent.
- iii. Initially the investor planned to apply the gas generators only however, discussions on the installation of daughter gas station by TPDC are underway (Refer *attachment 3*). Regardless gas generators which have already been installed, the company have ordered diesel generators to fast truck power supply while finalizing discussion with TPDC. This has resulted to additional cost and time for implementation of the project.

- iv. Moreover, Zegereni Industrial area lacks clean water supply which has forced the company to drill borehole taking into account 90% of production input is water. Apart from drilled borehole, the investor will install water purification plant to treat water for manufacturing to acceptable standards. 30% of water to be used in production will turn into waste. This substantial amount of waste water with absent of common waste water management system has triggered the need for investor to establish waste water treatment facility which consume time and contribute cost.
- v. During importation of company's machines the investor had concept that all pharmaceutical machines and equipment are tax exempted though in reality some are not in exemption list. This misconception resulted to delays in clearance and caused the huge tax which was out of project budget.
- vi. The company expected that after completing construction of the two warehouses, the assets could be used as collateral to acquire loan from local banks. However after valuation the assets did not qualify to be offered loan thus the company had to find an entity in Kenya (African Guarantee Fund) who guaranteed the company to have loan from CRDB. (Refer attachment 4).

#### 4.2 General Challenges encountering Pharmaceutical Industries

Apart from above mentioned challenges, the project plant manager there are other general challenges which are faced by Pharmaceutical Industries during implementation of their projects in the country as follows;

- i. Importation tax duties for raw materials e.g. importation of PP granules (Grade R-530) used for manufacturing of PP pre-forms and later PP bottles for packaging of pharmaceutical products are highly taxed while importation of the same finished products are free from tax.
- ii. PP Caps which are imported as seal to PP packaging bottles must have logo of local manufacturer to qualify for exemption. This requirement increase cost and not easily agreed by overseas packaging manufacturer since they acquire multi orders from different countries.
- iii. MSD market does not favor local pharmaceutical industries because MSD paid after delivering service/products while foreign manufacturers are paid 80% of the won tender cost before delivering service/products.
- iv. Local pharmaceutical industries are regulated by many Government Authorities with different fees and charges. e.g PP caps are regulated with TBS & TMDA, PP pre-forms with GCLA, Atomic energy (TAIC) and TMDA

#### 4.3 Future Plan of the KPIL

Upon completion of first and second phase of the project where only large volume parenteral (LVP) will be manufactured, in the future the company plans to manufacture other dosage of pharmaceutical products.

#### 5.0 RECOMMENDATIONS

In view of the findings observed during the project visit, the team recommends the followings:

- i. About 5km road to access the project site is rough and hardly passable especially during rainy season. It well known that transport system generates a range of external costs and consumes time. Good transportation connection is vital for economic development especially in industrials areas. The team was informed that, in nearby days Hon. Prime Minister Majaliwa Kassim Majaliwa visited facilities located in Zegereni Industrial area including KPIL and ordered TANROADS/TARURA to improve the road. Deliberate efforts should be done to influence Pwani Regional Secretariat to pay great attention on improving road infrastructure at Zegereni.
- ii. Global Corona pandemic has affected implementation of the project and has resulted to delays in importation of machines and travel schedules for experts to install and commissioning of the facility and equipment, Thus the flexibility and fast trucking on issuance of working has to be put into consideration when the official request for work permits/special pass is submitted to the Centre.
- iii. Gas generators have been installed at site however, no daughter gas station established for gas supply as a result, the investor has incurred cost to order diesel generators for alternative power supply. In this regard intervention can be done by the Centre by convening a focus group meeting or stakeholders meeting to influence positive conclusion of the negotiations between Kairuki Pharmaceuticals Industry Limited and TPDC which started in January 2020, or the Stakeholders meeting could focus on influencing TPDC to develop natural gas infrastructure close to Zegereni Industrial area.
- iv. Inexistence of reliable source of water supply and waste water management system in the area has posed the need for the investor to drill a borehole to serve as source of water. Since water from borehole is not pure the company has ordered water purification plant to treat water to acceptable specifications. Likewise, the investor has initiated construction of waste water treatment facility for handling liquid wastes to emanate from production process. The Pwani Regional Secretariat should pay more attention on influencing Water Authority developing sustainable water infrastructure in Zengereni Industrial area.

## 6.0 CONCLUSION

Based on the facility visited, discussion with company representative and the documents presented and considering the findings of the visit, including recommendations described above thus reasons provided by the investor for not completing the project timely with additional cost which is out of project budget can be considered logical therefore, Kairuki Pharmaceuticals Industries Limited can be considered for extension of Certificate of Incentives.