PD-ABC-982
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A.I.D. EVALUATION SUMMARY - PART I

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS.
2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE.

IDENTIFICATION DATA

A. Reporting A.I.D. Unit:
Mission or AID/W Office USAID/THE GAMBIA
(ES# ______________)

B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan?
Yes ☐ Slipped ☒ Ad Hoc ☐
Evaluation Plan Submission Date: FY 90 Q 4

C. Evaluation Timing
Interim ☐ Final ☒
Ex Post ☐ Other ☐

D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)

Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
635-0222	Sec. 206 Food for Development Program	FY86	9/30/90	$8,300	$6,062

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director

Action(s) Required	Name of Officer Responsible for Action	Date Action to be Completed
NONE		

(Attach extra sheet if necessary)

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation: Mission Review (Month) 6 (Day) 28 (Year) 91

G. Approvals of Evaluation Summary And Action Decisions:

	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Name (Typed)	Don Drga	-	John Babylon	J.M. Stone
Signature	Donald Drga		John Babylon	J M Stone
Date	6/27/91		6/27/91	6/29

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ABSTRACT

Evaluation Abstract (Do not exceed the space provided)

The PL 480 Section 206 Food for Development program of The Gambia provided 24,000 MT of rice with an estimated value of $8.3 million. Deliveries were made in five shipments between FY 86 and FY 89. The rice was sold to private traders through a sealed bid process. Bids had to equal at least the U.S. fob value. The local currency yield was disbursed against activities addressing the need for food assistance.

The Transfer Authorization between A.I.D. and the Government of The Gambia (GOTG) addressed the food security problems of the host country on three fronts. One, commodity call forwards were made against certain economic policy reforms Two, sales receipts were earmarked for program operational expenses and for recapitalization of the Gambia Produce Marketing Board (GPMB), with a view to making the GPMB attractive to private investors. Three, the rice acted as a buffer stock against possible shortages arising from the transfer of import responsibility from the public to private sector. A final amendment allowed local currency generations to be used for the development of a national park, consistent with the original purpose.

Policy reforms were designed to improve food security in The Gambia through liberalizing private sector trade in rice and other commodities, reducing parastatel constraints to food movement, and encouraging local production through higher prices paid by the GPMB. The beneficiaries envisioned were local farmers and rural dwellers, wholesale traders, the GPMB, and indirectly all Gambians. If successful, the reforms would both improve the country's foreign exchange earnings and raise total food production thereby raising the general level of consumption goods.

In general, the program was successful albeit with reservations concerning program operations. Policy changes which the program achieved were liberalizing the rice and fertilizer markets, restructuring the indirect tax system and commitment to privatize GPMB. Success in liberalizing the rice market, along with unending problems in public sector imports and storage, argue against development of another 206 program. The program did not develop the market for U.S. rice unless that rice can compete in price with other imports. Nine program impacts which positively affect the well-being of average Gambians have been identified in the evaluation report.

COSTS

1. Evaluation Costs

1. Evaluation Team

Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. $)	Source of Funds
Robert Sears	REDSO/WCA	15	UNK	REDSO/WCA
Richard Fraenkel	REDSO/WCA	15	UNK	REDSO/WCA

2. Mission/Office Professional Staff Person-Days (Estimate) 10

3. Borrower/Grantee Professional Staff Person-Days (Estimate) Zero

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A.I.D. EVALUATION SUMMARY - PART II

SUMMARY

J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)
Address the following items:

- Purpose of evaluation and methodology used
- Purpose of activity(ies) evaluated
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office:	Date This Summary Prepared:	Title And Date Of Full Evaluation Report:
USAID/Banjul	June 28, 1991	Evaluation Report February 10, 1991

The Scope of Work for the evaluation team posed two questions; (1) what has been the impact of the program in terms as stated in the T.A.?; and (2) what is/are the case(s) for and against a new Sec. 206 program in The Gambia, starting either in FY 91 or FY 92, taking into account two different perspectives. First, in terms of lessons learned from the present program, particular attention is to be paid to the following program aspects: i) grant program rice imports in the context of large commercial rice imports, i.e., testing the argument that program rice is qualitatively distinguished in the Gambian market from most/all other rice imported, and ii) has the program "seeded" a market for commercial U.S. rice exports? Second, in terms of administrative arrangements, could the auction system be improved and, if so, how? Is there a good alternative to the present system of direct import and subsequent sale of the rice go the Ministry of Finance and Economic Affairs (MFEA)? The team also was asked to look into whether or not there are feasible program commodities other than rice? Finally, what have been the economic and people-level impacts of the program?

METHODS AND PROCEDURES

This is the second evaluation to be conducted on this program, the first having been completed in April 1988. The first part of the evaluation was completed by a Regional Food for Peace officer (RFFPO) while residual program activities (final commodity sales and account close-outs) were still ongoing. The first phase of the evaluation only covered management of the PL-480 commodities and associated local currency accounts. The program impact evaluation was undertaken by a regional economist in early 1991, after all commodities had been sold. Finalization of the evaluation report was delayed until GOTG reimbursement for "lost" proceeds from the final shipment was made and accounts were closed out. There was no formal GOTG or USAID participation in the evaluation. Procedures were to review project files, interview program participants, and gather selected field data. The evaluation builds on and continues the line of inquiry followed by the earlier one of 1988.

BASIC CONCLUSIONS

1 - (Case for/against a new program): In general, the program has been successful albeit with some reservations concerning program operations and policy implementation. The program's success in liberalizing the rice market, along with the corresponding problems of public sector imports and storage, argue against development of another 206 program.

A. During the time the program has been implemented, program success in achieving its goals has contributed to the amelioration of conditions which prompted program development.

C

i. Private sector imports and domestic production seem to have closed any food gap. The rice market is saturated.

ii. Consumption patterns of the poorer classes have been re-examined and appear adequate.

iii. Groundnut production has increased significantly and world market prices for groundnuts are holding firm. The prognosis for future foreign exchange earnings is good.

iv. Those policy changes which the program was to support in terms of liberalizing the rice and fertilizer markets, restructuring the indirect tax system, recapitalizing GPMB and the privatization of some of its operations, were achieved. Privatization has not been completely implemented as yet.

B. The problems experienced with program operations concerning storage, GOTG interference in the auction process, losses and spoilage, accountability, etc., make a follow-on PL-480, sec. 206 activity not feasible under Gambian conditions. A similar program would demand USAID management time over and above that which USAID/Banjul or AID/W consider acceptable.

2 - (Is program rice qualitatively distinguished?): Despite its superior quality, program rice is not distinguished qualitatively in the local market. As such the program did not develop the market for U.S. rice unless that rice can compete in price with other imports.

3 - (The auction system): The only other system that might be used for monetizing PL-480 commodities is a fixed price system in which the commodity is offered to the market at a price competitive with commercial supplies. This approach has certain advantages but there are drawbacks as well. A separate study by Nathan Associates on the Gambian auction process endorsed the system as an effective mechanism for converting commodities into local currency.

4 - (Economic and people-level impacts): Nine program impacts which positively affect the well-being of average Gambians are identified in the evaluation report. First, as the result of the 206 Program, since 1986 the financial performance of GPMB has been more transparent. GPMB's processing plant management and operations also are becoming more transparent. Second, the Central Bank and commercial banks are no longer required to provide advances to GPMB for the groundnut purchasing campaign at below-market interest rates. Furthermore, GPMB's borrowing requirements have been reduced by the successful recapitalization of the company, and the increase in its general reserves and net worth. The measure has the effect of increasing the quantity and reducing the interest costs of capital to people in the private sector. Third, GPMB must pay realistic financing costs for its working capital. Fourth, government subsidies to GPMB have been reduced, and they now appear in the budget. The fertilizer subsidy has been eliminated, thereby opening a new area of activity for private businessmen. Fifth, the arrears between GPMB, parastatel enterprises, the banking system and the Government have been eliminated, thereby contributing to greater discipline in public finance. Sixth, competition has been officially introduced at various levels of the groundnut sector. In 1990/91, the local private sector was formally permitted to purchase, process, and export groundnuts. Seventh, during 1986-89, the performance of the groundnut sector improved, with increased production, yields,

official and unrecorded exports. Liberalization as well as favorable weather played a role. Eighth, as a cost-cutting measure, GPMB cut its permanent work force, increasing its use of temporary, contract personnel. This, plus the uncertainty regarding future employment prospects, has increased productivity and motivation. Ninth, GPMB has sold off some of its static assets and peripheral activities. While the asset values were never great, this opened new areas of activity to private enterprise.

PRINCIPAL RECOMMENDATIONS AND LESSONS LEARNED

A. GOTG capabilities to adequately manage food stocks are limited. Future food programming would require more USAID oversight than expected.

B. A clear understanding of program goals by both USAID and the GOTG before implementation begins would reduce confusion during implementation. The differences between the GOTG's priority of keeping market prices low, as opposed to USAID's priority of earning a maximum of local currency, is a case in point.

C. Operational procedures should be spelled out in detail. The problems involved in the auctions might have been minimized if detailed procedures had been put into writing beforehand.

D. The GOTG has an obvious handicap in maintaining records. They have very limited resources in terms of equipment, supplies and staff. USAID should design into any future program a means of assisting the GOTG in their maintenance of a paper trail subject to audit showing the flow of resources from the time of arrival through the achievement of program goals. At project completion, a complete program audit should be conducted in which all records, those at the Ministry of Finance, USAID, and the Central Bank are reviewed. Only such a "full dress review" will be able to provide a clear overview of commodity and fund movement and relate it to program goals.

E. Within USAID, program responsibility should have been centralized in one office. USAID financial records should correlate with those being kept by the GOTG.

F. In spite of the reform of the macroeconomic framework, the application of market-determined interest rates, the conclusion of a performance contract between GOTG and GPMB, and the re-capitalization of the GPMB, the GPMB's operating efficiency has continued to deteriorate. The GPMB's public sector management has not responded to the new business environment. The final step foreseen by the 206 program is to complete full privatization of all operations and assets of the company, especially those related to the all-important groundnut industry. To avoid further neglect of plant and equipment, a shock-treatment to achieve full privatization by 1992/93, at the latest, might now be appropriate to save GPMB's remaining assets. USAID should facilitate the negotiating process by continuing to help broker agreements among the stakeholders. If outside consultants are employed to conduct studies, all of the stakeholders' perspectives should be considered to achieve a realistic understanding of how negotiations can be successfully concluded, as well as in the interest of fairness. However, the provision of additional funding for the GOTG to implement the full privatization of GPMB at this time does not appear warranted.

ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

"Evaluation Report - Section 206 Food for Development Program: The Gambia (Project 635-0222)" Banjul, February 10, 1991

COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

USAID/Banjul does not concur with the report's conclusion that, "the provision of additional funding for the GOTG to implement the full privatization of GPMB at this time does not appear warranted." In the Mission's view, the GOTG has made very significant progress towards full privatization of the GPMB while under pressure from its development partners. If the donors were to turn their backs on the privatization process as the goal of private ownership is approached, there is a real possibility that the GOTG would find it impossible to proceed on its own. (Plans to coordinate with the World Bank for final privatization of GPMB are dependent upon AID/W authorization of the Financial and Private Enterprise Development project and program.) Furthermore, funds used to further privatization are funds well spent because, on the basis of abundant evidence from the past four years, public sector management of the GPMB has been ineffective in promoting the interests of the many thousands of private small-holder farmers for whom groundnuts represent the best hope of earning cash through trade.

EVALUATION REPORT

Section 206
Food for Development Program
The Gambia
(Project 635-0222)

Banjul
February 10, 1991

Prepared by: REDSO/WCA/PAE
Richard Fraenkel and
Robert Sears

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EVALUATION REPORT
Section 206, Food for Development Program
Banjul, The Gambia
June 26, 1990 and February 10, 1991

BASIC PROJECT IDENTIFICATION DATA

1. Country: Republic of the Gambia
2. Project Title: Sec. 206 Food for Development
3. Project Number: 635-0222 (TA 635-XXX-000-6609)
4. Project Dates:
   a. Project Agreement Signed: July 18, 1986
      First Amendment Signed: May 5, 1989
      Second Amendment Signed: May 14, 1990
   b. Most Recent Project Assistance
      Completion Date: September 30, 1990
5. Project Funding: (Amounts obligated to date in dollars or dollar equivalents from the following sources:)
   a. PL 480 - F.O.B. cost $6,061,660
      Freight (Estimated) $2,700,000
   b. Other Major Donors:
   c. Host Country Counterpart Funds:
      TOTAL: $9,089,366
6. Mode of Implementation: Host Country, based on compliance with requirements of T.A.
7. Project Designers: USAID/Banjul, in cooperation with the Govt. of The Gambia.
8. Responsible Mission Officials:
   a. Mission Director: Byron Bahl ('83-'87)
      Jimmie Stone ('88-'91)
   b. Project Officer: Thomas Mahoney ('84-'87)
      Frank Egi ('87-'89)
      John Babylon ('89-'91)
   c. Project Development Officer: Steve Norton ('83-'86)
9. Previous Evaluations: April 1988
10. Dates of this evaluation: June 26, 1990
    February 10, 1991

EXECUTIVE SUMMARY

The PL 480 Section 206 Food for Development program of The Gambia was designed to provide 24,000 MT of rice with an originally estimated value of $8.3 million. Deliveries were to be made in a series of five shipments over a period of four years, FY 86 - FY 89. On arrival in The Gambia, the rice was to be sold to private traders through a sealed bid process. Accepted bids had to equal at least the U.S. f.o.b. value. The local currency yield of these sales were to be disbursed against development activities addressing the need for food assistance.

The agreement between A.I.D. and the Government of The Gambia (GOTG) that governs program goals and operations, the Transfer Authorization (TA) and its amendments, attempted to address the food security problems of the host country on three fronts. One, commodity call forwards were to be made against certain economic policy reform measures to be instituted by the GOTG. Two, jointly administered disbursements from the sales receipts received from the rice auction were earmarked for recapitalization of the Gambia Produce Marketing Board (GPMB) and program operational expenses, with a view to making the GPMB attractive to private investors. One of the Conditions Precedent that was continued throughout the program was the need for the GOTG to present a "plan and schedule" for the privatization of GPMB. Three, once in-country the rice would act as a buffer stock against possible shortages arising from the transfer of import responsibility from the public to the private sector. As the program neared its completion, an additional amendment was approved allowing local currency generations to be used for the development of a national park. The Mission felt that original program goals had been addressed and the residue of program finances would be applied to another activity consistent with the original purpose.

Policy reforms supported by the program were designed to address the food security problem of The Gambia through liberalizing the private sector trade in rice and other commodities, reducing parastatel constraints to food movement, and encouraging local production through higher incentive prices paid by the GPMB. The beneficiaries envisioned were local farmers and rural dwellers, wholesale traders, the GPMB, and indirectly all Gambians. If successful, these reforms would both improve the country's foreign exchange earnings and raise total food production thereby raising the level of consumption goods available to everyone.

SCOPE OF WORK AND BASIC CONCLUSIONS

The scope of work provided the evaluation team posed the following questions:

1. What is the case for and against a new Section 206 program in The Gambia? What are the lessons learned from the present program? What is the anticipated macro-economic environment?

2. Concerning program operations:

A. Is program rice qualitatively distinguished in the Gambian market from most/all other rice imported? Has the program "seeded" a market for commercial U.S. rice exports?

B. Could the auction system be improved and, if so, how? Is there a good alternative to the present system of direct import and subsequent sale of the rice to the Ministry of Finance and Economic Affairs (MFEA)? Are there any feasible program commodities other than rice?

3. What have been the economic and people-level impacts of the program?

The basic conclusions of the evaluation are:

1 - (Case for/against a new program): In general, the program has been successful albeit with some reservations concerning program operations and policy implementation. The program's success in liberalizing the rice market, along with the corresponding problems of public sector imports and storage, argue against development of another 206 program.

A. During the time the program has been implemented, program success in achieving its goals has contributed to the amelioration of conditions which prompted program development.

i. Private sector imports and domestic production seem to have closed any food gap. The rice market is now saturated.

ii. Consumption patterns of the poorer classes have been re-examined and now appear adequate.

iii. Groundnut production has increased significantly and world market prices for groundnuts are holding firm. The prognosis for future foreign exchange earnings is good.

iv. Those policy changes which the program was to support in terms of liberalizing the rice and fertilizer markets, restructuring the indirect tax system, recapitalizing GPMB and the privatization of some of its operations, have been achieved. Privatization has not been completely implemented as yet.

B. The problems experienced with program operations concerning storage, GOTG interference in the auction process, losses and spoilage, accountability, etc., make a follow-on P.L. 480 206 activity not feasible under Gambian conditions. A similar program would demand USAID management time over and above that which USAID/Banjul or AID/W consider acceptable.

2 - (Is program rice qualitatively distinguished?): Despite its superior quality, program rice is not distinguished qualitatively in the local market. As such this program has not developed the market for U.S. rice unless that rice can compete in price with other imports.

3 - (The auction system): The only other system that might be used for monetizing PL-480 commodities is a fixed price system in which the commodity is offered to the market at a price competitive with commercial supplies. This approach has certain advantages but there are drawbacks as well. A separate study by Nathan Associates on the Gambian auction process endorsed the system as an effective mechanism for converting commodities into local currency.

4 - (Economic and people-level impacts): Nine program impacts which positively affect the well-being of average Gambians have been identified in the evaluation report.

BACKGROUND

The Section 206 program was developed to address the problem of food security in The Gambia. Until the late 1970's in normal rainfall years the country was self sufficient in food; what it did not grow could be bought with the earnings from its chief export crop, groundnuts. By the early 1980's, a combination of poor policies and drought combined to both lower domestic production and raise demand. With the decline in groundnut production, The Gambia's widening trade deficits depleted foreign exchange reserves while food deficits widened. The U.S. Government responded with emergency food shipments in 1984 and 1985. Recognizing the need to resolve the chronic food crisis and foreign exchange problems, the GOTG undertook a series of reforms including a structural adjustment package facilitated and endorsed by USAID and other donors including the IBRD and the IMF. Since that time, favorable developments have combined with the impact of the current program to ameliorate those causes of the need for this assistance. Good weather has returned enabling local farmers to increase production of groundnuts significantly while world prices have held firm as production in competing countries had declined. Moreover, it appears that international prices will remain firm for the foreseeable future as competing producers are not expected to return to the market in the same strength as before.

ACTIVITY TO BE EVALUATED

The Section 206 program was designed to help The Gambia sustain its efforts to create the policy and institutional conditions promoting an economic balance between food crop production and food imports, as well as between cash crop production and the import of essential supplies. Under the program average annual rice donations of 8,000 tons over a three year period were intended to cover one-third of the structural food gap. The reforms associated with this contribution were: (1) decontrolling fixed retail prices for rice while liberalizing trade; (2) progressive reduction in the groundnut export tax; (3) divestiture of public service activities and peripheral enterprises of the GPMB (Gambian Producers Marketing Board) as well as settlement of its interlocking arrears with the Government; (4) removal of fertilizer subsidies and encouragement of the distribution of fertilizer and seed through private traders; (5) an expanded entry of private traders into crop marketing. These reforms were an integral part of the Transfer Authorization and its subsequent Amendments and served as conditions precedent for calling forth the annual tranches. Separate clauses specified how the commodities would be sold and for what purposes the commodities would be disbursed. The actual proceeds of the rice sales through private channels was to be used to recapitalize the groundnut marketing system, thereby helping to provide the liquidity necessary to revitalize the groundnut sector - the heart of the economy. The obligating terms of the program were set forth in the Transfer Authorization (TA) signed on April 22, 1986, and its subsequent amendments, the first of which was signed on May 5, 1989. Under its terms, the U.S. Government agreed to transfer to The Government of the Gambia some 24,000 MT of rice with an estimated value of $8.3 million in a series of tranches over a period of three years. The rice would be sold in Banjul, the capital, by sealed tender. Proceeds from the sales would be used to defray commodity handling and storage costs and to recapitalize the Gambian Produce Marketing Board (GPMB), a parastatel involved in the marketing of groundnuts. Successive call forwards would depend on the GOTG meeting certain goals on policy reform relating to privatization of GPMB and its assets, eliminating the fertilizer subsidy, and restructuring the indirect tax system. A subsequent amendment near the end of the program when program goals had been almost entirely achieved allowed final tranche sales proceeds to be used for the development of the natural resource base of a national park, in order to eliminate distortions in incentives to and allocations of resources by affected rural producers.

PURPOSE OF THE EVALUATION

The Scope of Work for the evaluation team posed two questions; (1) what has been the impact of the program in terms as stated in the T.A.; and (2) what is/are the case(s) for and against a new Sec. 206 program in The Gambia, starting either in FY 91 or FY 92, taking into account two different perspectives. First, in terms of lessons learned from the present program, particular attention is to be paid to the following program aspects: i) grant program rice imports in the context of large commercial rice imports, i.e., testing the argument that program rice is qualitatively distinguished in the Gambian market from most/all other rice imported, and ii) has the program "seeded" a market for commercial U.S. rice exports? Second, in terms of administrative arrangements, could the auction system be improved and, if so, how? Is there a good alternative to the present system of direct import and subsequent sale of the rice go the Ministry of Finance and Economic Affairs (MFEA)? The team also was asked to look into whether or not there are feasible program commodities other than rice?

METHODS AND PROCEDURES

This is the second evaluation to be conducted on this program, the first having been completed in April 1988. The first part of the evaluation was completed by a regional Food for Peace officer (RFPPO) while residual program activities (final commodity sales and account close-outs) were still ongoing. The first phase of the evaluation only covered management of the PL-480 commodities and associated local currency accounts. The program impact evaluation was undertaken by a regional economist in January - February 1991, after all commodities had been sold. Finalization of the evaluation report was delayed until GOTG reimbursement for "lost" proceeds from the final shipment was made and accounts were closed out. There was no formal GOTG or USAID participation in the evaluation. Procedures were to review project files, interview program participants, and gather selected field data. The evaluation builds on and continues the line of inquiry followed by the earlier one of 1988.

FINDINGS

COMMODITY MANAGEMENT

The initial evaluation found grave shortcomings in the management of the commodities imported up to that time. The evaluators found an unexplained shortage of 1,237.1 MT of rice, 24,740 bags, which represented 7.7 percent of the total rice shipped to The Gambia according to the Bills of Lading. This shortage consisted of the difference between that which had been received in country at that time according to the marine survey reports, total rice sales, and remaining in-country stocks. At that time the program had received 15,979 MT of rice or 67% of the total. The evaluations findings were conveyed to the GOTG with the warning that such laxness in commodity management could jeopardize the future of the program. In May, the month after the evaluation, USAID attempted to reconcile these differences. In a memo from the Project Officer to the AID Representative these losses were attributed in part to a shortfall of 5,945 bags between end of ships tackle and the GOTG's warehouse. Although the GOTG recorded a lower figure of receipts than that carried by USAID, the resume went on to note that subtracting total sales to that date, some 9,670 MT, from the GPMB's figure, should have left a balance of 6,038 MT in storage. Inventory records, however, indicated a stock of only 5,701 MT or an additional shortfall of 336 MT, some 6,738 bags, missing in storage. The two losses together, plus the difference between USAID's and the GOTG's receipts, totalled some 691.9 MT or 4.3% of all rice received to that date (July 20, 1988). In January of 1989 USAID advised the GOTG that there remained some 6,735 MT of stock in storage from the shipments that had arrived in Aug.- Sept., 1987, and urged the Govt. to sell the stock as soon as possible. The stock was advertised and tender offers were opened in March. However, by that time the stock had deteriorated and the winning bidders were so dissatisfied with its condition that only 1,000 MT had been delivered by May. Eventually, the MFEA and USAID had the remaining stock surveyed and had to declare some 1,180 MT (23,600 bags), unfit for human consumption. When added to the storage losses of 691 MT described above, a total of 1,871 MT had been rendered unavailable for program purposes. This represents some 8% of the entire program!

The next consignment of some 3,561 MT arrived in mid-August 1988. Despite previous experience, there were problems with the handling of this commodity from the beginning. Although USAID had requested adequate storage space well before the vessel arrived, two days before the ship was to berth USAID staffers found that the warehouse designated by the Customs service to receive the cargo was, in fact, full of commercial stock (sugar) belonging to a local business man. The merchant maintained he would have the shed cleared in time but, in fact, it was not completed until four days after the vessel had docked. On top of this delay, the port officials could not provide suitable transportation or laborers so that commodities were left sitting on the jetty for long periods where they were subject to pilferage. Discharge was so slow the ship's Captain threatened to take the cargo to Dakar and discharge it there. On the twenty-seventh of August USAID wrote to the authorities to complain about the condition of the warehouse. There were holes in the roof and walls, posing a risk of spoilage from moisture, insect infestation, and theft. Sufficient pallets were unavailable. Eventually, program funds were used to repair the warehouse and purchase additional pallets. Last but not unexpectedly, there was a sizeable short delivery between the end of ship's tackle and the warehouse, 1,446 bags or 72.3 MT!

Two more tranches were due, one small one of 494 MT that appeared to pass without incident, and the fifth tranche of 3,960 MT in Sept.- Oct. 1989, on the M.V. Poseidon. This stock was placed in Customs Shed no. 3, the one that had been repaired at USAID's insistence from program funds. When the final evaluation was scheduled for June of 1990, it was thought that all program rice would have been sold and commodity and financial activities would have been completed. However, by the last week of June some 50% of the stock has remained unsold. On visiting the warehouse on June 20, 1990, the RFFPO and a USAID Banjul colleague found that the major part of the stock was well arranged but that a significant portion, that which had been damaged in handling, had been dumped in two piles without regard to stacking or palletizing. It was impossible to obtain an accurate count at the time but estimates run from 100 to 200 MT. (2,000 to 4,000 bags). (This stock was reconstituted and sold in August.) In addition, one or two of the piles of rice had fallen in the walkways along the wall and remained there in disorganized piles. The warehouse had obviously not been swept since the placing of the commodity in November 1989. What was evident was the lack of concern on the part of the Customs officials who controlled the depot. It was learned in November 1990 that 18,119.5 bags of rice "disappeared" from the shipment while under Customs control in Shed No. 3. The senior Customs superintendent was out of the country on training at the time. Some subordinate officers were charged, tried and jailed for the theft. (The GOTG made up the entire estimated loss in sales proceeds in June 1991.)

Commodity Management Conclusions:

Despite constant remonstrations with the GOTG, commodity management in this program remained unsatisfactory. For any follow on project there would have to be a restructuring of the conditions under which PL-480 commodities are handled within country. The GOTG appears unwilling, unable, or both to adequately control the commodity in its care. One alternative might be to sell the consignment in total before the vessel arrives. There appears no legal impediment to this within existing Sec. 206 regulations. This had already been done in part in the first of the program's call forwards, but was not further pursued because the size of the shipments did not mesh well with an increasingly vigorous commercial rice trade. Alternatively, USAID would have to assume responsibility for the commodity upon arrival, lease a private warehouse, arrange port to warehouse transportation, have a USAID representative present during stacking, etc. In short, USAID managerial responsibility would have to be increased to a point unwanted either by USAID/Banjul or by AID/Washington.

The losses raise larger issues that the prior evaluation attempted to address. Under the T.A., it was agreed that the GOTG would open two accounts, one to receive advance deposits on the part of the GOTG to cover the value of the incoming commodity and another account to receive the actual receipts of commodity sales. As the latter was credited, the former could be debited. This system assured the U.S. Government that program elements received the necessary funding no matter what happened to the commodity. In short, the host country "buys" the commodity in advance of its arrival. Losses which otherwise would be claimable are already paid and commodity management therein becomes of less importance. This is valid in a narrow legal sense. U.S. interests are covered from losses. However, in a larger sense, it is an unacceptable loss to the program. In the case of The Gambia, the GOTG was to receive funds from the sale of these commodities to the private sector to address real problems of public financing that impede domestic production of food. If, in fact, these costs are merely transferred from one govt. account to another, program goals are not served.

FINANCIAL MANAGEMENT

The Transfer Authorization attempted to delineate responsibilities of the GOTG in their handling of program proceeds. As noted above, two accounts were to be established, one to hold advance deposits before commodity arrival, the Rice Proceeds Account, and the other to hold the local currency generated from the commodity auctions, the Rice Sales Receipts Account. Both accounts were originally to be opened in an interest bearing account, presumably in a commercial bank if there were no such accounts in a government bank.

The financial management of the program grew to be a problem right from the start. The GOTG convinced USAID/Banjul that deposits in an interest bearing account would be counter productive by forcing the GOTG to pay increased interest rates to the Central Bank. It appears that the GPMB had an overdraft with the Central Bank on which they were paying some 18% interest. If the program funds were placed in a commercial bank where they would earn some 14% to 15% interest rather than being used to cover the GPMB deficit, there would be a net loss to the GOTG of 3%. However, placing proceeds in a non-interest bearing account deprived the program of funds. Once established in a non-interest bearing account in the Central Bank, the GOTG confused the two accounts, and as the 1988 evaluation showed, seriously mismanaged both. The Proceeds Account received deposits from the Sales Account, the Sales Account received deposits from the Proceeds Account, other deposits were not referenced, while other entrees used to correct prior entries were not clearly identified. Despite USAID sharing the report with the GOTG, there apparently was never a satisfactory rectification of the accounts until Program close-out. An attempt by the RFFPO evaluator to reconcile the accounts with respect to tonnage received, auction proceeds, losses, deposits and withdrawals, was unsuccessful. One cannot link the vessel arrivals and B/L tonnage with the Proceeds Account, the Sales Receipts Account with the deposits recorded by the MOFT, or the Receipts Account with the Proceeds Account (see Annexes B, C and D). There appears to be no central accounting documentation linking all these transactions in the GOTG or in the USAID office. A contributing factor to this confusion was the complexity that developed in the handling of sales proceeds. Unforeseen at the outset, the system of receipts, deposits, and expenditures became needlessly complex. In theory, the GOTG was to call for tenders sometime after it was confirmed that the vessel had been loaded in the U.S. and/or soon before its' arrival in Banjul. In fact, commodity arrivals often were delayed or advanced without notification to the GOTG or USAID/Banjul. Bills of Lading were not received in a timely manner. Tenders would be received, opened by members of the coordinating committee, and the winners notified by letter. Those receiving notifications would go to a commercial bank and buy a certified check in the amount of the bid. They would deposit the check with the MFEA which, in turn, would deposit it in a central government account in the Central Bank. The Central

Bank would then make a deposit in the Sales Receipts account. The Ministry of Finance would note the cash receipt but not the tonnage for which it was received. The trader would take his receipt from the Ministry of Finance to the Custom's shed and present his letter and his receipt. The Custom's officer would deliver the commodity authorized by the letter. The linkages that were lost were those between the vessel's discharge, the quantity of rice sold, the receipts by the Min. of Finance, and the deposits into the Central Bank's Rice Sales Receipts account. Further, there was an apparent delay and consolidation between the deposit in the Central Bank and its re-deposit in the Sales Receipts account. As a result, bank statements provided no inkling as to exactly what tonnage their deposits represented or when the commodities were sold. Program shipments are shown in Table 1 below.

Table 1

GAMBIA 206 PROGRAM SHIPMENTS

Ship	Quantity (MT)	FAS Value (US$)	($/MT)	Date	Dalasi	Exchange Rate
Nancy Lykes	6,470	1,889,949	169.00	12/06/86	8,378,626	7.6627
Solon Turman	6,000	992,070	165.35	09/22/87	7,096,591	7.1531
Tampa Bay	3,509	636,472	181.38	10/19/87	4,562,481	7.1685
Galveston Bay	3,561	1,002,017	281.36	08/19/88	6,963,365	6.9500
Regent	494	138,818	281.01	09/26/88	971,733	7.0000
Poseidon	3,960	1,402,334	354.12	10/21/89	9,816,206	7.0000
Totals	23,994	6,061,660			37,789,002	

Note: 23,820 MT was received sound from end of ships tackle.

Deposits made by individual traders and the GOTG for unaccounted rice from the beginning of the program totaled some 58,654,637 dalasis. At an average exchange rate of seven-to-one this would mean the program received more than $8.3 million in local currency or some 37% more than its dollar value. This is despite the losses to project purposes from spoilage, theft, and incomplete sales of the last tranche. From this perspective, the program has been an unqualified success.

The Rice Sales Proceeds Account is somewhat less confusing. Since the previous evaluation in April of 1988, deposits against vessel arrivals are clearly identifiable as are withdrawals. However, here also the evaluator could not link movement in the Proceeds Account to transactions in the Sales Receipts Account nor were adjustments made to clarify prior transactions as pointed out in the previous evaluation. For example, there was one deposit that appeared to be a duplicate but could not be identified. The USAID Mission had a detailed management plan that assigned specific areas of program responsibility to separate offices under the overall responsibility of the Agricultural Development Office (ADO). Under this plan, the ADO focused on administrative/implementation activities, the Controller managed the financial aspects of the program, and the Program Office took care of monitoring policy measures and macro-economic implications. USAID and the GOTG had established a program committee to provide leadership for management, implementation, and operations. Project records show that each area of program management received USAID attention. There appeared to be a firm grip on program operations. However, project files became disaggregated in different offices. In hindsight, it might have been more effective to have one project officer who was responsible for all program records and documentation.

Financial Management Conclusions:

While the Gambian Civil Service employs many capable officers, they are forced to work without adequate support in terms of space, office equipment, and supplies. Given their different needs and perspectives, their record systems may not reflect the needs of USAID and the USG. They would benefit from support and guidance from USAID and/or project funds in establishing and maintaining program records. USAID management would benefit from greater project control. At project completion, a complete program audit should be conducted in which all records, those at the Ministry of Finance, USAID, and the Central Bank are reviewed. Only such a "full dress review" will be able to provide a clear overview of commodity and fund movement and relate it to program goals.

AUCTION PROCEDURES

The third element in the commodity management chain concerned the conversion of program rice into local currency. The original TA specified that: 1. After depositing in a special account the dalasi equivalent of the F.O.B. cost, the GOTG would sell equitable portions of the rice to designated private, licensed merchants operating in The Gambia. 2. Provision would be made to maintain a 5,000 MT working stock. 3. The GOTG would designate those traders eligible to receive rice. These licensed merchants would be eligible to receive approximately equal shares of the rice provided to the GOTG. As noted in the excellent analysis of the program's auction procedures, Public Auctions and Tender Bids for Sale of PL 480 Title II-206 Rice in The Gambia, 1986-1989, by Robert R. Nathan Associates, Inc. (November 1989), it was clearly the intent of the drafters of the TA that prices would be administered by the GOTG. However, during the first meeting of the PL-480 Program Coordinating Committee on October 18, 1986, the MFEA announced they would make public that rice was available and they would invite bids. The MFEA technical adviser noted that the TA stated only licensed traders would be eligible and, since traders were no longer licensed, it would be preferable to open the bids to any who chose to participate at a minimum bid of 100 tons. These points were incorporated in a Memorandum of Understanding between USAID and the GOTG. Discussion then centered on the distribution of rice to the bidders which raised a key issue on program goals, i.e., whether the program should seek to maximize its returns, encourage greater participation in the trade, or moderate retail prices. The question was never resolved permanently. Each auction produced another discussion on the same theme and a different resolution. The differing perspectives on the question had consequences for the auction process. By reducing the minimum quantity of rice offered, small traders were encouraged to participate but this also encouraged the participation of a high number of speculators who did not have the funds to pay the bid price. Their purpose was to obtain notification by the GOTG that they had won the bidding at a given price per bag or metric ton and then sell this document at a small profit, say one dalasi per bag, to some other trader with the cash to make the purchase. The result was an inordinate number of bid winners who never picked up their commodity, forcing the tender committee to notify winners on an alternate list, who in turn may not have had the cash, etc. This delayed the whole operation in terms of commodity withdrawals from the storage sheds while also discouraging larger traders from participating. The ambiguity about maximizing revenue or widening participation also led to a decision by the GOTG in September 1988, to offer rice at a price lower than that of the highest bid. USAID then demanded that the difference of 1,430,000 dalasis (about $204,000) be made up through a deposit to the Sales Receipts Account from the Proceeds Account. This was an additional loss to the program goal of transferring resources to the GOTG for retiring GPMB arrears, from sales to the private sector.

Auction Procedures Conclusion:

The auction process in The Gambia was flawed through a lack of consensus on priorities and documented methods of procedure. This affected the timing and implementation of the many separate auctions which in turn affected revenue (although this impact cannot be quantified). Nevertheless, the Nathan study concluded that the Gambian PL-480 auctions proved to be an effective and innovative way of generating local currency while simultaneously increasing participation of and competition among private sector merchants.

COMMODITY IMPACT

According to the Project Paper, rice was selected as the commodity to be brought in as it was felt it would not distort commercial supply and demand nor would it defeat the purpose of pricing policy reforms. It would not increase the supply of rice enough to cause a decline in price. Keeping retail prices at the then-current level would meet domestic demand and encourage consumers to switch to the more affordable locally-produced coarse grains. The resulting rise in demand for coarse grains would encourage domestic production, helping to bridge The Gambia's structural food deficit. An attempt was made by the commodity and financial management evaluator to determine if, in fact, U.S. program rice has been qualitatively distinguished in the Gambian market (as requested in the SOW). A field interview of traders who had purchased program stock revealed that demand was entirely determined by competing market forces, i.e., when lower priced commercial stock was readily available, program stock did not find a separate market. Although acknowledging that U.S. rice had certain qualitative attributes - its cooking time was more rapid, it had no offensive odor during preparation, and its packaging was superior giving it a longer shelf life - given a choice the Gambian buyer would opt for a lower price. A MFEA official felt that Gambian tastes ran more to short grain broken rice rather than the long grain, 20% broken, American varieties. It seems unlikely, then, that the program has "seeded" the market for American rice, unless of course, U.S. varieties can compete in price with third country varieties.

Commodity Impact Conclusions:

Given the level of imports it appears that program commodities had little impact on the domestic market. The program element that has impacted substantially has been the privatizing of the rice trade. Competition in the market is strong and profit margins in the retail trade are marginal. One element of the program that has not been touched on is the use of program rice to establish an emergency food stock. The working stock was to provide an emergency reserve in the event any shortages developed while the rice trade moved from the public to the private sector. Such shortages never occurred and there was no reason to use the reserve. It did, however, limit sales somewhat as not all stock available was always offered for sale out of consideration for maintaining the reserve. A food reserve can be a powerful tool to combat periodic food crises but its maintenance requires a mechanism to periodically turn it over. Without a government policy on ration sales or other means of regularly replenishing the reserve with fresh stock, the World Food Program might be encouraged to maintain a certain level of reserves in the operation of their grant programs to be drawn on in case of an emergency.

USUAL MARKETING REQUIREMENT

The original TA did not contain a U.M.R. requirement although the first evaluation recommended a 55,000 MT level. Nevertheless, this was not incorporated in the first Amendment to the TA. Based on available data the 55,000 MT level has been easily achieved since imports, although fluctuating widely, have averaged much above this figure, 185,686 MT in 1988 and 74,602 MT in 1989, and are more than adequate to saturate the local market.

The 1988 evaluation also raised a question on The Gambia's eligibility to receive PL-480 commodities in face of its large re-exports of rice to Senegal and other neighboring countries. The report at that time accepted the tenant that program rice is not re-exported. From our limited field enquiry this seems to be still valid although admittedly this cannot be proven.

COMMODITY AND FINANCIAL MANAGEMENT: LESSONS LEARNED

Lessons learned relate to commodity, financial management, and policy reform conditionality (for which, see page 26):

A. GOTG capabilities to adequately manage food stocks are limited. Future food programming would require more USAID oversight than expected.

B. A clear understanding of program goals by both USAID and the GOTG before implementation begins would reduce confusion during implementation. The differences between the GOTG's priority of keeping market prices low, as opposed to USAID's priority of earning a maximum of local currency, is a case in point.

C. Operational procedures should be spelled out in detail. The problems involved in the auctions might have been minimized if detailed procedures had been put into writing beforehand.

D. The GOTG has an obvious handicap in maintaining records. They have very limited resources in terms of equipment, supplies and staff. USAID should design into any future program a means of assisting the GOTG in their maintenance of a paper trail subject to audit showing the flow of resources from the time of arrival through the achievement of program goals.

E. Within USAID, program responsibility should have been centralized in one office. USAID financial records should correlate with those being kept by the GOTG.

POLICY REFORMS

A. Conditionality -

The Transfer Authorization set forth the development objectives, policy reforms, government actions, and use of proceeds which the GOTG had to continue or to undertake for the first time, in exchange for the grant of U.S. rice. The overall thrust of the reforms was to reduce the GOTG's role in the rice market and in the groundnut industry. The reform of the rice market was addressed in previous sections of the evaluation. This section of the evaluation will deal with the reform of the groundnut sector. The two aspects which are of particular interest are (1) the liberalization of marketing, and (2) the privatization of Gambia Produce Marketing Board (GPMB).

The Transfer Authorization, Section 14, refers to the need by the end of the Program to "plan and schedule for ultimate divestment and privatization of all remaining GPMB operations and assets" (our underlining). Clarification of this objective is needed. The Mission's position has been that a mere scheduling exercise would not be sufficient to meet the program's objectives. Its intent has been to schedule the full privatization of GPMB in a way that commits the GOTG to carrying out a specific timetable of privatization actions. While the end-of-program status is clearly to achieve full privatization, the timetable for carrying out specific measures may have to be adjusted due to political and economic conditions, and the pace of negotiations with the private sector. The evaluation will address the Program's contribution to accomplishing the objective of full privatization.

Four sections of the Transfer Authorization contain the specific, substantive language which lays out the plans for reform of the groundnut sector:

Section #	Section Title
8	Ending the Causes of the Need for Emergency Food Assistance
12	Use of Funds
14	Calls Forward and Releases of Funds
15	GPMB Capitalization Fund

These sections are reproduced in Annex E.

The Transfer Authorization was signed on July 18, 1986, by the Minister of Finance and Trade and the AID Representative. However, effective February 1990, the Ministry of Finance lost responsibility for the GPMB in a government reorganization. The responsibility was given to the (new) Ministry of Trade, Industry and Employment, which is not a party to the 206 Agreement. This is relevant as the time approaches for making the tough decisions regarding full privatization of GPMB.

B. Compliance With Program Conditionality -

During the 1986-89 period, the most important developments were ending GPMB's monopolies over the rice and fertilizer trade. Some of the peripheral and core assets belonging to GPMB also were divested. Many of the "assets" were, in fact, nothing more than empty buildings, with signboards describing a non-existent, productive activity. The activities which were officially terminated included the soap factory, the briquette factory, the refrigeration and maintenance unit, the cement block facility, and the construction department.

Using the local currency proceeds from the 206 Program and support of other donors, the GPMB reduced its indebtedness. By improving solvency and liquidity, it was intended to make GPMB more attractive to private investors (Cf. Table 2: GPMB Audited Statements and Calculation of Net Worth).

In a letter from the Minister of Finance to the AID Representative, USAID/Banjul, dated May 25, 1989, the Government announced its schedule for the "ultimate divestment and privatization of all remaining GPMB operations and assets" over the period 1989-94. The government's divestment schedule presented in the letter was:

Action	Year
Privatize rice mill	1989-90
Privatize cotton gin	1989-90
Rehabilitate GRTC	1989-91
Negotiate GRTC-GPMB contract	1990-91
Reduce GPMB role	1990-91
Negotiate oil mill management contract	1990-91
Privatize GRTC	1991-92

Divest GPMB depots	1992-93
Divest GPMB decorticating plants	1993-94
Divest oil mill	1993-94

However, none of the planned actions, including those with deadlines falling in 1990, had been implemented as of February 1991. In a meeting with the macroeconomic evaluator on January 31, 1991, the GPMB Managing Director stated that the rice mill and the cotton gin were advertised for sale. For the record, according to an agreement between the GOTG and the World Bank, the scheduled date for the divestiture of GPMB's core assets, the decorticating plants and the oil mill, has been moved forward by a year from 1993-94 to 1992-93.

The following, interim steps to liberalize the groundnut sector were agreed to for implementation during the 1990-91 groundnut season (11/90 - 10/91):

(i) freedom of the private sector to buy, sell, export, and process groundnuts, thereby ending GPMB monopolies in these areas;

(ii) GPMB required to process privately owned groundnuts if requested;

(iii) GPMB must obtain working capital for the groundnut purchasing campaign in the local financial market on commercial terms in line with terms prevailing for the private sector.

However, the reforms were not being implemented by GPMB management in the third month of the season (when this part of the evaluation was concluded). The outcome of the reforms will depend on the "political will" of the GOTG to force compliance with the conditions. The day-to-day supervision of GPMB by the National Investment Board and the Ministry of Trade, Industry and Employment appears to have been lenient.

Table 2

GPMB AUDITED STATEMENTS AND CALCULATION OF NET WORTH

	1984	1985	1986
Fixed assets	43216.7	41254.9	39761.0
Capital work in progress	10382.3	16728.8	45020.0
Loans & Invest	15911.7	18628.7	20546.0
Short Term Deposits with Bankers	1800.0	1800.0	
Cur assets	57417.4	36848.9	39544.0
Total assets	128728.1	115261.3	144871.0
Cur liabils	110262.7	112887.9	113776.0
Loans payable	16692.7	22270.3	54366.0
Capital Reserves			
Reserve arising on Consolidation	68.6	68.6	1553.0
Deferred Taxation	10.5	6.3	35.0
General Reserves	1693.5	19971.6	24859.0
Total Liabilities & Networth	128728.0	115261.5	144871.0
Net worth	1772.6	19896.7	23271.0

	1987	1988	1989
Fixed assets	213584.0	205768.0	198496.0
Capital work in progress			
Loans & Invest	9796.0	7796.0	6218.0
Short Term Deposits with Bankers			
Cur assets	43538.0	47132.0	38138.0
Total assets	266918.0	260696.0	242852.0
Cur liabils	83745.0	79149.0	25511.0
Loans payable	62324.0	67248.0	67152.0
Capital Reserves	124140.0	124140.0	124140.0
Reserve arising on Consolidation	1727.0		
Deferred Taxation	42.0		
General Reserves	5060.0	9841.0	26049.0
Total Liabilities & Networth	266918.0	260696.0	242852.0
Net worth	120849.0	114299.0	150189.0

C. People-level and Other Impacts of Reforms -

The scope-of-work of the evaluation asks for "an examination of the economic impact of the 206 program in terms as stated in the Transfer Authorization? What, if any, people level impact can be inferred?"

The evaluator has identified the following nine economic and people-level impacts:

1 - As the result of the 206 Program, since 1986 the financial performance of GPMB has been more transparent. GPMB has been "under the microscope" of Gambian authorities and donors for the last several years. As one of the public sector enterprises, GPMB's performance is monitored by the National Investment Board (NIB). The GPMB entered into a performance contract with the GOTG in 1987, with a view to improving its' operational and financial performance. GPMB has been the subject of IMF quantitative performance criteria and benchmarks covering its gross domestic credit, government transfers and lending, and structural performance measures regarding the introduction of groundnut bills, privatization of assets, and use of the GPMB's decortication and oil facilities by private traders in groundnuts. Much of the IMF's conditionality is cross-conditionality with the 206 program, and has been closely monitored by the Fund and A.I.D.

GPMB's processing plant management and operations also are becoming more transparent. USAID/Banjul and the World Bank engaged Cargill Technical Services (CTS) between October and November of 1990 (USAID) and December 1990 - October 1991 (World Bank) to provide advisory services to the NIB on implementing interim steps (i) and (ii) noted in section (B) above (USAID) and, subsequently, to provide services of processing engineers stationed at the Denton Bridge and Kaur facilities, to improve plant operations and maintenance (World Bank). USAID's specific mandate was, "to establish an appropriate framework to enable interested traders to enter into arrangements with the GPMB for use of its processing facilities."

2 - The Central Bank and commercial banks are no longer required to provide advances to GPMB for the groundnut purchasing campaign at below-market interest rates. GPMB's borrowing requirements have been reduced by the successful recapitalization of the company, and the increase in its general reserves and net worth (Cf. Table 2: GPMB Audited Statements). Having to pay market rates of interest for working capital during the groundnut trade season is intended to provide an incentive to GPMB management to improve plant efficiency and accelerate processing of the 1990/91 crop. The measure has the effect of increasing the quantity and reducing the interest costs of capital to people in the private sector. It also increases GPMB's short-term liabilities.

The following equation was estimated by M. McPherson to examine the influence of GDP, reserves of the GPMB, and credit to the government on the supply of net credit to the public:

$$NCP = -70.15 + .63GDP - .75MBRE - .65NCG$$
$$(-2.3) \quad (3.8) \quad (-3.1) \quad (-.7)$$

where NCP =Net Credit to the Public (the private sector)
GDP =Net Domestic Product
MBRE=GPMB reserves
NCG =Net Credit to the Government

Source: M.McPherson, April, 1987

To evaluate the impact of the 206 Program, we are particularly interested in estimating the relation between increases in GPMB reserves (MBRE) and net credit to the public (NCP). M. McPherson interpreted the results as follows:

"This is a surprisingly good equation... The relation between NCP and GDP is consistent with theoretical expectations: an increase in public sector activity requires a positive increment in credit. The close negative relation between NCP and MBRE makes sense: as GPMB accumulated reserves, its requirements for bank credit declined. The negative coefficient on NCG represents some element of "crowding out": increased credit to the Government has partially been at the expense of credit to the public." (p. 15)

In fact, during the 1986-90 policy reform period, total domestic credit declined, led by government deposits in the Central Bank. The difference between the predicted and actual changes in NCG and NCP, indicates that a structural shift had taken place in the Gambian economy. It was due to the Economic Recovery Program. During the period of March 1987 - 1990, NCG decreased by 207 million dalasi. The regression estimate of the relation between NCG and NCP suggests that, NCP should have increased by 134 million dalasis, as the result of the decrease in NCG. In reality, however, NCP decreased by 53.4 million dalasis. This indicates the importance that the authorities during the ERP attached to stabilization objectives. The improvement in GPMB's financial solvency has not led to the expected increase in credit to the private sector due to the priority given to stabilization objectives. Reportedly, in 1990, the consumer price level has fallen, and the exchange rate has been relatively stable, indicating success in this area.

3 - GPMB must pay realistic financing costs for its working capital. In December 1990, GPMB began issuing Groundnut bills (G-bills). In exchange for underwriting by the Central Bank, GPMB pays the market-determined T-bill interest rate plus 5%.

4 - Government subsidies to GPMB have been reduced, and they now appear in the budget. The fertilizer subsidy has been eliminated, thereby opening a new area of activity for private businessmen. It would be premature to conclude that a "firewall" has been erected between GPMB and the Government

treasury, however. Political decisions to support domestic groundnut prices above world prices caused GPMB to require government subsidies in the past. The last time that this occurred was in 1987-88, and it could recur.

5 - The arrears between GPMB, parastatel enterprises, the banking system and the Government have been eliminated, thereby contributing to greater discipline in public finance.

6 - Competition has been officially introduced at various levels of the groundnut sector. In 1990/91, the local private sector is formally permitted to purchase, process, and export groundnuts. GPMB processing facilities are now officially open to the private sector on a custom services basis for groundnut shelling. In practice, however, these reforms have not been implemented.

7 - During 1986-89, the performance of the groundnut sector improved, with increased production, yields, official and unrecorded exports. Liberalization as well as favorable weather played a role.

8 - As a cost-cutting measure, GPMB has cut its permanent work force, increasing its use of temporary, contract personnel. This, plus the prolonged uncertainty of regarding the future employment prospects of the regular staff, has damaged the morale of the current employees.

9 - GPMB has sold off some of its static assets and peripheral activities. While the asset values were never great, this opened new areas of activity to private enterprise.

In spite of the reform of the macroeconomic framework, the application of market-determined interest rates, the conclusion of a performance contract between GOTG and GPMB, and the re-capitalization of the GPMB, the GPMB's operating efficiency has continued to deteriorate. The GPMB's public sector management has not responded to the new business environment. The final step foreseen by the 206 program is to complete full privatization of all operations and assets of the company, especially those related to the all-important groundnut industry.

D. <u>Full Privatization of GPMB</u> -

A principal intent of the 206 program was the full privatization of GPMB, including its core assets in the groundnut sector: the transport system, up-country depots, shelling and oil mill facilities at Denton Bridge (Banjul) and Kaur. The USAID Mission is formally optimistic with regard to the Government's commitment to the objective of full privatization of the company by 1992/93. In its view, the GOTG will not backslide from the intent of the 206 program agreement. From a legal viewpoint, the soft, tentative language of the TA, simply to "plan and schedule" full privatization of GPMB, rather than to actually to implement it, provided the GOTG with wide latitude for legally acceptable performance that would satisfy the TA. It is unclear why such flexible language was used in the original program design.

Despite the re-capitalization of GPMB, and the improved appearance of its balance sheet beginning in 1989, it is clear that the physical assets and operating efficiency of the company have deteriorated as the result of public sector management, whose performance has worsened during the lengthy transition period between the announcement of the full privatization objective in 1986, and the planned execution of the objective in 1992/93. With hindsight, the experience with GPMB's performance contracts demonstrates that it was unrealistic to expect an improvement in GPMB's operating efficiency during the transition period to privatization. Essential maintenance on plant and equipment at Denton Bridge, Kaur and the up-country depots has not been performed. The increased costs of financing the groundnut purchasing campaign from G-bills does not appear to have influenced the speed with which GPMB has moved to process the 1990/91 crop. The company's cash flow is being used primarily to provide a steady income to its employees, with inadequate provision being made for the operation and maintenance of plant and equipment.

In the Mission's view, the privatization process of GPMB is broadly on track. The 7-year transition period was unavoidable, due to the need of taking intermediary steps which were intended to convince the members of the government, GPMB management, and public opinion of the need for full privatization, and to energize the private traders. While this gradual approach was sensible, the toll that the lengthy transition period has taken on the condition of the fixed assets of the company also needs to be recognized. To avoid further neglect of plant and equipment, a shock-treatment to achieve full privatization by 1992/93, at the latest, might now be appropriate to save GPMB's remaining assets. The World Bank reportedly is considering the release of the next tranche of the Second Structural Adjustment Credit against movement on reforms in the groundnut sector. This may serve to accomplish the final objectives of the 206 program. After the negative consequences of the lengthy transition period between the announcement and implementation of privatization became clear in 1988, the USAID Mission, together with the GOTG, possibly could have taken additional steps to shorten the transition period to full privatization of GPMB. The desirability of reducing the period of prolonged uncertainty for public sector management is one of the lessons learned from The Gambia's 206 program.

E. Stakeholder Analysis -

In the evaluator's view, positive economic impacts from the 206 program could have been achieved more rapidly if there had been a viable negotiating strategy for the various stakeholders in The Gambia's groundnut sector, to present their requirements and objectives in negotiations for privatization of GPMB. The privatization of GPMB involves successfully negotiating a contract (or series of contracts) with investors in the foreign and/or local private sectors. The principal stakeholders in the groundnut sector of The Gambia are the government, the local private sector, GPMB management and employees, and the foreign private sector. The requirements of the GOTG, as the current owner of GPMB, and foreign and local private sectors, as potential buyers, must be considered as significant, since each might block the privatization process if their conditions are not met. Final privatization terms and conditions cannot be foreseen when a policy is adopted, and some are only revealed as the negotiating process unfolds.

The future viability of the groundnut industry also depends on meeting the requirements of farmers and traders in the local private sector, since they will remain the suppliers of vital raw materials. According to the official view from the Gambian capital, Banjul, there is no alternative to marketing groundnuts produced in The Gambia through the vertically-integrated transport and processing system currently owned by GPMB. However the idea that GPMB, and its (just-dissolved) transport affiliate, the Gambia River Transportation Company (GRTC), really could have a monopoly of marketing functions, or that a vertically-integrated system is the sole efficient option, is self-serving thinking in certain quarters, possibly stemming from an inappropriate engineering bias. From the groundnut farmer's perspective, the obvious alternative is to bypass GPMB, and to sell production in Senegal whenever marketing difficulties or less advantageous prices exist in The Gambia. Often Gambian farms are closer to Senegal than they are to the groundnut purchasing points inside The Gambia. The close proximity of the producing areas to the Senegalese market places a limit on the impact GPMB's inefficiency can have on the sector. The liberalization policy has given a boost to the rational use of transportation. As the result of current policies and perennial geographic factors, the sector is less dependent on GPMB's poor performance than before liberalization.

How do the requirements and objectives of stakeholders in groundnut sector liberalization and privatization of GPMB appear at this time? The distinctive requirements of the local private sector, including both groundnut farmers and traders, the government, the foreign private sector, and GPMB management and employees are considered. Following this, an analysis of issues and prospects for successful negotiations leading to full privatization of GPMB is provided.

Stakeholder #1 - Local private sector

A. Groundnut Farmers:

--cash groundnut prices equal to or greater than Senegal's, adjusted for transport costs;

--cash payment on a timely basis;

--share in the profits of value-added at the processing and exporting stages;

--production credit;

--timely inputs.

B. Groundnut Traders:

--freedom to purchase & process groundnuts in competition with GPMB;

--access to processing and storage facilities at ports on a fee basis;

--parallel market to export decorticated groundnuts;

"... a private buyer has booked two container loads of decorticated nuts to a factory in Denmark for January shipment... decorticated with small machines and not involving GPMB. ... if successful it will sound a warning to GPMB of the problems they could face." (Cargill, 1990, p.40)

--reasonable processing prices;

--short-term credit for working capital during the groundnut purchasing campaign;

--competitively-priced transport services by river and truck.

Stakeholder #2 - GOTG

--functioning river transport system to ensure processing and exporting through The Gambia;

--maintain GPMB's facilities intact;

--avoid establishment of a "private monopoly" for groundnut processing and exporting;

--capture a share of foreign exchange earnings of groundnut exports;

--sale of company based on net asset value using replacement cost;

--phased, interim approach to privatization, to allow for public debate;

--maintaining good relationships with donors, for whom GPMB privatization has become a litmus test for GOTG commitment to structural reform.

Stakeholder #3 - Foreign Private Sector

--single firm processing industry, providing services to the private sector;

"...economies of scale dictate the participation in a single, large processing operation would be more economic for private traders than for scattered smaller scale independent plants to be installed." (Cargill, 1990, p. 39)

--adequate volume of groundnuts to realize economies-of-scale and efficient plant operations;

--positive net worth of company prior to privatization, or agreement of GOTG to assume liabilities;

--realistic net asset value;

"... there are massive problems with the groundnut processing facilities owned by GPMB and their true value is far below the dalasi 198 million evaluation of November 1989. An estimated present worth of GPMB groundnut processing facilities would be approximately dalasi 31.4 million."(Cargill, 1990, p.37)

--replacement of equipment for river transportation and oil mill;

--fairly rapid implementation rate of privatization measures;

--external finance;

--political insurance against licensing or nationalization efforts and acceptance by Gambian public opinion.

Stakeholder #4 - GPMB management and employees

--steady income flow;

--discourage private use of GPMB processing plant;

--delay full privatization of GPMB's core assets.

Analysis of stakeholders' requirements and the prospects of successful negotiation:

The principal issues that will have to be resolved during the GPMB privatization negotiations concern asset valuation, the timing of divestiture of specific assets, the mechanism for setting groundnut prices, farm-level price of groundnuts, profit sharing from the processing and exporting stages, type and scale of processing technology, and the ownership of processing plant and equipment. The resolution of most of the issues will hinge on whether public policy continues to support a one-firm groundnut processing and exporting industry. At the rhetorical level, the problem has been viewed as whether to replace GPMB's "public monopoly" with a private one. Given the conflicts that have surfaced to date, the configuration of the post-privatization industry still is uncertain. The worst-case outcome for all of the stakeholders probably would be a continuation of the current transition period, in which the ultimate disposition of GPMB assets and the future of its management remains unclear.

Some analyses of particular issues follow:

1. The most obvious, quantitatively-measurable conflict between the GOTG and the potential foreign private investors concerns the value that is placed on GPMB's fixed assets. Local auditors and foreign consultant estimates of the value of GPMB's fixed assets differ by a factor of six. This figure will have to be negotiated.

2. The interests of the foreign and local private sectors differ with regard to continuing with a one-firm groundnut processing industry, or encouraging the emergence of a multi-firm industry in the post-privatization phase. This strategic choice has ramifications for (a) the scale of technology, (b) the information requirements of prices used in the industry and price flexibility, and (c) income distribution from The Gambia's groundnut sector.

Factor (a), technology: Both large- and small-scale equipment for groundnut decortication and oil milling are in use in The Gambia. Small-scale equipment is used mostly for the rural, domestic market. Local groundnut buyers and foreign investors differ regarding their preferred technologies. The break-even volume requirements of large-scale equipment has led to the conclusion (Cf. Cargill, 1990, p. 39) that a one-firm export industry is a technological imperative. This is favored by foreign investors, but probably not by the local private sector, which might prefer to have the flexibility of small-sale processing equipment. Total capital costs would probably be lower with technological choice in a multi-firm industry.

Factor (b), prices: A multi-firm industry would have the advantage of reducing the information requirements of a single-firm industry, whether in the public or the private sector. In a multi-firm industry, consisting of a large number of small trading, processing, and exporting firms, prices in local markets would establish the value of groundnuts and groundnut products. This is consistent with the liberalization objective to remove the government from the economy, which is an objective of the GOTG. For example, it would eliminate the necessity of setting an official groundnut price, which leads to subsidizing producers in years when export prices are unacceptably low. A multi-firm industry would have more flexible prices, and therefor would be more able to respond to world price fluctuations for groundnuts.

Factor (c), income distribution: Income flows from a multi-firm industry would benefit the local private sector. However, a multi-firm industry would be opposed by GPMB management and employees, and by the foreign private sector. With a multi-firm industry, the volume of groundnuts produced in The Gambia that would be processed by any one firm would be insufficient to justify large-scale foreign investment and expatriate management. (This constraint could be relaxed if part of the Senegalese groundnut harvest were processed and exported through The Gambia.) The stakeholders in GPMB are in a particularly difficult situation if a multi-firm industry emerged, due to GPMB's sunk costs in large-scale processing equipment.

The purpose of focusing on the specific requirements of individual stakeholders is to assist USAID/Banjul in its task of facilitating upcoming negotiations concerning the full privatization of GPMB. To avoid further decline of the sector and deterioration in GPMB's plant and equipment, it is crucial that negotiations for the privatization of GPMB and the sector be concluded as rapidly as possible. On the other hand, the use of fixed deadlines tends to favor private foreign investors, at the expense of private local investors, due to the more rapid pace at which the former generally are prepared to negotiate and carry out financial commitments.

USAID should facilitate the negotiating process by continuing to help broker agreements among the stakeholders. If outside consultants are employed to conduct studies, all of the stakeholders' perspectives should be considered to achieve a realistic understanding of how negotiations can be successfully concluded, as well as in the interest of fairness. This has not always been true of previous consultancies which were designed to recommend next steps and strategies for liberalization in the groundnut sector and privatization of GPMB.

For example, Woodward, et.al. collected a considerable body of information regarding the groundnut industry. However, the thrust of their report was to present a dismal picture of the state of the groundnut sector in The Gambia, and to present only the government's terms and conditions for privatizing the sector, without examining the private sector's requirements. The predictable result was lack of interest by the private sector in seriously negotiating with the GOTG regarding privatization of GPMB.

A second consultancy, carried out by Cargill Technical Services, served to counterbalance the Woodward, et.al. report. It focused on privatization from the foreign investor's perspective, providing some useful indications of the foreign private sector's requirements for investing in The Gambia's groundnut sector. If they are to be effectively expressed, the local private sector's interests will have to be represented in the negotiations process by local business interest groups and possibly the donors as well. In this regard, it is important to note the Gambia Cooperative Union's position in favor of a farm-level floor price for groundnuts, plus dividend distributions based on profits from the processing and exporting stages.

Policy Reforms Conclusions:

Additional AID funding has been suggested to facilitate the implementation of full privatization of GPMB. It would be used to reduce the gap in asset valuation between the government and the foreign private sector; to assist the local private sector to purchase shares in the newly-privatized company; and/or to provide emergency bridge financing to GPMB for its current operations and maintenance expenses. The circumstances and objectives cited as justification include the importance of the groundnut processing industry to the Gambian economy; the subsidization of the Senegalese industry; and the lack of savings in the Gambian private sector to buy shares in the company. However, these same circumstances and objectives existed when the 206 program was signed. In the 206 agreement, the government had agreed to "plan and schedule" the privatization of GPMB. Seventy-five percent of the counterpart funds of the 206 program already have been used to re-capitalize GPMB, and other donors, including the IMF and World Bank, also have contributed to this objective. Therefor, the provision of additional funding for the GOTG to implement the full privatization of GPMB at this time does not appear warranted.

The key "condition precedent" repeated with respect to tranche releases in the Transfer Authorization, is that the GOTG must announce a "plan and schedule" for the definitive privatization of GPMB operations and assets. The "plans and schedules" which were announced did not take into consideration the objectives and requirements of all the stakeholders in the groundnut sector in Gambia. Despite the GOTG's commitment to privatization, there has been a lengthy transition period (1986-94) between the acceptance by the GOTG of privatization and the scheduled implementation date. Problematically, this has prejudiced operation and maintenance of GPMB's physical assets.

ANNEX A - PERSONS CONTACTED

Section I: Banjul, June 15 - June 28, 1990

1.	Hon. Saihou Sabally	Minister of Finance and Trade
2.	Mr. Sankung Jaiteh	PL 480 Coordinator, Ministry of of Finance and Trade
3.	Dr. Brendon Walsh	Technical Advisor to Minister of Finance and Trade
4.	Ms. Catherine Goswell	Principal Accountant, Accountant General's Office
5.	Ms. Ada Joof	Accountant, Accountant General's Office
6.	Mr. Tamsir Manga	Trade Division, Ministry of Finance and Trade
7.	Mr. Sylvester Nichols	Trade Division, Ministry of Finance and Trade
8.	Mr. Nathan	World Food Program
9.	Mr. Omar Gaye	Catholic Relief Service

Section II: Banjul, January 9 - February 10, 1991

1.	Mr. Saihou Drammeh	Managing Director, GPMB
2.	Mr. Momodou Dibba	Director, Gambia Cooperative Union
3.	Mr. Ebrima Sidibe	Chief Financial Officer, GPMB
4.	Mr. Colin Sayers	Cargill Technical Services
5.	Mr. David Thwaites	Managing Director, GCDB

ANNEX B - SUMMARY OF RICE SALES PROCEEDS ACCOUNT

(THIS IS THE GOTG ADVANCE OR SECURITY DEPOSIT ACCOUNT)

Date	Debit	Credit	Balance
1986			
Dec. 17		8,378,626	8,378,626
Dec. 31		737,750	9,116,376
1987			
Jan. 05		2,321,250	
		648,750	12,086,376
Jan. 12		2,000	12,088,376
May 07	3,709,750		8,376,626
Oct. 22		3,306,651	11,685,277
Oct. 30	3,000,000		8,685,277
Nov. 25		2,958,798	11,644,075
1988			
March 30		9,729,500	21,373,575
March 31	10,000,000		11,373,575
April 20		10,000,000	21,373,575
	9,729,500		11,644,075
Sept. 09		3,068,927	14,713,002
Sept. 29		1,089,428	15,802,430
Sept. 20		1,089,420	16,891,852
1989			
Aug. 03	6,491,859		10,399,999
Sept. 29	10,000,000		399,999
Oct. 30		12,176,960	12,576,960
1991			
June 28	12,576,960		0

ANNEX C - SUMMARY OF RICE SALES RECEIPTS ACCOUNT

(THIS IS THE ACCOUNT INTO WHICH SALES RECEIPTS ARE DEPOSITED)
(PROGRAM COSTS ARE PAID FROM THIS ACCOUNT)

Date	Debit	Credit	Balance	Transaction
1987				
May 07		2,000	2,000	T.P.A.
		648,750	650,750	"
		737,750	1,388,500	"
		2,321,250	3,709,750	"
		1,935,000	5,644,750	S.P.D.
		66,000	5,710,750	"
Oct. 15		4,733,000	10,443,750	"
Dec. 02	336,570		10,107,179	P.O.
1988				
Jan. 21	160,124		9,947,055	P.O.
Feb. 11	102,855		9,844,199	"
Apr. 20		9,729,500	19,573,699	S.P.D.
	10,000,000		9,573,699	Reversal
Oct. 27		4,628,000	14,201,699	S.P.D.
1989				
Apr. 17		1,092,000	15,293,699	"
Apr. 19		2,444,000	17,737,699	"
May 03	816,258		16,921,440	?
May 11		2,144,000	19,065,440	S.P.D.
May 25		5,154,827	24,220,268	"
June 19		1,772,020	25,992,288	"
Sept. 13		665,600	26,657,888	"
		8,696,000	35,353,888	"
		810,000	36,163,888	"
Sept. 29	35,160,000		1,003,888	GPMB
Oct. 25	964,953		38,934	P.O.
Dec. 31			(81,281)	?
1990				
June 11		2,160,000	2,078,718	S.P.D.
June 30		2,700,000	4,778,718	S.P.D.
Aug. 03		2,430,000	7,208,718	S.P.D.
Aug. 07		2,430,000	9,638,718	S.P.D.
Sept. 12	442,763		9,195,955	P.O.
Sept. 12	2,430,000		6,765,955	
Sept. 17		837,500	7,603,455	Losses
1991				
Jan. 22	800,000		6,803,455	KIANG*
June 27	29,792		6,773,662	P.O.
June 28		2,947,440	9,721,112	Losses
June 30	9,721,103		9	KIANG*

T.P.A. - Transfer from Proceeds account
S.P.D. - Sales Proceeds Deposit
P.O. - Program Operations expense payment
* - Transfer to the Kiang West National Park account

ANNEX D - DEPOSITS FROM ACCOUNTANT GENERAL'S LEDGER RICE SALES RECEIPTS ACCOUNT

1987	
June	2,001,000
	3,709,750
	5,710,750
Nov.	4,733,000
Dec.	15,484,834

1988	
Mar.	3,099,500
	3,670,000
	2,720,000
	240,000
Sept.	468,000
	260,000
	728,000
	260,000
	208,000
	52,000
	156,000
	260,000
	208,000
	52,000
	156,000
Oct.	260,000
	104,000
Nov.	156,000
	104,000
	52,000
	156,000
	52,000
Dec.	52,000
	52,000
	52,000
	52,000
	52,000
	208,000
	52,000
	52,000
	52,000

1989	
Jan.	104,000
	260,000
	52,000
	52,000
	52,000
	208,000
	52,000
	52,000
	52,000
	52,000
	52,000
	104,000
	52,000
	52,000
	52,000
	52,000
	156,000
Feb.	104,000
	52,000
	52,000
	52,000
	52,000
	52,000
	52,000
Mar.	104,000
Apr.	555,000
	270,000
	540,000
	264,000
	260,000
	260,000
May	260,000
	260,000
	260,000
	39,000
	106,000
	1,139,000
June	840,000
	274,000
	1,662,000
	274,000
	1,248,000
	560,000
	560,000
	974,000
	414,000

1990	
May	270,000
	270,000
	810,000
	270,000
	270,000
	270,000
	270,000
	270,000
June	270,000
	270,000
	270,000
	270,000
	270,000
	135,000
	135,000
	135,000
	270,000
	540,000
July	270,000
	270,000
	270,000
	270,000
	270,000
	270,000
	810,000
Aug	40,000
	247,500
	10,000
	401,050
	42,950
Sept.	1,000
	53,000
	12,000
	30,000
	247,500
	10,000
	401,050
	42,950

			1,080,000	
			810,000	
			,	
			July 540,000	
			270,000	
			Aug. 665,600	
Total	31,639.334	16,021,500	16,355,100	8,397,500

Grand Total
72,413,934
21,591,564 not shown as credits in bank account (5,710,750-6/87.
15,484.834-12/87
104,000-3/89,
and 291,980-5/89 diff.
7,314,827 not listed in G/L, but credited in the bank account
(5,154,827-5/89, 2,160,000-6/90

ANNEX E - TRANSFER AUTHORIZATION CONDITIONALITY

8. Ending the Causes of the Need for Emergency Food Assistance:

(A) Objective: Under the terms of this Transfer Authorization, the Dalasis sales proceeds and certain economic policy measures will be used to enable the agricultural marketing system to pay and receive parity prices on a sustainable basis. Indicators of such ability include (1) a return of the Gambia Produce Marketing Board (GPMB) to financial solvency, and (2) responsiveness of all aspects of agricultural marketing to market forces.

(B) Maintain existing policy reforms: In pursuit of this objective, the GOTG agrees to continue to adhere to the policy reforms being executed under its Economic Recovery Program. Specifically, the GOTG agrees that:

1) the price of rice sold in The Gambia will be determined only by market forces; and

2) private traders may import and sell rice and fertilizer on a competitive basis; and the GPMB will limit its role in the rice trade to maintenance of food aid stocks and the accumulation of working stocks for emergency sale and/or distribution only.

(C) Implement new policy reforms: The GOTG also agrees to implement additional policy reforms deemed appropriate by both the Minister of Finance and Trade and the AID/Banjul Representative, or their designees, during the implementation of the Section 206 program. Specifically, the GOTG agrees that during the implementation of the Section 206 program it will implement the following measures according to the schedule described under item 14 below:

1) eliminate the fertilizer subsidy;

2) review and restructure the indirect tax system so as to eliminate distortions in incentives to and allocations of resources by rural producers;

3) sell or otherwise dispose of GPMB's non-productive, static assets not related to groundnut operations and help establish a clear accounting of the interlocking debts between the GPMB and other entities; and

4) schedule privatization (divestment) of GPMB's operations.

(D) Progress measurement: Prior to calling forward the second tranche of rice, the GPMB's interlocking arrears with other institutions will be delineated, the size of its debt defined, and a plan and schedule for the elimination of arrears and reduction of debt established. The use of sales proceeds will result in the reduction of the GPMB's overall debt by that amount. The GOTG will review the debt repayments schedule with AID/Banjul. Calls forward will be contingent upon reduction of debt and elimination of arrears of arrears according to schedule.

(E) In addition, the GOTG agrees to meet at least annually with AID/Banjul regarding the price setting mechanisms for groundnuts and the price of groundnuts.

12. Use of Funds:

The special account funds shall be used for:

(A) all handling, storage and transport costs associated with the food aid (to be approved for reimbursement by AID/Banjul upon receipt of supporting documentation); and

(B) a capitalization fund for the purpose of returning the GPMB to financial solvency and thus enable it to maintain stable, incentive prices for groundnut farmers selling their produce to authorized GPMB buying agents.

14. Calls Forward and Release of Funds:

It is agreed that food aid only will be provided for sale to the GOTG and funds available from the sale of rice under the Section 206 program will be released for price support only after the conditions precedent listed below have been met:

1) First tranche of food aid: Local currency released as long as GOTG has continued to adhere to paragraph 8.B above and only after the GOTG eliminates the fertilizer subsidy, and there are no tax collections which in any way are passed back to farmers or are added to GPMB's debt.

2) Second tranche of food aid: Local currency released only after the GOTG and AID/Banjul meet to discuss and schedule any additional policy reforms such as divestiture of GPMB operations, GPMB sale of peripheral assets including but not limited to the cement block facility and local real estate holdings. GPMB delineates interlocking arrears and a schedule and plan are established to eliminate them.

3) Third tranche of food aid: Local currency released only after the GOTG's full review of the indirect taxation system. GPMB ends subsidization of its public services and either transfers the cost of those services to the GOTG budget or privatizes those services.

4) Fourth tranche of food aid: Local currency released only after AID/Banjul and the GOTG agree on a schedule of any additional policy reforms deemed necessary, and a plan and schedule for divestment of GPMB non-

commercial operations is implemented in a timely manner starting at least by this point in time.

5) <u>Fifth tranche of food aid</u>: Local currency released once the GOTG's restructured indirect tax system is in place, and the GOTG announces the plan and schedule for ultimate divestment and privatization of all remaining GPMB operations and assets.

15. <u>GPMB Capitalization Fund</u>:

It is agreed by the GOTG and AID that:

(A) the capitalization funds available from the Title II Section 206 proceeds account under this agreement shall be administered jointly by the Minister of Finance and Trade and the AID/Banjul Representative or their designees;

(B) the funds will be available only for groundnuts price support by discharging the interest and principal of outstanding arrears from the groundnut trading account, and may not be used for any other commodities or purposes;

(C) the funds will be used to pay off past debts incurred by the GPMB only where these debts were incurred to stabilize groundnut prices, and only as long as the GPMB does not incur any new debt;

(D) the funds will not be accessible to any GOTG institution other than GPMB;

(E) the GOTG will cause the GPMB to maintain, in accordance with generally accepted accounting principles and practices consistently applied, books and records related to expenses incurred from its groundnut marketing and processing operations. The GOTG will cause GPMB to give AID/Banjul the right to inspect such books and records at all times that AID/Banjul may reasonably require during the time this program is in place and for at least three years after the date of the transfer of funds to GPMB during the 1988/89 trading season;

(F) the GOTG shall maintain in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the special local currency accounts. The GOTG shall grant to AID or any of its authorized representatives the right to inspect such books and records at all times as AID may reasonably require. Such books and records must be maintained for at least three years after the date of the last delivery of rice to the GOTG under the program; and

(G) the GOTG shall refund the relevant local currency account any monies not used for the purposes agreed upon by the parties, except as the parties may otherwise agree in writing.

ANNEX F - BIBLIOGRAPHY

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