PRIVATIZATION OPPORTUNITIES

REPUBLIC OF GAMBIA

REPORT BY

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CENTER FOR PRIVATIZATION

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GOG	-	GOVERNMENT OF GAMBIA
GPMB	-	GAMBIA PRODUCE MARKETING BOARD
MOF	-	MINISTRY OF FINANCE
MEPID	-	MINISTRY OF ECONOMIC PLANNING AND INDUSTRIAL DEVELOPMENT
GCU	-	GAMBIA COOPERATIVE UNION
GPR	-	GAMBIA PORT AUTHORITY
GRT	-	GAMBIA RIVER TRANSPORT COMPANY
GUC	-	GAMBIA UTILITIES COMPANY
FAQ	-	AS APPLIED TO GROUNDNUTS MEANS DECORTICATED GROUNDNUTS, FREE ALONGSIDE QUAY
KFAED	-	KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT
GRTA	-	GAMBIA RIVER TRANSPORT AUTHORITY
MBO	-	MANAGEMENT BY OBJECTIVES
PSE	-	PUBLIC SECTOR ENTERPRISE
ERP	-	ECONOMIC RECOVERY PROGRAM
MWC/PWD/ MED	-	MINISTRY OF WORKS AND COMMUNICATIONS, PUBLIC WORKS DEPARTMENT, MECHANICAL/ENGINEERING DEPARTMENT
NIB	-	NATIONAL INVESTMENT BOARD
PTF-RC-PSE		PRESIDENTIAL TASK FORCE FOR THE REFORM AND COORDINATION OF PSE'S

EXECUTIVE SUMMARY

1. Scope of Work

The scope of the consultant's work was outlined in USAID/Washington telex of February 13, 1986 to the USAID mission in Banjul as follows:

"(a) Hold meetings with MOF, NIB and others to review Economic Recovery Program and discuss recommendations and priorities of divestiture task force;

(b) Focus on GPMB to assess latest financial information and determine scope of proposed performance contracts with IRBD/IMF;

(c) Conduct cost/profit center analysis of GPMB major components ground-nuts, rice, fertilizers, cotton, vegetable oil, imports) in order to evaluate opportunities for breakup and subsequent divestiture;

(d) Prepare short term GPMB privatization plan including nature of tasks to be performed, types of specialized technical assistance required, and approximate cost/time schedule involved in implementing the plan;

(e) Undertake preliminary evaluation divestiture opportunities and within trip timing constraints."

The consultant stayed in Banjul, the Gambia from February 24th until March 15, 1986. In addition to the evaluation of divestiture opportunities within GPMB, the consultant was requested by the Program Officer of the USAID mission to evaluate two projects, namely the Yumdum sawmill and the Repair and Maintenance Center for Government owned vehicles, trucks and heavy equipment. The Consultant's observations on these two projects have been incorporated into this report.

2. Summary of Findings

(A) The Gambia Produce Marketing Board ("GPMB") which exports oilseeds to Western Europe account for a substantial share of export earnings. GPMB's profit corresponds to the spread between its total costs, i.e., producer price plus waste, storage, handling, overhead, export tax/shipping charges and the world price for oilseeds. If the spread is favorable, GPMB earns a profit which is credited to its capital namely its general and price stabilization reserves. Initially and until the late seventies, GPMB was profitable and built substantial reserves. However, over the past eight years, GPMB has invested in a costly depot program, financed government funds and government sponsored projects (banks, hotels, utilities, etc...) and has supported the Gambia Cooperative Union ("GCU") whose members account for 80 percent of the groundnut crop. This support has not resulted in the higher production of groundnuts, cotton and rice. Additionally the government required GPMB to pay large subsidies to farmers (fertilizers, rice). At the same time, the government has decided to increase the producer price. Over the past four years, the producer price has doubled but world prices have not followed suit. Thus, GPMB's financial condition is characterized by negative working capital, thin reserves and considerable short term indebtedness to the Central Bank. Operationally, GPMB evidences excessive assets and redundant personnel, a characteristic typical of most public sector enterprises ("PSE") around the world.

(B) The dialogue for the reform of the public sector including the possible privatization of some of the components of the major public sector enterprises such as GPMB has started. The discussion is still at an early stage and has been prompted by the International Bank for Reconstruction ("IRBD") and Development and the International Monetary Fund ("IMF"). The granting of additional credit facilities to the Government of the Gambia ("GOG") by IBRD and IMF will be conditional inter alia upon the implementation of performance contracts involving GPMB and other major public sector enterprises by October of this year. In spite of this pressure, the consultant did not detect any serious commitment to this approach among Government and GPMB officials. The only exception was the senior staff of The National Investment Board ("NIB") responsible for monitoring the performance of the public sector: NIB's activity would be greatly enhanced when performance contracts are implemented;

(C) The Joint USAID - GOG sawmill project, located at Yundum, is not operating satisfactorily. USAID has provided equipment and technical assistance valued at U.S. $200,000 to this project the total cost of which has been estimated at U.S. $800,000. In spite of an obvious demand for lumber products, the project is operating well below its breakeven point on account of inadequate power supply, insufficient fuel allocation by GOG; unavailability of spare parts, poor maintenance. These operating difficulties are compounded by the absence of qualified management.

(D) The USAID sponsored automotive maintenance and repair center, located at Kotu is expected to be turned over to GOG before December 1986. As observed in most developing countries, substandard maintenance grounds the Government fleet of vehicles, trucks, tractors and heavy public works equipment. USAID has spent U.S. $6.4 million in facilities, equipment and technical assistance. USAID funding is running out. When the project is turned over to GOG, two key components will be missing -- namely, an adequate inventory of spare parts and appropriately trained technical and management staff.

3. Outlook

(A) The Dialogue for the Reform of the Public Sector must be broadened so that GOG top echelon gets truly committed to this idea and convey its commitment to the working staff. The consultant is convinced that the most effective manner to pursue this dialogue is to approach the problem systematically for all PSE's. This systematic approach was adopted in Korea in 1984 for the control of government invested enterprises. The consultant recommends a similar approach with respect to the Gambia. There exists an urgent need for a Presidential Task Force for the reform and coordination of all PSE's ("PTF-RC-PSE") and for the definition of common guidelines pertaining to the management by objectives of all PSE's so that a meaningful and impartial comparison between targetted and actual results may be undertaken by PTF-RC-PSE at the end of each fiscal year and may lead to appropriate rewards or sanctions. The consultant believes that this type of legislation represents the cornerstone for the implementation of management accountability within PSE's and the eventual privatization of some of their components. This legislation would greatly facilitate the negotiation and finalization of performance contracts involving GPMB and other PSE's. The legislative process should be completed by year end. Technical assistance for this process would require the contribution of an economist and a legal counsel experienced in public sector legislation for a total of five man/months between May and July 1986. The estimated total cost of this effort would be U.S. $85,000.

(B) The Privatization of GPMB as a whole does not appear to be feasible for the following reasons:

- o Opposition by GPMB higher management and limited support by GOG,
- o GPMB's financial condition which is akin to bankruptcy,
- o Unprofitability of several GPMB's activities (briquette factory and inefficient oil crushing plant),
- o Likely lack of interest by Gambian investors due to magnitude of investment and high risks resulting from uncontrollable variables such as producer price level, insignificant world market share and uncertain outlook for international groundnut prices. Import trading and re-export activities are more lucrative and entail far less risks,
- o Limited size of Gambian oilseed crops is not sufficient to attract most international commodity traders (Unilever and others withdrew from this activity in the seventies),

- o Perpetuation of GPMB and other PSE's for the foreseeable future through the implementation of performance contracts,
- o Special and highly politicized relationship between GCU and GPMB. As long as the fate of Gambian agriculture is controlled by GCU and as long as GPMB supports GUC, the privatization of GPMB will remain an elusive goal.

(C) At the same time, some of GPMB components can and should be privatized. The objective should be to privatize selected components as much and as frequently as possible. When this process is completed, GPMB's activity will revolve around the successful marketing of oilseeds on the world market, the build up of adequate reserves and the stabilization of the local rice market through buffer stocks. The consultant believes that partial privatizations of GPMB could be implemented through several techniques, namely:

(i) The break up of the de facto monopoly granted by GPMB to GCU for the distribution of fertilizers and seeds. Private traders should be allowed to participate in this activity so that the needs of the farming community for these inputs would be better served;

(ii) The further freeing of crop purchasing to include cotton which is currently undertaken by GPMB and CGU;

(iii) The use of arm's length relationship management and/or lease contracts for the unshelling (decorticating) of groundnuts and cotton ginning. Should the lease route be preferred in the case of the cotton ginnery, the rental rate would have to be based on part of the depreciation and interest charged on account of the low supply of cotton and plant capacity utilization;

(iv) The sale of certain components to private investors. A case in point would be the sale of the rice milling plant at Kaur. Grain/rice milling is generally a profitable activity around the world. Furthermore, rice milling should be encouraged at the sub-regional or even village levels. Small privately owned mills are in evidence in other parts of Africa and contribute to transportation cost savings;

(v) The elimination of certain departments within GPMB such as the construction and maintenance department: Electrical, carpentry, plumbing maintenance or repair work could be contracted to private operators. Furthermore, GPMB competes with other manufacturers of concrete blocks. It is proposed that the assets for the production of concrete blocks be sold to private investors. An alternative would the leasing of these facilities to an existing operator with an option to purchase clause.

The cost of technical assistance in connection with the privatization of GPMB has been estimated at U.S. $170,000. It would include an audit of GPMB personnel, the technical evaluation of GPMB processing facilities and the assessment of the marketing performance of GPMB, Ltd., the sales and marketing subsidiary located in the United Kingdom. Except for the personnel audit which should be completed in the fourth quarter of 1986 in order to comply with IRBD/IMF requirements, the other investigations would take place after October 1, 1987, that is after all the mechanisms for the reform of PSE's are in place.

(D) Privatization appears to be the only effective way to resolve the current crisis situation at the USAID Sponsored Sawmill Project. The dialogue has already started with the Secretary of the Forestry Department and should be pursued without delay. A seven year lease contract with a qualified private operator would include an option to purchase and the formal commitment by GOG to provide for free access to forestry resources and adequate fuel allocations. No technical assistance has been planned for this project but estimates could be provided upon request.

(E) At this stage, there appears to be a limited role for the privatization of the Kotu automotive maintenance and repair center. The first priority is to coordinate donor activities so that the Center can be operated with a vital spares parts inventory of adequate size and with the assistance of a nucleus of qualified managers/advisors. In two years time, privatization may be practical and special attention should be paid to maintaining acceptable standards of service and a reasonable allocation of work between public and private sector vehicles.

(F) The above privatization opportunities may be summarized in a tabular form as follows:

ORGANIZATION	PROPOSED PRIVATIZATION	TIME HORIZON
GMPB	Ereak up GCU Monopoly for inputs distribution	Within 18 months
GPMB	Open cotton purchasing to to Private traders	Within 18 months
GPMB	Management contract - decorticating of groundnuts	Within 18 months
GPMB	Lease contract - Cotton ginnery	Within 18 months
GPMB	Sale of assets - Rice milling plants and encourage local rice milling	Within 18 months
GPMB	Sale of assets - Concrete blocks equipment	Immediate
GPMB	Elimination of construction & maintenance department - Contracting of outside services	Immediate
Yumdum Sawmill	Lease contract with qualified private operator with option to purchase	Immediate
Kotu Automotive Service Center	Sale of assets or management contract with qualified private operator	2 years following start of operations. Feasibility study required

SECTION 1 - THE GAMBIA PRODUCE MARKETING BOARD

1.1 GPMB's Responsibilities

GPMB was established in March 1973 "to provide for the regulation and control of the marketing and export from and import into The Gambia of produce and for matters connected there with and incidental thereto." GPMB is an autonomous public enterprise whose main responsibilities may be summarized as follows:

1.1.1 Purchase Gambia produce (groundnuts, groundnut oil and cake, paddy rice and milled rice plus palm kernel, cotton, maize, sorghum and millet) only through appointed licensed buying agents and licensed buyers whose license is subject to the approval of the GPMB Board of Directors for each season;

1.1.2 Appoint annually a number of designated collection places ("seccos") as exclusive buying stations where the produce may be cleaned, weighed, bagged and purchased by licensed buying agents or housed buyers:

1.1.3 Sell produce on an exclusive basis and do all things necessary for and in connection with the sale, export, import, shipment and storage of produce;

1.1.4 Sell or supply on credit to producers inputs such as seeds and fertilizers;

1.1.5 Establish annual producer (i.e., gate farmer) prices for the products mentioned above;

1.1.6 Establish and maintain general and price stabilization reserves from the proceeds of produce sales;

1.1.7 Borrow funds for operating purposes;

1.1.8 Invest funds in Government bonds/funds and buy/sell securities and shares in companies;

1.1.9 Keep accounting records in conformity with generally accepted standards and publish audited annual reports to be laid before Parliament;

1.1.10 Collect export taxes on all produce exported from the Gambia and transfer such funds promptly to the Ministry of Finance ("MOF");

1.1.11 Pay MOF a tax equivalent to 2 percent of the annual sales turnover;

1.1.12 Receive grants from the government of the Gambia ("GOG"); and

1.1.13 Pay subsidies and effect other transfers of money as directed from time to time by GOG.

The Constituent Act, a copy of which may be found in Exhibit I, contains many detailed provisions defining and controlling GPMB activities. This is hardly surprising since GPMB plays a predominant role in the Gambian economy. Groundnut products marketed by GPMB account for 85 percent of the export revenues generated by domestic products and 16 percent of total export revenues including re-exports.

1.2 Significant Developments Since the Creation of GPMB

Over the past thirteen years, several developments have taken place and impacted upon the structure and/or operations of GPMB as follows:

1.2.1 The steady decline in the size of the groundnut crop to an annual level of 130,000 to 150,000 tons in the 70's to 80 - 100,000 tons since 1980 and expected to reach an all-time low of 48,000 tons in 1985/86;

1.2.2 The mixed and disappointing results of the agricultural diversification program as evidenced by the following figures:

(Crop in tons)	1974/75	1982/83
Rice	736	2726
Palm Kernels	1523	612
Cotton	272	2405

Results for these crops have consistently been below expectations. The gap was especially wide in the case of rice when crops of 10,000 tons or better were forecast for the 80's. The shortcomings of the domestic rice crop have caused a sharp rise in rice imports from 17,000 tons in 1974/75 to 34,000 tons in 1982/83.

1.2.3 The preponderance of the Gambia Cooperative Union ("GCU") in the marketing of agricultural inputs (seeds and fertilizers) and the purchase of the above mentioned products on GPMB's behalf. In 1982/83, GCU was the sole distributor of inputs and accounted for 80 percent of the produce purchases as compared with less than 50 percent in 1974/85. With the encouragement of the government following independence GCU gained momentum and in the late seventies the expatriate (British and French) trading houses ceased their activities as GPMB's licensed buying agents. Produce purchasing has become concentrated around GCU and a couple of Gambian traders of Lebanese descent. However, the lack of competition made it necessary for GPMB to appoint licensed buyers in 1981/82 in order to improve the overall performance of the purchasing network;

1.2.4 The downward trend of groundnut crushing operations as a consequence of reduced groundnut production and the decision by GPMB to export a lesser proportion of finished products (oil and cake). In 1974/75, the output of finished products was 56200 tons or 41 percent of the volume of purchased undecorticated groundnuts. In 1982/ 83, the output of finished products was 39,175 tons or 31 percent of purchased undecorticated groundnuts;

1.2.5 The concomittant decision by local trading farms (Massri and Mahdi) who had established and operated the two oil mills for several years prior to 1973 to terminate their involvement in groundnut processing and sell their mills to GPMB in the late seventies;

1.2.6 The processing by GPMB of commodities other than groundnuts, i.e., cotton ginning and the milling of paddy rice;

1.2.7 The construction of 10 modern depots around the country to improve the collection, storage and evaculation of groundnuts based on the assumption that the crop would average 175,000 tons in the eighties;

1.2.8 The modernization of the decorticating and oil processing mill at Denton Bridge near Banjul including conveyors, power generation and related equipment;

1.2.9 The involvement of GPMB in river transportation operations for the hauling of groundnuts to Banjul for processing and exportation;

1.2.10 GPMB's role as supplier of operating funds to GCU and as investor in government bonds and/or funds as well as government owned agricultural banks, citrus processing facilities, hotels and public utilities. Most of these investments were made during the late seventies and early eighties when the GOG policy was essentially development oriented;

1.2.11 The use of GPMB by GOG as fiscal agent for the payment of subsidies covering fertilizer and rice distribution as well as local sales of groundnut oil. These subsidies were reportedly terminated at the beginning of fiscal year 1985-86.

1.3 Summary Assessment of GPMB's Operating Performance

The following evaluation is based on available information and visits to some GPMB facilities and interviews with GPMB personnel:

1.3.1 GPMB has become a very complex organization by West African standards. It employs approximately 1200 people at all levels, coordinates the purchasing, processing and marketing of no less than eight product lines in the Gambia and worldwide and operates the Gambia River Transport Company. It manages a sizeable portfolio of loans and investments, covering several sectors of the economy and it has become a transfer agent used extensively by the government.

1.3.2 The organizational characteristics of GPMB are those of a highly centralized decision making power with limited delegation of responsibility and confused internal communications and reporting relationships.

1.3.3 GPMB appears to be an organization without a clearly defined mission and clearly understood operating objectives. The main activity namely the marketing of tropical commodities throughout the world and the building of price stabilization reserves has become diffused. GPMB has become a tool of economic development policy and its resources have not been used in the most cost effective manner by the government. Additionally, the government has used GPMB increasingly for the payment of subsidies to farmers (fertilizers and rice) and GPMB reserves have been depleted;

1.3.4 Strategic planning has not been the hallmark of GPMB management as evidenced by the three following examples:

(i) The costly program for the construction of depots and related facilities - 38,000,000 Dalasis spent between 1974 and 1983 - has resulted in underutilized and ill coordinated facilities. For instance, the new GPMB depot located at Kwinella (Western Division) and well equipped with an automatic weighing scale, conveyor belts and a storage capacity of up to 5500 tons will be largely unused this year due to the low level of groundnut crop and has been largely underutilized since its construction. The situation is generally identical in the other depots although the rate of utilization varies from one installation to the other. However, with a total storage capacity of 45,000 tons, the turnover ratio of these installations for the period 1981-84 has averaged between 1.80 and 2.20. This year, with a groundnut crop of 48,000 tons and with the assist of local rice, palm kernels and cotton, the turnover is expected to reach 1.20 maximum. The underutilization of these assets preoccupies GPMB higher management. Furthermore, the absence of adequate storage facilities at the Denton Bridge decorticating and oil milling plan which makes the open air storage of up to 800 tons of groundnuts necessary, casts serious doubts as to the geographical distribution and location of some depots.

(ii) The current modernization program of the old expeller oil mill also cast some doubt about the depth of the capital budgeting process within GPMB. Between 1981 and 1984 at least 3,000,000 Dalasis were spent on the modernization of the old expeller oil mill. It should be noted that with the exception of fiscal year 1983/84, the oil and cake trading account has shown a long series of deficits. This is not surprising since the capacity of the mill (60,000 tons) has been utilized at a rate not exceeding 50 percent since 1975. The decline of the groundnut crop is partly responsible for the reduced level of crushing operations. Other factors have led to this reduction namely the relative cost inefficiency of a small expeller mill as opposed to a solvent extraction mill which yields more oil per ton of groundnut and the concomitant unfavorable cost/price relationship of oil and cake vis a vis decorticated groundnuts. For instance, in early February of this year, GPMB earned 995 Dalasis per ton of exported oil as compared with 1973 Dalasis per ton of exported groundnuts. GPMB estimates the trading profits for groundnut oil and decorticated nuts on a monthly basis. The estimates provide the basis for the determination of the tonnage to be crushed. The justification for the modernization of the oil mill is the alleged decline of oil crushing operations in Europe and the hope by GPMB management to eventually recapture some market share. This hope appears to be ill founded especially in view of the large build up of solvent extraction plants in Western Europe during the seventies. For all these reasons, the justification of the current modernization program of the existing cost inefficient facility does not appear too convincing.

(iii) The scale of other GPMB processing facilities does not reflect much depth in the internal capital budgeting process. For instance, the cotton ginnery with a stated capacity of 10,000 tons will probably be never utilizied at normal rate of capacity utilization. The facility stands idle for at least 9 months each year. The cotton crop would have to at least double in order to reach an economic level of capacity utilization. GPMB's rice milling capacity of 13,000 metric tons also far exceeds the supply of the local crop rice production which reached an all time high of 7900 tons in 1980/81, allowing for a 61 percent rate of capacity utilization. However, rice production is trending downward and the actual rate of capacity utilization has averaged 38 percent between 1979 and 1983. Unless new rice production schemes are successfully implemented, the existing milling capacity will never reach an economic level of utilization. In spite of this outlook, a new facility with a capacity equal to the capacity of the present mill at Kaur is reported to be in the planning stage.

1.3.5 The marketing performance of GPMB is also open to question. It is clear that the decline in the groundnut crop over the past ten years has further reduced the Gambia's market share of the world groundnut market (less than one percent). However, the comparison of the tonnages exported by GPMB in 1974/75 and 1982/83 (see Table 1) indicates that the number of export markets for FAQ groundnuts has decreased from six to four. GPMB has lost sales to the French, British and West German markets in spite of the Gambia's access to these markets through the medium of the Lome agreement. GPMB lost ground in the Netherlands but gained in Italy. However, the trend towards further concentration of export sales of groundnuts is also evolving with respect to marketing channels. As the GPMB Managing Director explained to the Consultant, all export sales are made through Unilever which occupies a predominant share with the Western European oil seed market. Thus, GPMB has become increasingly vulnerable and more open to pressures with respect to the price of groundnuts and groundnut products. Another noteworthy development has been the

TABLE 1 - COMPARISON OF GROUNDNUT AND GROUNDNUT PRODUCTS TONNAGE SOLD BY GPMB IN 1974/75, 1981/82 AND 1982/83

(METRIC TONS)	1974/75	Low Cropland 1981/82	High Crop Level 1982/83
GROUNDNUTS - Decorticated			
Portugal	18,361	2,375	15,956
Netherlands	18,538	10,250	16,776
Italy	9,865	12,150	16,941
France	5,200	2,624	--
United Kingdom	1,960	--	--
West Germany	939	--	--
Switzerland	-	--	2,499
Subtotal:	54,863	32,599	51,725
GROUNDNUTS - HPS			
Holland	N/A	1,645	1,876
United Kingdom	N/A	--	1,415
Subtotal:	3,311	1,645	3,291
OIL			
United Kingdom	16,388	2,073	4,656
Netherlands	808	--	--
Italy	--	1,000	1,300
France	--	4,711	4,539
Subtotal:	17,146	7,784	10,496
CAKE			
United Kingdom	23,844	492	--
Liberia	75	--	--
Netherlands	--	--	500
Italy	--	--	2,690
West Germany	--	3,948	4,540
Nigeria	--	2,600	2,604
Portugal	--	4,999	--
Subtotal:	23,919	12,039	10,333

(Source: GPMB Annual Reports)

substantial decline of oil and cake exports to the United Kingdom which was GPMB's traditional outlet for these products. The trend toward the fragmentation of cake sales -- a secondary product -- suggests that GPMB has to sell its cake wherever a temporary market is identified and that GPMB selling price must be adjusted to remain in this difficult and highly competitive market. Finally, it should be noted that since 1983, GPMB no longer participates in the hand picked selected (HPS) nuts market. Thus, this quality and higher priced market (which requires special varieties no longer grown in the Gambia) is lost to GPMB.

1.3.6 GPMB has proved to be a poor manager of the Gambia River Transport Company ("GRTC"). GPMB which took over GRTC assets owned and operated by foreign traders prior to 1973 has treated GRTC as a service department providing vital water transportation services for the evacuation of crops. GPMB's policy to require low rates has contributed to GRTC operating losses and inability to adequately maintain its tugs, launches and barges used for the transportation of groundnuts along the Gambia River. (Exhibit II). The consultant witnessed the substandard condition of GRTC equipment at Kwinella where several 30 year old rusty barges with approximately 150 tons of groundnuts had been held up over one week for lack of tug and/or tow boats. Wilbur Smith and Associates, a well known U.S. transportation consultant, commissioned by GOG and the Kuwait Fund for Arab Economic Development ("KFAED") in 1984/85 to conduct a study for establishing a Gambia River transportation Authority ("GRTA") documented the poor condition of GRTC equipment as follows:

> "The present lighter service has eight tugs and forty-nine lighters.. The oldest tug is circa 1935, and the average age of lighters is over 31 years. Half of the capacity of the lighter fleet is in 17 newer lighters.. These latter 32 lighters are aged, of limited capacity, and in poor state of repair."(1)

1.3.7 GPMB's <u>close support of GCU operations</u> has not proved to be beneficial to Gambian agriculture. Groundut yields in the Gambia averaging between 800 and 1000 kg per hectare are among the lowest in the world. In comparison yields in Brazil and the United States are 1,500 and 3,200 kg per hectare. The support of GCU by GPMB has taken several forms ranging from extended receivables to loans for the purchase of lorries and a de facto monopoly granted to GCU for the distribution of seeds and fertilizers. The support has not necessarily resulted in an improved service to the farming community. In prior years, complaints

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(1) Wilbur Smith and Associates: Study for Establishing a Gambia River Transport Authority - 1985; Executive Summary, Page 5.

have been voiced about the late deliveries of fertilizers and during the 1985/86 season, the supply of seeds was inadequate in terms of quantity, quality and delivery dates. This one factor affected plantings and is one of the main reasons for the very low level of the groundnut crop this year. Thus, it may be reasonably argued that GPMB's financial and other support of GCU may have been used to perpetuate the relative inefficiency of GCU.

1.3.8 In summary, the operations of GPMB have steadily deteriorated over the past ten years. Not unlike public sector enterprizes around the world, GPMB has excessive assets. Some of the most telling indicators of this condition are shown below:

(i) Increase in tonnage handled 1974/75 (158,000 tons) through 1982/83 (174,000 tons) . . . . . 10 percent

(ii) Increase in net fixed assets investment 1974/75 (9,993,000 Dalasis) through 1983/84 (43,000,000 Dalasis). . . . . 433 percent

(iii) Sales to total assets turnover ratio:

1974/75.	1.57 to 1
1983/84.	0.92 to 1

(iv) Fixed asset investment per ton sold:

1974/75.	63 Dalasi
1983/84.	248 Dalasi

(v) Sales to net fixed assets turnover:

1974/75.	6.04 to 1
1983/84.	3.61 to 1

1.4 Summary Assessment of GPMB's Financial Performance

Not surprisingly over the past ten years, the financial performance of GPMB has changed from that of a highly profitable organization with ample capital and price stabilization reserves, a liquid condition and a sound balance sheet to that of a virtually bankrupt organization. In addition to the above mentioned substantial increase in fixed assets and loans/investments and the payment of subsidies totalling 30,836,000 Dalasis between 1980 and 1984, the financial performance of GPMB has been adversely affected by the rapid rise in producer prices incompatible with world prices as evidenced by the following figures:

	1980/81	1981/82	1982/83	1983/84
Producer Price D/T	460	500	520	620
World Price D/T	1089	1041	1047	1840
GPMB Trading Profit (loss) in thousands of Dalasis	(4297)	(20643)	(33925)	27405

In 1983/84, the world price was high and reached three times the level of the producer price and GPMB earned a substantial trading profit. However, in the other years, the world price was below the level of 2.4 times the producer price level and was insufficient to offset decortication, handling, storage, overhead and marketing costs. This situation translated into several years of continuous losses. This year, even with the assist of floating exchange rates, the ratio of world to producer (1125 Dalasis per ton) to world prices (1795 Dalasis or $370 per ton in January 1986) is likely to cause another major trading loss for GPMB. Consequently, GPMB's current financial condition may be characterized as that of an organization which has excessive fixed assets, is illiquid and undercapitalized. Further, it has no borrowing capacity and the return on invested capital or assets employed is substandard (for further details, please refer to Tables 2 and 3). This condition calls for immediate remedial action.

1.5 Proposed Remedial Action

1.5.1 The remedial action package proposed by the consultant relies heavily on Privatization Techniques to be applied on a selective basis. These techniques involve the breakup of so called natural monopolies, opportunities for lease or management contract for several GPMB components and the introduction of management by objectives (MBO) into GPMB. However desirable the privatization of the whole of GPMB may be, it is currently unfeasible for the following reasons:

(i) Size of GPMB's operations;

(ii) The non-existence of a private capital market with the capability to undertake large scale trading and related operations. It should be noted that these operations were initially started by foreign trading companies (Unilever, CFAO, etc.) with little participation by local Gambian and Lebanese traders;

(iii) The preference of local businessmen for activities requiring a limited amount of capital and providing an opportunity for quick returns. Import trading and re-exports to other

TABLE 2 - GPMB: HIGHLIGHTS OF CONSOLIDATED FINANCIAL POSITION 1974/75 THROUGH 1983/84

BALANCE SHEET	1974/75	1981/82	1982/83	1983/84
Current Assets	72,881	40,970	40,460	57,418
Fixed Assets	9,993	43,991	50,118	53,599
Loans & Investments	1,312	8,572	12,853	17,712
Total Assets	84,186	93,713	103,431	128,729
Current Liabilities	1,249	76,577	115,389	110,262
Long term Liabilities	--	1,815	11,056	16,704
General Reserve	26,699	6,751	(23,013)	1,762
Price Stabilization Reserve	56,238	8,572	--	--
Capital Employed	82,937	15,323	(23,013)	1,762
PROFIT AND LOSS				
Sales Turnover	128,952	86,874	109,908	156,442
Sales Tonnage	158	122	174	N/A
Groundnut Tonnage	135	82	127	N/A
TRADING PROFIT/LOSS				
Groundnuts	N/A	(12,797)	(21,658)	N/A
Rice	N/A	--	(3,106)	N/A
Cotton	N/A	294	(39)	N/A
Palm Kernels	N/A	14	196	N/A
Other		(565)	(18)	N/A
Total Trading Profit	24,559	(13,055)	(24,625)	24,139
Operating Profit/Loss	24,559	(20,643)	(33,925)	24,139
Fiscal Profit/Loss	--	(12,651)	(4,410)	568
Total Profit/Loss	24,559	(33,924)	(38,335)	24,707
o Loss Applied to Price Stabilization Reserve	16,237	5,706	8,572	--
o Loss Applied to General Reserve	8,322	27,588	29,764	--

TABLE 3 - GPMB: MAJOR FINANCIAL RATIOS - 1974/75 THROUGH 1983/84

	1974/75	1981/82	1983/84	1984/85	Comments
Working Capital Current Ratio	71,632 to 1 .58	(35,607) to 1 .54	(74,299) to 1 .35	(52,844) to 1 .52	Healthy Liquid Position has turned into negative working capital.
Sales Turnover Relative to:					
o Total Assets	1.53 to 1	0.93 to 1	1.06 to 1	1.22 to 1	Overasseted condition
o Receivables	27.16	5.96	9.06	4.99	Slow collections
o Inventories	16.03	2.29	5.04	4.49	Increasing produce & spare parts inventory
o Working Capital	1.80	Negative Working Capital			Overtrading due to inadequate working capital
o Fixed Assets	12.90	1.97	1.75	2.91	Impact of depot & other capital expenditures
Fixed Assets to Capital Employed	0.12 to 1	2.87 to 1	Infinite	30.41 to 1	High ratio indicates illiquid capital position
Total debt to capital employed	0.02	5.12	Infinite	72.06	Stratospheric Ratio: Danger point
Sales to Capital employed	1.55	5.66	Infinite	88.79	High Ratio reflects under-capitalization
Operating Profit/ Assets	29 percent	Loss	Loss	19 percent	Inadequate return on assets
Operating Profit/ Sales	19 percent	Loss	Loss	15 percent	Inadequate return on sales

Sahel countries are favored by the local business community. In contrast, "brick and mortar" investments by Gambian and/or Lebanese businessmen (Wiedener hotel, Mercedes/ Peugeot distributorships) are very rare;

(iv) Qualified managerial resources are lacking, especially for an enterprise as complex as GPMB;

(v) The Gambia's share of the world market for groundnuts and groundnut products, palm kernels and cotton is so insignificant that private investors are not likely to be interested by excessive price fluctuation risks and profit margins over which they have a limited control.

1.5.2 However, <u>Selective Privatization Opportunities</u> should be instrumental in streamlining GPMB's operations and improving its overall effiency. The role of GPMB should revert to that of the pre-1973 Oilseeds Marketing Board whose mission was essentially the exportation of groundnuts, groundnut products, palm kernels and cotton together with the responsibility of building adequate price stabilization reserves. Opportunities for the privatization of some components coordinated or directly operated by GPMB include the ten following possibilities.

(i) Opening fertilizer imports and the distribution of fertiliers to GCU and the private traders as well. GPMB would no longer be involved in the importation of fertilizers into the Gambia. Fertilizers would be imported directly by GCU to farmers. GPMB could lease some of the available space at its depots for the storage of fertilizers. The estimated size of the fertilizer market (8000 tons or 8,000,000 Dalasis in 1985-86 equivalent to U.S. Dollars $1,778,000) should be sufficient to attract more than one distributor. There would be more than a few traders who would have the necessary financial resources to participate in this activity. The farming community would benefit from increased competition;

(ii) Opening the multiplication of groundnut and other seeds to non GCU farmers and their distribution to qualified traders other than GCU. Although it is difficult to accurately quantify the existing and relatively modest seed market (2000 tons of groundnut seeds or 1,300,000 Dalasis in 1985-86 equivalent to U.S. Dollars $289,000; plus 400 tons of cottonseed and rice seed or 260,000 Dalasis), there is a need for timely seed deliveries and for a larger supply of improved or certified seeds. A small number of qualified and credit worthy traders should be given the opportunity to enter this so called natural monopoly enjoyed by GCU so that the needs of all farmers can be better served;

(iii) Open the buying of all locally grown crops to all licensed buyers agents and direct buyers. Although the purchasing of groundnut, rice, maize, sorghum and millet is open to all licensed buyers, cotton is still primarily handled by the GPMB staff with a growing participation by GCU. The liberalization or the produce purchasing process which started during the 1981/82 should be brought to its logical conclusion so that the interest of all farmers irrespective of their crops or affiliation may be served;

(iv) Consolidate the trend towards a free market system for the distribution of rice, local and imported. At the same time, GPMB should take steps to insure continuity of supply throughout the year and avoid price gouging by local distributors as was the case in Banjul in early March 1986. GPMB's role should be confined to the importation of rice, the maintenance of a buffer stock, the selling of all imported rice to private traders and distributors and to act as a check on them. The freeing of the distribution of imported rice should be paralleled by the ability of rice producers to dispose of their paddy to independent millers (see recommendation (vi) below);

(v) The turning of the two decorticating plants to private interests on an arm's length management contract basis. A cost plus per ton formula would offer maximum flexibility. The contract might also include a clause with an option to sufficient to interested private parties (50,000 tons per year). Prior to 1973, the decorticating plants were owned and operated by local companies (Massry and Madi). Therefore, they would be likely candidates for a management contract;

(vi) Private enterprise should be allowed to play a role in rice milling. The existing GPMB mill located at Kaur within the rice producing area needs substantial improvement. Grain/rice milling is generally an attractive line of business offering adequate profit opportunities. In the United States, grain milling yields an average return of 19 percent on equity and a return on assets of 11 percent. The Kaur mill could be sold to private investors who would be responsible for the rehabilitation the existing facility. Moreover, smaller private investors should be given the opportunity to own and operate smaller mills at the level of several villages. This approach would offer the added advantage of reducing intra-regional transportation needs and appears to be more economical than the creation of a new centralized mill as planned by FAO and GOG;

(vii) The efficiency of the cotton ginnery might be improved through an arm's length mangement contract with a private operator. While it is recognized that the scale of the existing ginnery does not make it possible to operate the ginnery at economic levels of capacity utilization, a private operator would be likely to pay more attention to direct labor costs and other variable expenses per ton. An alternative to a management contract would be a lease arrangement with a rental rate based on a fraction of the depreciation and financing charges;

(viii) GPMB's construction and maintenance department which undertakes electrical, carpentry, masonry, plumbing work and/or repairs and the manufacture of concrete blocks is another operation which may be leased or contracted to private operators. The contracting of these activities to outsiders would be in line with the elimination of the refrigeration and air conditioning unit in 1983. The elimination of this, non-revenue producing department would result in the further reduction of labor costs averaging 550,000 Delasis per year between 1981 and 1983. It could be further argued that a number of GPMB facilities are not adequately maintained or kept at the present time and that a radical change is needed.

1.5.3 GPMB Components to be Excluded from Privatization Efforts

(i) The outlook for the modernization of the existing facility or a new investment for a new solvent extracting plant with a maximum capacity of 250 tons per day (investment cost of at least U.S. $7,000,000) does not appear promising. Thus, it is unlikely that private investors would take the risk of uncertain world prices for oil and cake and assume the risk of a dwindling source of groundnut supply which would prevent them from using the full capacity of the plant. As a matter of fact, it could be reasonably argued that GPMB terminate its involvement in the crushing of groundnuts and export decorticated nuts only;

(ii) Since the demand for groundnut shell briguettes to be used as source of domestic fuel is reportedly weak, it is unlikely that the continuation of this activity would be attractive to private investors and/or GPMB;

(iii) Therefore, it is suggested that both activities be excluded from any privatization plan. Further, GPMB should not invest any additional capital in the existing oil mills. Eventually, GPMB will have to write off both investments. Should GPMB insist on maintaining a very modest presence in the world vegetable oil market, it could conceivably source some oil elsewhere in West Africa and sell it internationally. GMPB loss on the trading account of groundnut and oil would probably be substantially reduced.

1.5.4 Proposed Operating Structure of GPMB

When the above recommendations are implemented, the structure of GPMB will be altered significantly. It will be essentially involved in the exportation of oilseeds to the world market. Its purchasing operations will be essentially delegated to licensed buyers. It will no longer be involved in the processing of crops. It will seek to maximize operating profits and to build adequate price stabilization reserves. This will require the determination of producer prices commensurate with world oil seed price levels and the opportunity to earn a trading profit. GPMB will continue to collect export taxes, pay the corporate sales turnover tax but the use of its reserve shall restricted to price stabilization and the offsetting of any trading loss. Only one exception will be made to the above scheme. Since rice will continue to be the staple of the Gambian diet for years to come and since imports will be required to fill the gap resulting from the shortage of locally produced rice, GPMB's mission will be that of a stabilizing body.

1.5.4 Implementation of Management by objectives at GPMB and other Public sector enterprises

(i) One of the key tenets of the Economic Recovery Program (ERP) formulated by GOG is the improvement of the performance of public sector enterprises ("PSE") which play a vital role in the Republic of Gambia. The 1985 USAID study of GPMB and the IBRD/IMF missions over the past twelve wonths have echoed the same idea. As a matter of fact, IBRD has made available to GOG a special loan of U.S. Dollars $200,000 to finance technical assistances services to be provided by the firm of Coopers and Lybiand International for the definition of performance contracts to be negotiated with the management of GPMB, Gambia Port Authority ("GPA") and the Gambia Utilities Company ("GUC"), the three most influential PSE's in the Gambia. The Coopers Lybrand team is scheduled to commence its work in April 1986 at the latest and the performance contract system for the above mentioned PSE's is to become operational on October 1, 1986. Eventually the approach will be extended to all PSE's. Therefore, the improvement of the PSE's performance will be a key factor in the consideration of further credit accomodations by IRBD and IMF to GOG;

(ii) This approach which is based on the concept of management accountability is very worthwhile. At the same time, it suffers from seven basic shortcomings as follows:

(a) The idea is being promoted and pushed by IBRD and IMF.

(b) The staff of the Ministry of Finance ("MOF") and of the Ministry of Economic Planning and Industrial Development ("MEPID") is not fully committed to the concept.

(c) The management of GPMB did not display any enthusiasm for the process.

(d) The only notable support was expressed by the staff of the National Investment Board ("NIB") who has a vested interest in an expansion of its policy making and monitoring functions as they relate to PSE's.

(e) The time horizon for the implementation of the performance contract system as of October 1, 1986 appears to be optimistic. Where the French Government tried this approach with SNCF (French National Railroads), the process required no less than thirteen months. When the Government of Senegal negotiated a performance contract with SONOCOS, the state owned groundnut marketing board, the process was even longer.

(f) More importartly, in the absence of common "rules of the game" for the entire public enterprise sector, the process of preparing and negotiationg performance contract with individual PSE's such as GPMB is likely to be an even more difficult task.

(g) Finally, performance contracts whose aim is primarily the operating improvement of PSE's may actually exclude the possibility for any future privatization unless contracts provide the mechanism for an option to buy.

(iii) What is actually needed as the starting point of the reform of the PSE's in the Gambia is legislation which would define the modus operandi for all such organizations and express the official commitment to this new approach. This approach was adopted by the government of the Republic of Korea (GOK") in the Government Invested Enterprise Management Act of December 31, 1984. The purpose of this legislation was to "stipulate basic matters on the self regulatory management structure of government-invested enterprise and thereby to secure managerial rationalization of invested enterprise and to facilitate effective control of Government investment." (A copy of the English version of the Act may be found in Exhibit III). In other words, instead of approaching the problem piece meal as proposed for the Gambia, GOK adopted a comprehensive approach which proved successful. The Consultant believes that the same type of approach would greatly facilitate the introduction and implementation of performance contracts in the Gambia. The Public Sector Enterprise legislation should cover the following eight basic points:

(a) Constitution and appointment of A High Level Presidential Task Force for the reform and coordination of PSE's ("PTF-RC-PSE"). The task force should consist of high level representatives of MOF, MEPID, NIB as well as Presidential Appointees drawn from the public and private sectors.

(b) Formulation of guidelines for the coordination of PSE's through the budgetary process and the definition of annual operating objectives (commercial and non commercial).

(c) Guidelines for the standardized preparation and presentation of annual operating and financial performance reports.

(d) Guidelines for the objective evaluation criteria to be used for the assessment of the performance of PSE's.

(e) Guidelines for the definition of rewards and/or sanctions in connection with the performance of PSE's.

(f) Guidelines for the accounting principles common to all PSE's especially concerning such sensitive items as fixed asset justification and recording, depreciation procedures, treatment of interest charges, valuation of loans/investments/inventories/receivables and treatment of cross arrears.

(g) Guidelines for the operating autonomy of PSE's to cover personnel matters, investment policies and arm's length relationship between all PSE's.

(h) Guidelines for the financial autonomy of PSE's with respect to the disposition of earnings and the provision for the reimbursement of costs associated with public sector activities (e.g., payment of subsidies) from the general budget. Once these guidelines are legislated the process of preparing and negotiating performance contracts or standards of performance will be greatly facilitated. It will evidence GOG's commitment to the reform of the PSE's. It will also facilitate the revision of the Constitutent Act of each PSE. The consultant is convinced that the legislation outlined above represents the corner stone of management accountability. Successful examples of mananagement by objectives and performance evaluation in the private or public sectors are based on a clear definition of the essential rules for controlling operating units objectively by comparing results with negotiated performance targets at the close of each fiscal year. This mechanism does not exist in the Gambia at this time and is urgently needed.

1.5.4 Implementation Schedule

A tentative schedule for the implementation of the proposed remedial action aimed at creating an environment conducive to the privatization of the selected GPMB components, streamlining the operations of its operations and the improvement of its operating and financial performance would include the following activities:

Activity	Starting Date	Completion Date
1. Drafting of the Public Sector Enterprise Management Bill	May 1986	July 1986
2. Committee Review of Public Sector Enterprise Management Bill	Aug. 1986	Sept. 1986
3. Submission of Public Sector Enterprise Management Bill to and Approval of Act by Parliament	Oct. 1986	Nov. 1986
4. Preparation of Annual Performance contract draft for GPMB	May 1986	Aug. 1986
5. Submission of Annual Performance Contract Draft to GPMB for Discussion and Modifications	Sept. 1986	Nov. 1986
6. Appointment of Presidential Task Force for the Reform and Coordination of PSE's ("PTF-RC-PSE")	Nov. 1986	
7. Preparatory Work of PTF-RC-PSE	Dec. 1986	Jan. 1987
8. PTF-RC-PSE Focus on Draft of GPMB Annual Performance Contract	Feb. 1987	March 1987
9. Negotiation of GPMB Annual Performance Contract with PTF-RC-PSE	April 1987	May 1987
10. Finalization of GPMB Performance Contract for FY 1987/88	June 1987	June 1987
11. Preparation and submission of GPMB Budget and Operating Plans for FY 1987/88 to PTF-RC-PSE	July 1987	Aug. 1987
12. Review and Approval of GPMB Budget and Operating Plans for FY 1987/88 by PTF-RC-PSE	Sept. 1987	Sept. 1987

	Activity	Starting Date	Completion Date
13.	Management by Objectives become Effective	Oct. 1, 1987	
14.	Finalization of GPMB Performance Contract for FY 1988/89	June 1987	
15.	Preparation and Submission of GPMB Budget and Operating Plans to PSE-RMC for FY 1988/89	July 1987	
16.	Review and Approval of GPMB Budget and Operating Plan for FY 1988/89 by PSE-RMC	Sept. 1987	
17.	Preparation of GPMB FY 1986/87 Performance Report and Audit of Financial Statements and Submission to PTF-RC-PSE	Oct. 1987	Nov. 1987
18.	First Evaluation of GPMB Performance by PTF-RC-PSE	Dec. 1987	
19.	Implementation of Selective Privatization Opportunities to be continued in FY 1988/89	Oct. 1987	Sept. 1988 & Beyond
20.	Cycle Repeats itself for each subsequent fiscal year.	Oct. 1, 1988	

Based on the above schedule, the Public Sector Management Act would become effective in December 1986 and the performance contract mechanisms would be in place by October 1987. The first evaluation of GPMB performance for the fiscal year 1986/87 would take place in December 1988 soon after FY 1987 results are available. The system would probably require two to three years before it is perfected and can function smoothly. In the meantime, opportunities for the privatization of some of the GPMB components could be incorporated into its performance contract and be implemented after October 1987.

1.5.5 Estimated Cost of Remedial Action Implementation

(i) The drafting of the public sector management bill will require the joint work of an economist and a lawyer well versed in the parliamentary legislative process for a combined total of five (5) months. Professional fees for such an effort would be around U.S. $70,000 and per diem and travel expenses would amount to approximately U.S. $15,000. This effort would go a long way towards creating a climate favorable to the use of private management techniques in PSE's and the eventual privatization of some of their components;

(ii) Specific technical assistance efforts for the privatization of some of GPMB's activities will require the intervention of experts for periods of up to one month. Assuming that three separate one month studies would be required, the cost thereof would be around U.S. $40,000 excluding travel and per diem estimated at U.S. $15,000. Likely technical investigations would focus on the evaluation of GPMB oil mill and other GPMB processing facilities.

(iii) The USAID sponsored study of GPMB identified the need for a detailed personnel audit and for the preparation of an employee training program. IRBD is insisting that the personnel audit of GPMB, GPA and GUC be completed before December 1986. Although the scope of the audit was well defined in the USAID study, its cost was not estimated. Additionally, the Consultant believes that GPMB would be likely to benefit from an impartial assessment of the performance of the Gambia Product Marketing Board Ltd. ("GPMB Ltd"), GPMB's sales and marketing arm in London. Such an assessment should be conducted by an international oil seeds trading expert. The total cost of these two investigations has been estimated tentatively at U.S. $115,000 of which $90,000 would be for professional fees;

(iv) In summary, the total cost of the various assessment as suggested above has been estimated at $255,000 ($200,000 in fees and $55,000 in other expenses). The first priority would be technical assistance to the preparatory work preceding the enactment of the Public Sector Enterprise Management Act before December 1986. Another priority for the current year would be the completion of the audit of GPMB personnel for a total consideration of U.S. $65,000 broken down in professional fees of $50,000 and other expenses of $15,000. Finally, the marketing evaluation of

GPMB, Ltd. has been estimated at a total of U.S. $50,000 ($40,000 in fees and $10,000 in other expenses). Table 4 provides a recapitulation of the estimated costs connected with the implementation of the proposed remedial action program including the privatization of selected GPMB components.

TABLE 4 - ESTIMATED COSTS OF INVESTIGATIONS REQUIRED FOR THE IMPLEMENTATION OF REMEDIAL ACTION PROGRAM INCLUDING THE PRIVATIZATION OF SELECTED GPMB COMPONENTS

TYPE OF TECHNICAL ASSISTANCE EFFORT	ESTIMATED FEES		ESTIMATED OTHER EXPENSES		APPROXIMATE SCHEDULING
Legislative and Related Work	$70,000		$15,000		May through July 1986
Audit of GPMB Personnel	$50,000		$15,000		September through November 1986
Selected GPMB Privatization Opportunities	$40,000		$15,000		After October 1987
Evaluation of GPMB, Ltd.	$40,000		$10,000		After October 1987
TOTAL COST	$200,000	+	$55,000	=	$255,000

SECTION 2 - USAID SPONSORED SAWMILL PROJECT -

MEMORANDUM

TO: USAID/BANJUL

FROM: JEAN G. CROUZET, Consultant

UNITED STATES GOVERNMENT

memorandum

DATE: March 06, 1986

REPLY TO ATTN OF: Jean G. Grouzet, Consultant
International Phoenix Corp. JGG

SUBJECT: SAWMILL PROJECT

TO: Messrs: Tom Mahoney and Tom Hobgood
USAID/Banjul

On March 3, 1986 at 1:30 pm the Writer who was accompanied by Mr. Hobgood, USAID/Banjul visited with Mr. Bye Mass Taal, Director of the Forestry Department. This visit was in response to Mr. Mahoney's request to spend sometime in the evaluation of the USAID sponsored sawmill project located near Yundum Airport. The following aspects were discussed:

1. The demand for lumber is apparently unlimited in The Gambia. So, demand should not pose any problem although the sawmill has never been in a position - when operating - to sell more than 1,900 boardfeet per day, i.e., much below the estimated breakeven point of 6,000 boardfeet per day as reported in the USAID evaluation report;

2. The major operating bottleneck has been the supply of smaller logs due to lack of transportation (idle trucks), fuel and spare parts. Even the use of animal traction for the transportation of logs was contemplated but lack of government funds has prevented this course of action;

3. Other constraints are lack of electric power (which shall be remedied in early April when the sawmill is scheduled to be connected to the national grid) and tighter budget requirements. One might conclude that this recital of excuses or extenuating circumstances is symptomatic of an absence of incentive;

4. Mr. Taal suggested that one solution to the problem would be to create a public enterprise which would take over the activities of the USAID sponsored Sawmill in addition to the old government sawmill which has fallen into disuse;

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5. The Writer retorted that he doubted this would be the best effective way to recoup the $800,000 estimated capital cost and the $403,000 loss to date resulting from 14 months of daily losses incurred at the rate of $1200 per day for 24 days per month. The USAID evaluation report indicated daily operating costs (fixed and variable in the amount of $1200). The Writer suggested that some kind of privatization would be more appropriate since lumber mills owned by private investors elsewhere are generally profitable. (Robert Morris Associates Statement studies indicate an average gross margin of 22% and profit before Taxes of 5% for the industry in 1976). The following alternatives were mentioned/reviewed:

   5.1. Outright sale of the USAID sponsored sawmill to private investors. After closing down the project, this would probably be the worst choice for the government and USAID. Since the sawmill is not a going concern at the present time, it would have to be sold on a liquidation basis. Only the private investor would profit;

   5.2 Lease by the Department of Forestry to a qualified private investor. Several variations would be possible. Assuming a 7-year contract based on annual rental fee of $184,320 corresponding to reported fixed costs of $640 per day and 24 days per month, the initial investment of US$1,203,000 would be paid back in approximately 6 1/2 years but the internal rate of return on the project investment would be negative. This course would be preferable to any loss - partial (resulting from liquidation) or total (if the project is abandoned). However, this return may be improved with an 8-year lease with an option to purchase payment of $184,320 at the end of year 8. In this case, the internal rate of return would be very close to 4.90 percent, which is as good as may be expected under the circumstances;

   5.3 Management contract signed between the Department and a qualified private operator. Such a contract would call for minimum annual payments of $184,320 as in the preceding case which a clause for increased payments based on sales turnover. Such a contract might also include an option to purchase on the expiration date. Possibly, an internal rate of return in excess of 5 percent might be obtained.

6. At the end of the meeting, the consensus was that a meeting should take place in a not too distant future to discuss all available options ranging from continued inaction and concomitent lossess, closing of the project, liquidation, lease and/or management contract with a qualified private operator. Obviously cost assumptions would have to be refined somewhat but action is of the utmost importance. Thus, it was agreed that a meeting between the Department, Ministry of Finance, NIB, USAID and other

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interested parties would take place soon, i.e., after March 18, 1986 when Mr. Taal is scheduled to return from an official overseas trip.

7. On the way back to the USAID mission, Mr. Hobgood and the Writer further discussed the sawmill project. It was agreed that only the new sawmill sponsored by USAID should be the subject of further talks and that every effort shall be made to dissociate this facility from the older government owned one which has fallen into disuse.

8. Finally, the Writer shall visit the USAID sponsored sawmill during the week of March 7, 1986.

JGG/jsb

March 13, 1986

Jean G. Crouzet, Consultant (International Phoenix Corporation) JGC
Yundum Sawmill

Messrs. Mahoney and Hobgood, USAID Mission, Banjul

1. On March 10, 1986 Mr. Hobgood and the writer visited the USAID sponsored sawmill near Yundum. The writer's observations are summarized below.

2. The facilities financed by USAID appeared in good condition:

2.1 The generator was functioning;

2.2 The circular saw and one edger were in operation. The other edger was not in operation;

2.3 The blower was connected and was evacuating saw dust albeit - too close to the working site;

2.4 The Datsun pick-up was seen moving around;

2.5 The inventory of spare parts for chain saw was reported to be virtually non existent and only two of the seven chain saws were in working condition;

2.6 The stock of spare parts for the circular were reported to consist of only two blades for the saw one four blades for the edgers (using two each).

2.7 The portable forest fire fighting equipment (2 units) rested on pellets and have probably never been used.

3. The condition of the other non AID sponsored facilities was dismal.

3.1 Of the four UNIMOG trucks, only one is operating. The others are tied down due to lack of spare parts.

3.2 The old sawmill of British manufacture should be scrapped since it is beyond repair;

3.3 A new office building was under construction;

3.4 The supply store was locked and contained wire and old tires (as seen from the outside);

3.5 The finished products warehouse (2 sheds) was largely unused for lack of products. It contained boards and planks, as well as 2 x 2 and 4 x 4 lumber. Fence posts also produced by the project were stored elsewhere and treated with kreosote.

4. Operating conditions were as follows:

4.1 The circular saw and one edger were working and turning out planks;

4.2 Dust was very much in evidenced and premises were somewhat untidy;

4.3 Several workers - total workforce of 37 - could be observed with virtually nothing to do;

4.4 The supply of logs which had been cut in the morning by a crew of 28 workers was adequate to support only 3 hours of normal operations per day;

4.5 Supply of diesel fuel and petrol is inadequate:

(i) 400 liters every fortnight for the sawmill plant and equipment. This allocation was reported to correspond to 5-6 days of normal 8 hour operations;

(ii) 200 liters every fortnight for trucks collecting logs in the forest - it should be noted that only one UNIMOG truck is currently in service;

(iii) 80 liters of petrol every fortnight for the chainsaws which are mostly out of order,

(iv) 120 liters of petrol every fortnight for vehicles;

(v) rhetorically, the situation should improve when the plant is connected to the national power grid. Some fuel allocation could be redirected to the truck for loading logs provided that the other trucks are put back into operation at that time. This of course assures that the fuel allocation would be maintained at the same level - possibly an optimistic assumption.

4.6 In summary, the sawmill operation is currently overstaffed, underutilized and not properly maintained. If allowed to continue, the situation will evolve into a complete failure within few months.

5. The outlook for USAID is to cause drastic changes to take place immediately if this project is not going to result into a total loss. The Government of The Gambia must be convinced to alter its modus operandi without delay. It is quite

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clear that the sawmill which is not a high technology production unit should be operated differently i.e. by a qualified private operator. USAID should take the initiative to locate such a party within the local business community and submit a full fledged leasing proposal to the Government of Gambia along the lines of the leasing arrangement described in my prior memo dated March 6, 1986. USAID should also insist on a clear commitment by the Government of The GAmbia to the operator for the availability of adequate fuel allocations and for free access and exploitation of the Government forest grounds. In exchange USAID may be willing to restock some of the most badly needed spare parts for the chain saws, the circular saw and the edgers. USAID may even go as far as providing a U.S. sawmill expert/operator for a period of 2 to 3 months in order to insure an effective transfer of technology at every level. It is only by taking the initiative and forcing the issue that USAID will succeed in convincing the Government of The Gambia to adopt a new course of action to save the project from an ill fated and abrupt ending within the next six months. Otherwise, USAID-Banjul would be justified in recommending that its contribution to the sawmill project be written off in FY 1987.

cc: Byron Bahl

JGC:im

SECTION 3 - USAID SPONSORED AUTOMOTIVE SERVICE CENTER

MEMORANDUM

TO: USAID/BANJUL

FROM: JEAN G. CROUZET, Consultant

MEMORANDUM

TO: Messrs. T. Mahoney and S. Norton
USAID Mission, Banjul

FROM: Jean G. Crouzet, Consultant
International Phoenix Corporation

DATE: March 20, 1986

NOTE: An Advance Manuscript of this Memorandum was provided to Mr. Mahoney, USAID, Banjul on March 15, 1986. Minor modifications are incorporated into the final version.

SUBJECT:
Government Vehicle Maintenance and repair facility located in Kotu.

In accordance with your request, I reviewed the Costing System Proposal for the above named facility and visited the site at Kotu followed by a trip to the MED workshop in Banjul. My thoughts on the matter are as follows:

1. Positive Achievements

1.1 USAID has spent $6.4 million on the project. In return, an impressive installation has been built and much time and effort has been spent on the inventory and management of the existing MED spare parts stocks. Additionally, a project organization has been built on paper, the Gambia staff (workers and first line supervisors) for the Kotu center has been selected and a detailed costing system for the operation of the Kotu facility has been defined in great detail by the staff of Louis Berger International.

1.2 The facilities must be equipped with all the equipment required for the operation of such an installation (diagnosis equipment, hoists and cranes, shelves for parts, computers, audio visual equipment for training etc.). The arrival of the equipment is scheduled between March and July so that the installation may be turned over to the Gambia Government before September 30, 1986;

1.3 The Gambia Government (MPD) has started the moving of spare parts and shall fund the operation of the center whose annual recurrent costs shall be approximately $500,000 on an annual basis.

1.4 The Kotu repair and maintenance center shall fill a vacuum in Gambia. The lack of vehicle maintenance and the low level of repair quality often causes operating inefficiency, shorter economic life of vehicles and a considerable loss to the economy as a whole both in term of national and foreign currency.

2. Negative Factors

2.1 The facility has been designed and built on a grand scale involving some waste.

2.2 The proposed staffing of the Kotu facility (138 employees) probably involved some redundancy.

2.3 The Kotu center will commence operations with a limited supply of existing MED spare parts--a situation which will be determinental to operating efficiency. It is estimated that an additional stock of parts valued at approximately U.S. $1 million would be required for normal operations. At present, the outlook for the availability of additional spare parts is uncertain. Some may be available through the second highway maintenance program funded by the World Bank but it is likely that the use of this stock of spare parts shall be restricted to the equipment involved in the highway program. Other possibilities such as the involvement of UNDP are considered. However, this critical issue may not be resolved in a timely manner.

2.4 The sound management of the facility is jeopardized by a combination of unfavorable factors: The debatable determination by the Government of Gambia that the management of the center shall be entrusted to local nationals and the likely lack of outside technical assistance making it possible for foreign experts to transfer their managerial and technical skill's to their Gambian successors. According to Louis Berger, at least four foreign experts whose annual compensation package would amount to U.S. $550,000 per year would be needed so that an effective transfer of technology would take place. USAID does not have the funds nor does it consider that such an additional investment in the Kotu Center would represent the best use of its development funds in the Republic of the Gambia. Further, the outlook for other sources of technical assistance funds appears uncertain at this point. For instance, it is rumored that UNDP might contribute U.S. $625,000 for a period of two years to fund limited technical assistance resources (one mechanical engineer and one supply stone specialist). This critical component is in doubt and may not be resolved in a timely fashion.

2.5 Projected operating costs are high. This situation combined with the limited size of the government vehicle fleet (600 units excluding the ministry of Agriculture and the Police force plus 75 pieces of heavy equipment excluding the equipment to be used for the second highway maintenance program will result in a high maintenance and repair cost per vehicle (U.S. $714 per year on the basis of 700 vehicles). It should be pointed out that this projected unit cost includes direct labor costs, indirect labor and overhead but excludes the cost of spare parts. Assuming a 12 percent profit margin on spare parts as suggested in the Louis Berger costing system to renew the stock of parts, the level of annual maintenance repair corresponding to a breakeven point would exceed U.S. $4,000,000 of annual revenues or $5714 per vehicle.

3. Alternatives

The decision by USAID to invest in this project goes back to the late seventies. It is quite likely that if the same project concept were presented today, it would be either turned down or the project scale would be greatly reduced. This being said, what is the best course of action by USAID, taking into consideration the scarcity of development resources and the optimum use of foreign aid funds?

3.1 Terminate project involvement at close of FY 1986. Conceivably this would mean disengaging even before the official transfer of the facility to the Gambian Government. In addition to the above mentioned lack of spare parts and the absence of a technical assistance, USAID would have to face a possible public relations problem vis a vis the Government of the Gambia for the gift of an obviously "lame duck". Clearly, not an advisable alternative and in retrospect not a optimum use of development funds.

3.2 Continue limited technical assistance through December 1986 so that the transfer of the Kotu installation may be effected with the appearance of a gift in working condition. This approach is now reportedly favored by USAID and would involve U.S. $100,000 of additional technical assistance contribution. The justification for this course of action would be that this gift would be utilized by the GOG-albeit not under optimum conditions. GOG would receive the benefit of a modern workshop and operating systems and procedures. However, it would not be long before a "quasi lame duck" would be discovered with all the problems such a situation might entail. Further, although the loss of foreign assistance funds wold involve only a certain part of the U.S. $6.4 million spent on the project, this alternative would not represent an optimum use of such funds.

3.3 Seek the participation of multilateral donors. This alternative would involve the suspension of foreign assistance by USAID until other donors, namely multilateral institutions, would commit themselves to a meaningful contribution to the project. It is doubtful that such donors would contribute the entirety of the funds required for spare parts and technical assistance over the next two years estimated at U.S. $2.1 million. If USAID and other donors, such as IRBD, FED, etc., were to share these costs, then it would be possible to insure a reasonable degree of operating efficiency together with an improved chance for economic viability--two worthwhile objectives in foreign aid project. Serious consideration should be given to this alternative (the best so far). At the same time, there is an obvious need for quick action in order to minimize discontinuity and inherent costs.

3.4 Turn the operation of the Kotu Center to private enterprise and broaden its mission to service public sector vehicles and privately owned automobiles and trucks. Although privatization would be applicable to such an activity and might be resorted to in the future, it is doubtful that it would provide a workable solution at this juncture for the following reasons:

(a) Lack of local qualified investors with a successful experience and track record in this line of business.

(b) Scale of the project and magnitude of the investment or high cost of lease.

(c) Lack of operating experience at the Kotu Center--a far cry from MED operations in the old R.A.F. hangars in Banjul and/or privately owned automobile service centers in the Banjul area.

(d) High labor and operating costs--probably a private operator seeking quick profits would take measures including shortcuts to reduce costs. Service quality may suffer.

(e) Difficulty to clearly define maintenance and repair work allocation between public sector and private sector vehicles.

However, once the Kotu workshop has proved technically sound and financially self sufficient (two unknowns at this time), it would be possible and even desirable to consider various privatization alternatives. Until such time happens privatization does not appear too practical.

APPENDIX I - ENTERPRISE CHECKLIST (CFP)

The Gambia Produce Marketing Board (GPMB)
Banjul
The Gambia

FACTORS	CURRENT STATUS AND TRENDS
A. Economic Viability	
1. Profitability Track Record	Poor
2. Subsidy Element	GPMB does not receive subsidies but has paid subsidies to farmers and others as required by GOG and was not reimbursed by GOG.
3. Protection Element	Not applicable since products are exported. Rice imports are necessary on account of Gambia's inability to be self-sufficient.
4. Market Share	One percent (1%) of world market for groundnuts and groundnut products. Infinitesimal share of world market for palm kernels and cotton. One hundred percent (100%) of domestic market for rice, groundut oil and grain (maize, sorghum, millet).
5. Import competition	Not applicable.
6. Domestic market potential	Break up of de facto monopoly of cooperatives for inputs.
7. Export market potential	Evaluation of GPMB marketing performance is required.
8. Staffing/Organization/ Management	Likely personnel redundancies/highly centralized decision making process/ weak management.
9. Wage and salary income	All personnel subject to civil service compensation scale. Maximum govenment salary of U.S. $5000 per year. Perks by top management include car, housing and servants.

FACTORS	CURRENT STATUS AND TRENDS
A. Economic Viability (Continued)	
10. Plant Productivity	Under-utilization of depots and processing facilities. Substandard condition of processing facilities due to poor maintenance.
11. Adequacy power/utility/ transport	Power supply adequate in Banjul. Oil plant fuelled with groundut shells. Depots and other installations outside Banjul equipped with Diesel Generators (occasional fuel availability problems). Truck fleet recently donated by Japan. River transport equipment is in derelict condition.
12. Dependability of Accounting Records	Records appear to be fairly well organized. Information is available by profit/cost centers. Managing Director is a British trained CA. Although audits are not qualified, several balance sheet items may be questioned.
B. Deal "Do-Ability"	
1. Potential Operating Independence	Possible if GOG does not use GPMB as instrument of economic, development, fiscal policy.
2. Government Accept Paper/ Lower Price	At present, GPMB is bankrupt and is not marketable.
3. Government Reschedule Debt/ Assume Liabilities	Not applicable since the major part of GPMB liabilities consist of short term obligations with Central Bank. Rescheduling would be difficult.
4. Other Creditors Flexibility	Limited room for additional offshore credit line.
5. Union Contract Flexibility	To the best of consultant's knowledge, no union contract exists.

FACTORS	CURRENT STATUS AND TRENDS
B. Deal "Do-Ability" (Continued)	
6. Local Cost and Import Financing Requirements	Free foreign exchange market and no restriction on import of machinery.
7. Full Divestiture vs. Lease, Management Contract	Full divestitute not practical. However, opportunities for partial sale of assets, lease and management contract.
8. ESOP Potential	Very limited potential. Only higher echelon would be able to participate.
9. Small Business Generation Potential	Distribution of inputs, processing of commodities.
C. Other Factors	
1. Strategic/Social Significance	One of the major sources of foreign exchange for GOG. In addition to 1200 employees, GMPB is the hub of Gambian agriculture (at least 80,000 farmers grow groundnuts).
2. Natural Monopoly	GPMB's monopoly on exports is linked to commodity price stabilization was and should be GPMB's primary objective.
3. Impact on Development of Country	Has been considerable between 1975 and 1983. Use of GPMB for development purposes has led to GPMB's bankruptcy. GPMB allegedly not be used again as instrument of economic development policy.

APPENDIX II - COUNTRY PRIVATIZATION CHECKLIST (CFP)

Country: The Republic of the Gambia

FACTORS	CURRENT STATUS AND TRENDS
A. Host Government	
1. Top Level Commitment	No expression of commitment at level of GPMB's managing director, Permanent Undersecretary at Ministry of Finance. Only commitment was expressed by Executive Director of the National Investment Board responsible for monitoring performance of public sector enterfuses. Commitment from GOG is sought by IRBD and IMF.
2. Enunciated Policy	National Economic Recovery policy goals formulated by GOG have been incorporated in the protocol of understanding of February 1986 between GOG and IRBD.
3. Power to Implement	None at present except by Presidential Decree and/or Act of Parliament. IRBD's objective is to implement management by objectives of GPMB and two other major public sector enterprises by October 1986.
4. Mid/Lower Level of Commitment	Not known is detail. Likely lack of interest reflecting attitude of top echelon.
5. Accessibility for Dialogue	Fair. Dialogue has started and conditious now exist for its continuation.
6. Awareness/Availability of SOE Costs	Cost data are available. NIB officials very familiar with SOE operating costs.
7. Private Sector Influence on Policy	Informal and indirect through membership in Advisory Committee (as is the case with GPMB) and access to Government officials (Lebanese trading community).
8. Officials Dependence on Outside Income	Presumably some dependence

FACTORS	CURRENT STATUS AND TRENDS
A. Host Government (Continued)	
9. Open Economy vs. Managed Economy	Managed economy since the 1970's following departure of Unilever and other expetriate trading communities. GOG would like to free some of the activities performed by SOEs.
B. Political/Economic Environment	
1. Legal Barriers to Privatization	None except that Constituent Acts of GPMB and other SOE's must be revised to allow for divestiture, even partial divestiture.
2. Economic Stability	Highly unstable economy (inflation and foreign exchange shortage).
3. Political Stability	Very stable. Country has recovered from 1981 coup and a democratic climate prevails. Next election in March 1987.
4. Unemployment Level	High underemployment level.
5. Physical Infrastructure	Minimal by world standards but average by LDC standards.
6. Regulatory Climate	No excessive regulation of investment, registration with Attorney General.
7. Parastatal Share of Economy	Over 50 percent.
8. Reasons for Parastatals	o Fill vacumm left by departure of expatriate arms/operations o Price stabilization o Development purposes
C. Business Climate	
1. Role of Informal Sector	Probably important
2. Management/Entrepreneur Pool	Extremely limited

FACTORS	CURRENT STATUS AND TRENDS
C. Business Climate (Continued)	
3. Ethnic Minorities	Lebanese trading community very influential.
4. Permits to Start/Expand Business	Normal permit procedures for start of business.
5. Freedom to Hire/Fire Personnel	SOE's have started firing 2000 employees since January 1986 and more layoffs are planned. Managing Directors of SOE's appointed by the government. Hiring process of managers often politicized.
6. Parastatal Preferences/ Obatacles to competitors	GPMB favors coops at expense of private traders. Also parastatals do not always maintain arm's length relationship with other parastals and suppliers of services.
7. Tax Climate	Corporate income tax for private companies. SOE's exempt from income tax but subject to three percent tax on sales turnover.
8. Accounting/Audit Skills	Higher than in several West African countries. Better trained accountants and auditors.
9. Other Donor Presence/Support	U.K. (health)/Japan; (transportation)/ Germany; (sawmill)/China; (stadium and hospital)/UNDP/others.
D. Financial Markets	
1. Long Term Financing Types/ Activity Level	Limited by Central Bank. No long term financing by other institutions.
2. Financial Market Types/ Activity Level	Closed investors market dominated by traders of Lebanese origin.
3. Significance of Non-Bank Financial Institutions	Same as above

FACTORS	CURRENT STATUS AND TRENDS
D. Financial Markets (Continued)	
4. Availability of Local Entrepreneurial Capital	Same as above
5. Foreign Investment Interest/ Restrictions	Open to foreign investment procedure involves application for development certificate, registration with General Attorney, preparation and submission of feasibility study with NIB, MOF, MEPID.
6. Capital Flow In/Out Trends	Inflow of foreign capital encouraged through several incentives (income tax holiday/lowering of import or export duties/loss carry forward). Free transfer of capital to countries within the Sterling area, but controls for other countries.
E. U.S. Influence	
1. Conditionality Opportunities for Leverage	Theoretically good on account of lack of resources and dependence on donor aid.
2. AID Mission Support	Full support.
3. Embassy Support	Full support.

APPENDIX III - LIST OF PRINCIPAL PROFESSIONAL CONTACTS

1. U.S. Embassy

   o Ambassador Robert Hennemeyer

2. U.S. AID Mission

   o Mr. B. Bahl, Mission Director
   o Mr. T. Mahoney, Program Officer
   o Mr. T. Erlehy, Assistant Program Officer
   o Mr. S. Norton, Project Officer
   o Mr. T. Hobgood, Assistant Agricultural Officer

3. Government of the Gambia

   o Mr. Janah, Executive Director, National Investment Board
   o Mr. Abdoulie M. Touray, Financial Controller, National Investment Board
   o Mr. Mamouk M. Jagne, Permanent Undersecretary, Ministry of Finance
   o Dr. M. McPherson, Harvard Institute for International Development (HIID), Advisor to the Minister of Finance and Trade
   o Dr. R. Hook, HIID
   o Mr. Byemass Taal, Director, Department of Forestry
   o Mr. Nyane, Registrar of Cooperative Societies

4. Gambia Produce Marketing Board

   o Mr. M. M. Jallow, Chairman of the Board and Director of S. Madi (Gambia), Ltd.
   o Mr. K. Jallow, Managing Director
   o Mr. Drammeh, Operations Manager
   o Mrs. I. N'Dow, Chief Accountant
   o Mr. Gway, Manager, Kwinella Depot

5. Gambia Cooperative Union

   o Mr. M. Dibba, Managing Director
   o Mr. Soa, Acting Marketing Manager

6. Other Contacts

   o Mr. Bernard Gregoize, Project Manager, Louis Berger International responsible for Kotu Automotive Maintenance and Repair Workshop
   o Mr. T. Banna, George Banna Company
   o Mr. Dietmar Matull, General Manager, Senegambia Beach Hotel

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EXHIBIT I - THE GAMBIA PRODUCE MARKETING BOARD:
CONSTITUENT ACT OF 1973

THE GAMBIA

No. 4 OF 1973

Assented to by The President this Twenty-ninth day of March, 1973

(LS)

D. K. JAWARA,
President.

AN ACT to establish in The Gambia a Produce Marketing Board and to provide for the regulation and control of the marketing and export from and import into The Gambia of produce and for matters connected therewith and incidental thereto.

Date of commencement. [*5th April*, 1973.]

Enactment. ENACTED by the Parliament of The Gambia.

Short title. **1.** THIS ACT may be cited as The Gambia Produce Marketing Board Act, 1973, and shall come into operation upon such day or dates as the Minister may by Order appoint.

2. In this Act, unless the context otherwise requires: Interpretation.

"Board" means The Gambia Produce Marketing Board established under section 3 of this Act;

"buying station" means a place appointed under paragraph (h) of sub-section (2) of section 19 of this Act;

"District Authority" has the same meaning as in the Local Government Act; Cap. 109.

"employee" means any person employed by the Board who is not an officer as defined by this section;

"export" means export from The Gambia to any place outside the limits of The Gambia;

"import" with its grammatical variations and cognate expressions means to bring or cause to be brought into The Gambia;

"licensed buyer" means a person authorised to purchase produce direct from the producer on behalf of the Board;

"licensed buying agent" means a buying agent in possession of a valid licence granted by the Board under section 19 of this Act for the purchase of produce on behalf of the Board;

"Minister" means the Minister responsible from time to time for the Administration of this Act;

"officer" means any person employed by the Board at an initial salary of not less than D3,000.00 per annum;

"licensed distributor" means a person or business house authorised to sell rice wholesale or retail to consumers within the Gambia.

"produce" means the produce mentioned in the Schedule to this Act and any derivative thereof and such other produce that may from time to time be added to the Schedule by order of the Minister;

"producer" means a person engaged in the cultivation or collection or preparation of produce;

"purchase" includes exchange or barter, whether for goods or services and any agreement or contract of purchase, exchange or barter.

"sell" includes exchange or barter whether for goods or services and any agreement or contract to sell, exchange or barter;

"trader" means a person authorised in writing by a licensed buying agent and approved of by the Board; to purchase produce.

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Establishment of the Board.

3.—(1) On the coming into operation of this Act, there shall be established for the purposes thereof, a Marketing Board to be known as The Gambia Produce Marketing Board, which shall be a body corporate with perpetual succession and a common seal and with power to sue and be sued in its corporate name, and for and in connection with this Act, may purchase, hold, manage and dispose of real and personal property and may enter into such contracts as may be necessary or expedient.

(2) The Board shall consist of—

(a) a chairman to be appointed from outside the Board of Directors by the President on the recommendation of the Minister.

(b) the Permanent Secretary, Ministry of Finance or his nominee as Vice Chairman;

(c) two Directors who shall be non-Producers and who may be public officers, to be appointed by the President on the recommendation of the Minister;

(d) eight Directors who shall be Producers to be appointed by the President on the recommendation of the Minister;

(e) the Managing Director;

(f) the Permanent Secretary, Ministry of Agriculture and Natural Resources or his nominee as ex-officio member.

(3) The Vice-Chairman of the Board shall exercise all the powers and functions of the Chairman in the absence of the Chairman.

Advisory Committee.

4.—(1) There shall be an Advisory Committee to advise the Board which shall consist of—

(a) the Director of Agriculture;

(b) the Managing Director of S. Madi Ltd.;

(c) the Managing Director of T. Massry & Sons Ltd.;

(d) the Registrar of Co-operative Societies;

(e) the Managing Director of the Board;

(f) two other members to be appointed by the President on the recommendation of the Minister.

Functions of the Advisory Committee.

(2) It shall be the duty of the Advisory Committee to advise the Board on matters relating to produce industries.

(3) The Advisory Committee may meet and adjourn as it thinks proper. Questions arising at any meeting shall be determined by a majority of votes of the members present and in the case of equality of votes, the Chairman shall have a second or casting vote.

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(4) Three members of the Advisory Committee shall form a quorum.

(5) Any member of the Advisory Committee elected by the members present at a meeting may be the Chairman thereof.

5. The Chairman and the Directors of the Board (other than the Managing Director who shall hold office for so long as he is the holder of that post and the Permanent Secretary, Ministry of Finance or his nominee and the Permanent Secretary, Ministry of Agriculture and Natural Resources or his nominee) shall hold office for two years from the dates of their respective appointments and shall be eligible for re-appointment for one or more like terms: Term of Office.

Provided that notwithstanding anything in this section, the Chairman and Directors of the Board shall hold office at all times subject to the pleasure of the President.

6. The members of the Advisory Committee shall hold office at all times during the pleasure of the President. Term of Office of Advisory Committee.

7.—(1) The Board may delegate any of its powers to an Executive Committee consisting of such Directors of the Board as the Board may think fit. The Board shall determine the number of Directors required to form a quorum at meetings of the Executive Committee. Executive Committee.

(2) The Executive Committee shall in the exercise of the powers so delegated, conform to any regulations that may be imposed upon it by the Board.

(3) The Executive Committee may elect a Chairman of any of its meetings in the absence of the Chairman and Vice-Chairman of the Board.

(4) The Executive Committee may meet and adjourn as it thinks proper. Questions arising at any meeting shall be determined by a majority of votes of the Directors present, and in the case of an equality of votes the Chairman shall have a second or casting vote.

(5) The Chairman of the Board may require that any matter which is before the Executive Committee or any matter upon which the Executive Committee has made a decision shall be referred to the Board for a decision and the Committee shall thereupon refer such matter to the Board for a decision.

8. If any Director of the Board is incapacitated by illness, absence or other sufficient cause from performing the duties of his office, a suitable person may be appointed in accordance with the relevant provisions of sub-section (2) of section 3 of this Act relating to the appointment of substantive Directors, and every such person shall have all the powers and authorities of the Director for whom he is acting until such Director is again able to perform the duties of his office unless the term of office of such Director shall first have expired. Temporary absence of a Director.

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Temporary absence of members of the Advisory Committee.

9. If any member of the Advisory Committee is incapacitated by illness, absence or other sufficient cause from performing the duties of his office, a suitable person may be appointed by the President on the recommendation of the Minister and every such person shall have all the powers of the member for whom he is acting until such member is again able to perform the duties of his office.

Power to co-opt.

10. When upon any special occasion the Board desires to obtain the advice of any person upon any particular matter, the Board may co-opt such person to be a member of such meeting or meetings as may be required and such person, while so co-opted, shall have all the rights and privileges of a member save that he shall not be entitled to vote upon any question.

Chairman to have original and casting vote.

11. The Chairman or the person appointed to be Chairman at any meeting shall have an original as well as a casting vote.

The Board and Executive Committee may act notwithstanding vacancy and defects in appointments not to invalidate acts done.

12.—(1) The Board and the Executive Committee shall have power to act notwithstanding a vacancy among the Directors thereof.

(2) All acts done at a meeting of the Board or of the Executive Committee shall, notwithstanding that it is afterwards discovered that there was a defect in the appointment of any person purporting to be a Director thereof or that any such person was disqualified, be as valid as if the defect or disqualification had not existed.

Quorum.

13. The Board shall determine the number of Directors required to form a quorum at meetings of the Board.

Standing Orders.

14. The Board may from time to time make Standing Orders providing for the proper conduct of their business and of the meetings of the Board.

Remuneration of members etc.

15. The Board may, from time to time, subject to the approval of the Minister, provide for the remuneration of the Directors of the Board and of the Auditor and such remuneration shall be paid from the funds of the Board.

Power to borrow.

16. The Board, with the prior approval of the Minister, may from time to time raise or borrow such sums of money for or in connection with the purposes of this Act as they may think fit.

Exemption from Income Tax Act Cap. 96.

17. Except for sections 46(2) and 58(2) of the Income Tax Act, the Board is hereby exempted from all other provisions of the said Act.

Appointment of a Managing Director.

18.—(1) There shall be an officer of the Board, to be known as the Managing Director who shall be the Chief Executive Officer and shall be responsible for the execution of the policy of the Board and the transaction of its day to day business.

(2) The Managing Director shall be appointed by the President, on the recommendation of the Minister in consultation with the Board.

(3) The Managing Director shall have power to exercise supervision and control over the acts and proceedings of all employees of the Board in matters of executive administration and in matters concerning the accounts and records of the Board, and, subject to any restrictions which may be imposed by the Board, the power to dispose of all questions relating to the service of the said employees and their pay, privileges and allowances.

(4) The Board shall delegate to the Managing Director such of its functions as are necessary to enable him to transact efficiently the day to day business of the Board and for this purpose the Board may, from time to time, issue written instructions.

19.—(1) Subject to the provisions of such-section 2 of this section the Board may— Appointment of officers, employees and agents.

(a) from time to time appoint, on such salaries and upon such terms and conditions as they may think fit, such officers (as defined by section 2 of this Act but not including the Managing Director) as they may deem necessary for the proper and efficient conduct of the operations of the Board; and may at any time terminate any such appointment;

(b) grant pensions, gratuities or retiring allowances to any officers or employees and may require officers or employees to contribute to any pension or contributory scheme;

(c) make rules relating to the conditions of service of staff; and

(d) from time to time appoint agents to perform any of the duties imposed upon the Board by this Act.

(2) The terms and conditions of appointment of officers and employees on a salary scale having a maximum exceeding D3,000.00, the terms and conditions of pensions and contributory schemes, and the appointment and termination of appointment of officers, shall in every case be subject to the prior approval of the Minister.

20.—(1) It shall be the duty of the Board to secure the most favourable arrangements for the purchase for export and sale, and import, of all produce listed in the Schedule to this Act, by means of allocation of funds, and, as otherwise provided under sub-section (2) of this section, to promote the development of all produce purchased in The Gambia for the benefit and prosperity of the people of The Gambia. Functions of the Board.

(2) Without prejudice to the generality of the foregoing, the Board shall have power—

(a) Subject to the approval of the Minister, to fix prices to be paid from time to time to Gambian producers for their produce and similarly to arrange in such manner as the Board shall think fit, to notify such prices;

(*b*) to purchase Gambian produce and to do all things necessary in connection therewith;

(*c*) to appoint licensed buying agents and or licensed buyers for the purchase of Gambian produce on behalf of the Board;

(*d*) to fix the prices to be paid from time to time to licensed buying agents or licensed buyers for produce;

(*e*) annually to grant, renew or withhold licences in respect of licensed buying agents and or licensed buyers, and or licensed distributors to impose conditions upon the grant or renewals of such licences, and to cancel or suspend any such licences for breach of any such conditions or other good cause;

(*f*) to grant, withhold or cancel in its absolute discretion any approval or permission given under the provisions of this Act;

(*g*) to approve the appointment of traders by licensed buying agents;

(*h*) annually, in consultation with the appropriate District Authority through the medium of the Commissioner of the Division concerned, to appoint places as buying stations which shall be the only places at which produce may be weighed and purchased by licensed buying agents, licensed buyers or by traders;

(*i*) to sell produce and to do all things necessary for and in connection with the sale, export, import, shipment and storage of produce;

(*j*) with the prior approval of, and upon such terms and conditions as may be imposed by the Minister to establish and promote companies for or in connection with any of the purposes of this Act and to acquire hold and dispose of shares and interests in such companies;

(*k*) to sell or supply on credit to producers produce as seeds in such quantity and at such price or, in the case of supply on credit, upon such terms and conditions of supply or repayment (whether in cash or kind) and at such rate of interest as the Board with the approval of the Minister shall think fit.

(l) to appoint licensed distributors, and to fix the price at which rice will be sold within the Gambia.

(3)Any five or more Directors of the Board may require that any decision of the Board shall be referred to the Minister and in that event such decision shall not be carried into effect except with the prior approval of, and upon such terms and conditions as may be imposed by the Minister.

Publication of appointments, etc., in the Gazette. **21.** Particulars of any grant, appointment, renewal, cancellation or suspension made under the provisions of paragraphs (*c*), (*e*), (*f*) and (*h*) of sub-section (2) of the last preceding section, shall be furnished by the Board to the Minister who shall cause the same to be published in the Gazette.

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22.—(1) The Board may direct that any produce listed in the Schedule to this Act, which is purchased in The Gambia for mechanised processing in The Gambia shall be purchased from the Board on such terms and conditions as the Board may from time to time apply. Local processing.

(2) The Board may purchase, on such terms and conditions as the Board may from time to time apply, any product resulting from the local processing of produce listed in the Schedule to this Act offered for sale to the Board.

(3) Any person who acts contrary to a direction given by the Board under sub-section (1) of this section shall be guilty of an offence and shall be liable on conviction to a fine not exceeding D5,000.00 or to imprisonment for a term not exceeding two years or both such fine and imprisonment, and for a second or subsequent offence to a fine not exceeding D25,000.00 or to imprisonment for a term not exceeding four years or both such fine and imprisonment.

23.—(1) The funds of the Board shall comprise grants by or through the Government of The Gambia, moneys derived from the selling of produce, borrowings under section 16 of this Act, and such other sums as may from any source and at any time be granted or allocated to the Board, or as may be earned by the Board. Funds of the Board.

(2) The Board shall from time to time apply the funds at their disposal, or any such part of such funds as they may at any time think fit, to and in connection with the purchase of produce, to the carrying out of all or any of their powers, functions, responsibilities and operations in connection with the purposes of this Act, to the payment of salaries, gratuities, pensions, retiring allowances and expenses of their members, officers and employees and to the establishment and for the maintenance of its general and price stabilisation reserves and of such other reserves as the Minister shall from time to time direct.

(3) The Board shall, in addition to its general reserve, establish price stabilisation reserves in respect of produce being marketed.

24. On the coming into operation of this Act, moneys in the Farmers Fund which was established by The Gambia Oilseeds Marketing Board Act, shall form part of the funds of the Board. Transfer of moneys in Farmers Fund to the Board.

25.—(1) Moneys standing to the credit of the Board may, from time to time, be placed on deposits or be invested in securities, stocks or shares, approved either generally or specifically by the Minister, and the Board may from time to time, with like approval, sell any or all of such securities, stocks or shares. Power of Board to invest and make loans to Government.

(2)(a) It shall be lawful for the Board to make and for the Government to receive loans out of moneys standing to the credit of the Board upon such terms as may be agreed by and between the Board and the Government.

(b) An agreement for a loan made pursuant to the provisions of paragraph (a) of this sub-section shall be of no force or effect whatsoever until the terms thereof have been approved by the President of the Republic of The Gambia.

Trade Season.

26. The Minister shall appoint annually the period (to be known as the Trade Season) and the days and the times within such period during which produce specified in the Schedule to this Act may be purchased.

Restrictions on purchase and export of produce.

27. From and after the commencement of this Act—

(1) no person shall purchase produce except—

(a) the Board; or

(b) a licensed buying agent, licensed buyer or licensed distributor acting on behalf of the Board; or

(c) a person (in this Act referred to as a trader) authorised in writing by a licensed buying agent and approved of by the Board; or

Cap. 33.

(d) a registered society within the meaning of section 2 of the Co-operative Societies Act, from a member of such society;

(2) No person shall purchase groundnuts at any time other than during the trade season appointed for the purchase of groundnuts nor at any place other than a buying station;

(3) No person shall,—

(i) during the period from the 15th day of October until the opening date of the trade season next following move any groundnuts by animal, wheeled or water transport save with the permission in writing of a Commissioner; and

(ii) during the trade season move any groundnuts by wheeled transport between such hours and in such areas as the Minister may by notice specify;

(4) No person shall export any produce, or any oil or oil-cake derived therefrom except—

(a) produce which is the property of the Board; or

(b) produce, the export of which has been permitted in writing by the Board;

and then only to such places and in such quantities and at such prices as the Board shall from time to time permit in writing:

Provided that notwithstanding the provisions of sub-sections (1) and (2) of this section, any person may, for consumption within the Gambia, purchase rice through a licensed distributor or retailer, and may at any time or place, bona fide for use or consumption within the Gambia, purchase other produce not exceeding in any one year commencing on the 1st January a total quantity of two tons.

Provided further that, in any prosecution under this section, the burden of proving that any produce purchase is for use or consumption within The Gambia shall lie on the person charged.

28. It shall be the duty of all licensed buying agents and traders to display and keep displayed, in a prominent place at each scale at all buying stations, particulars of the current prices of produce as fixed by the Board under paragraph (a) of sub-section (2) of section 20 of this Act. Such particulars shall be written in both English and Arabic script and in the language most widely used in the district concerned. Duty to display particulars or prices at buying stations.

29. Every licence and every document of appointment, authorisation or permission shall be kept by the person to whom it relates and shall, at the request of any Administrative Officer, any member of a District Authority or any person authorised in writing in that behalf by an Administrative Officer or by any member of a District Authority, be produced for his inspection at all reasonable hours. Production of licence etc.

30. The Board, with the prior approval of the President, may from time to time enter into any arrangement with the Government of any country, or with any department, authority or person in any country, for or in connection with any of the purposes of this Act. Power of Board to enter to arrangements.

31. Any person aggrieved by the refusal of the Board to grant or renew a licensed buying agent's licence, or a licensed buyer's licence, or licensed distributor's licence, or by refusal of the Board to approve the appointment of a trader, or by any condition imposed by the Board in connection with any such licence or approval, may within twenty-eight days appeal in writing to the Minister whose decision shall be final. Appeals.

32. The accounts of the Board up to 30th September in each year shall be audited by an auditor to be approved by the Minister responsible for financial matters and a copy of the accounts so audited shall, not later than such date as may be specified by the Minister, be submitted to the Minister and laid before Parliament; and such accounts shall be reproduced in the Annual Report referred to in section 33 of this Act. Audit of Accounts.

33. So soon as may be after the 30th September in every year, the Board shall prepare a report of their operations during the year, and such report shall be published in such manner as the Minister may direct. Annual Report.

34. Any person who falsely holds himself out or represents himself to be a licensed buying agent or a licensed buyer or a person acting on the authority or instruction of the Board shall be guilty of an offence and on conviction be liable to a fine not exceeding D500.00 or to imprisonment for a term not exceeding one year or to both such fine and imprisonment. False representations.

35. Where an offence against this Act is committed by a body corporate and such offence has been committed on the direction of or with the consent or approval of any director, manager, secretary or other officer of any such corporate body, that individual, as well as such body corporate, shall be guilty of that offence and may be proceeded against, and if convicted punished accordingly. Special provision as to directors.

Regulations.

36. The Minister may make regulations generally for the better carrying out of the purposes of this Act and in particular for—

(a) Restriction on purchase and export of produce;

(b) Limitation of import and distribution of produce;

(c) The inspection of licences;

(d) The duties, functions and responsibilities of licensed buying agents, licensed buyers and licensed distributors;

(e) The imposition of penalties in respect of contravention of any regulations made under the provisions of this Act to the limit of a fine not exceeding D500.00 or imprisonment for a term not exceeding one year or to both such fine and imprisonment and for a second or subsequent offence to the limit of a fine not D2,500.00 or imprisonment for a term not exceeding exceeding two years or to both such fine and imprisonment;

(f) Providing for matters relating to evidence, and for the burden of proof in any proceedings under this Act.

Repeals Cap. 67.

37.—(1) The Rice (Control) Act is hereby repealed.

(2) Notwithstanding anything contained in sub-section (1) of this section, all regulations, orders, rules, Notices or directives made or given under the Rice (Control) Act and in force at the time of the coming into operation of this Act shall be deemed to have been made or given under this Act and shall continue in force until other provision shall have been made by virtue of this Act.

Repeals Cap. 63 and Saving.

38.—(1) The Gambia Oilseeds Marketing Board Act is hereby repealed.

(2) Notwithstanding anything contained in sub-section (1) of this section, all regulations, orders, rules, notices or directives made or given under the Gambia Oilseeds Marketing Board Act and in force at the time of the coming into operation of this Act shall be deemed to have been made or given under this Act and shall continue in force until other provision shall have been made by virtue of this Act.

(3) Notwithstanding anything contained in sub-section (1) of this section, where in any other law the expression the "Gambia Oilseeds Marketing Board" appears, it shall be construed as a reference to the "Gambia Produce Marketing Board" established under this Act.

SCHEDULE

Sec. 2

1. Groundnuts
2. Oil—palm kernels
3. Rice
4. Cotton

PASSED in the House of Representatives this Twenty-eighth day of February, in the year of Our Lord One thousand ninehundred and Seventy-three.

S. A. R. N'JIE,
Clerk of the House of Representatives.

THIS PRINTED IMPRESSION has been carefully compared by me with the Bill which has passed the House of Representatives, and found by me to be a true and correct copy of the said Bill.

S. A. R. N'JIE,
Clerk of the House of Representatives.

Printed by the Government Printer Bathurst:—132/373/400.

EXHIBIT II - GAMBIA RIVER TRANSPORT COMPANY: FINANCIAL DATA

RECENT TREND, GRTC FINANCIAL STATEMENTS
Fiscal Year Ending September 30 (000 Dalasis)

ITEM	1976	1977	1978	1979	1980	1981	1982	1983
Craft[1]	1,246	1,515	1,494	1,677	1,704	1,806	2,352	2,443
Establishment	118	139	175	208	164	71	89	65
Administration	138	190	187	227	231	176	219	261
Financial	60	41	66	56	52	83	112	161
Total Expenses	1,562	1,885	1,922	2,168	2,151	2,136	2,772	2,930
Freight Revenue	1,703	1,953	1,594	2,041	1,398	1,146	1,931	2,832
Net Profit/(Loss)[2]	185	99	(362)	(98)	(740)	(983)	(808)	(96)
Traffic (tonnes)								
Groundnuts	n.a.	81,700	82,000	72,400	45,353	27,591	58,536	93,318
Other	n.a.	23,573	24,367	30,809	31,565	30,340	21,196	15,149
Totals	79,000	105,273	106,367	103,209	76,918	57,931	79,732	108,467
Total Cost per tonne, Dalasis	19.77	17.90	18.08	19.76	27.98	36.87	34.77	24.0
Fuel Cost per tonne[3]	3.28	3.58	2.86	3.74	5.41	5.75	4.90	6.88
Fuel Cost per Imperial Gallon	1.65	2.02	2.02	2.07	2.47	3.94	6.53	7.20
Tonnes/Imp. Gal.	0.50	0.56	0.71	0.56	0.46	0.69	1.33	1.05

(1) Includes only about 171,000 Dalasis per annum depreciation, or non-cash expense. Therefore
(2) end profit (loss) approximates cash flow.
Includes small fi...

GRTC FINANCIAL STATEMENTS, SEPT. 30, 1983
- Balance Sheet
(Dalasis)

	D	D
Fixed Assets		1,411,909.79
GRTC Trust		12.00
		1,411,921.79
Current Assets		
Consumable stores	374,140.25	
Directors' Current Account	1,557.00	
Debtors & Payments in Advance	158,174.26	
Staff Loans & Advances	695,722.79	
Cash & Bank Balance	345.95	
	1,229,940.25	
Current Liabilities		
Creditors & Accrued Liabilities	572,709.10	
Bank Overdraft	842,614.61	
	1,415,323.71	
NET ASSETS		(185,383.46
		1,226,538.33
Financed by:		
Share Capital		450,000.00
Reserves		(1,888,486.64
Amount Due GPMB		2,665,024.97
		1,226,538.33

DETERIORATING TREND, GRTC BALANCE SHEET
(1976-1983)

YEAR ENDING SEPT. 30	FIXED ASSETS	RETAINED PROFIT (LOSS)	LOAN FROM GPMB	BANK OVER-DRAFT	STAFF LOANS & ADVANCES
			(Dalasis 000)		
1976			581	(+138)	85
1977	2,049	1,082	224	(+92)	68
1978	2,171	829	1,309	103	140
1979	1,978	731	1,270	33	150
1980	1,807	(9)	1,771	207	167
1981	1,612	(991)	2,246	299	240
1982	1,533	(1,799)	2,613	769	401
1983	1,412	(1,888)	2,665	843	696

- Trading and Profit and Loss - 9/30/83

	D	D
Freight Income		
Groundnut	2,395,959.91	
Merchandise	435,638.06	2,831,597.97
Other Income		2,193.75
TOTAL INCOME		2,833,791.72
Craft Expenses		2,442,833.01
GROSS PROFIT		390,958.71
Overhead Expenses		
Establishment Expenses	64,797.91	
Administrative Expenses	260,971.86	
Financial Expenses	161,087.71	486,857.48
NET LOSS		(95,898.77)

TREND OF EXPENSES, GRTC, 1976-1983

(000 Dalasis)

FISCAL YEAR ENDING SEPT. 30	VESSEL DEPRECIATION EXPENSE	MAINTENANCE AND REPAIR EXPENSES: Vessel	MAINTENANCE AND REPAIR EXPENSES: Facilities	INTEREST EXPENSE PAYABLE	FUEL AND LUBRICANT VESSEL EXI
1976	129	221	106	59	259
1977	129	199	125	39	377
1978	167	287	160	39	304
1979	167	412	192	55	386
1980	172	384	149	50	416
1981	172	537	40	81	333
1982	171	901	75	110	391
1983	171	508	50	159	746

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EXHIBIT III - REPUBLIC OF KOREA: GOVERNMENT - INVESTED ENTERPRISE MANAGEMENT ACT (PROMULGATED BY LAW NO. 3690, DECEMBER 31, 1984)

Government-Invested Enterprise Management Act

(Promulgated by Law No. 3690, Dec. 31, 1984)

ARTICLE 1 (Purpose)

The purpose of this Act is to stipulate basic matters on the self-regulatory management structure of government-invested enterprise (hereinafter referred to as "invested enterprise") and thereby to secure managerial rationalization of invested enterprise and to facilitate effective control of government investment.

ARTICLE 2 (Purview of Application)

This Act applies to enterprises whose respective paid-in capital includes government investment of 50% or more.

ARTICLE 3 (Guarantee of Autonomy)

The operational autonomy of invested enterprises is guaranteed in order to establish self-regulatory management and responsible managerial structure.

ARTICLE 4 (Government-Invested Enterprise Management Evaluation Council)

(1) The Government-Invested Enterprise Management Evaluation Council (hereinafter referred to as "Management Evaluation Council") shall be established in the Economic Planning Board to be in charge of deliberation and resolution of matters related to the management of invested enterprises.

(2) The following items shall be subject to the authority of the Management Evaluation Council:

1. Formulation of guidelines for establishing management objectives of invested enterprises.
2. Coordination of Management objectives for invested enterprises.
3. Formulation of common guidelines for budget preparation.
4. Evaluation of managerial performance of invested enterprises.
5. Other matters concerning the management of invested enterprises as determined by Presidential Decree.

(3) The Management Evaluation Council shall be composed of the Minister of Economic Planning, the Minister of Finance, the heads of the central administrative agencies in charge of the respective invested enterprise (hereinafter referred to as "ministers of the competent ministries"), and non-standing commissioners chosen from among persons of abundant knowledge and experience who are commissioned by the President. The Minister of Economic Planning shall assume the position of chairman.

(4) The Minister of Economic Planning may establish and maintain the Government-Invested Enterprise Management Evaluation Task Force (hereinafter referred to as "Management Evaluation Task Force") composed of relevant experts when its necessity is recognized to provide the Management Evaluation Council with research service and/or advice on professional or technical matters.

(5) Matters on the composition and operation of the Management Evaluation Council and the Management Evaluation Task Force shall be determined by Presidential Decree.

ARTICLE 5 (Establishment of Management Objectives)

(1) The Minister of Economic Planning shall prepare guidelines for setting the invested enterprises management objectives for the following year and notify the president of each invested enterprise (governor or president of bank if the invested enterprise is a financial institution. This interpretation shall apply hereinafter) not later than June 30.

(2) The president of each invested enterprise shall establish management objectives in accordance with the guidelines referred to in the provision of Section 1 and submit them to the minister of the competent ministry. The minister of the competent ministry shall examine and adjust it and submit the adjusted objectives to the Minister of Economic Planning not later than September 30.

(3) The Minister of Economic Planning shall coordinate the management objectives pursuant to Section 2 and notify the coordinated contents to the minister of the competent ministry and the president of invested enterprise not later than October 31.

(4) The provisions of Section 1 and Section 3 shall apply *mutatis mutandis* when the management objective is to be altered.

ARTICLE 6 (Management Performance Report)

(1) The presidents of invested enterprises shall prepare annual management performance reports, and submit them to the Minister of Economic Planning and the minister of the competent ministry not later than March 20 of the following year.

(2) The management performance report referred to in Section 1 shall be accompanied by statement of settlement (the documents pursuant to the provision of Section 2, Article 25 shall be included) and other documents designated by the Minister of Economic Planning.

ARTICLE 7 (Management Performance Evaluation)

(1) The Minister of Economic Planning shall evaluate the management performance of individual invested enterprise based upon the Management performance reports which are submitted pursuant to the provision of Article 6.

(2) The method of management performance evaluation of the invested enterprises shall be determined by the Minister of Economic Planning in such a manner as to be conducive to objectively measuring public benefit quality, degree of attainment of management objectives and the efficiency of the individual invested enterprises.

(3) The Minister of Economic Planning shall complete the management performance evaluation of the invested enterprises not later than June 20, and report its result to the President.

(4) Upon completion of the management performance evaluation of the invested enterprises, if it is deemed that there are any matters to be rectified, the Minister of Economic Planning may require the minister of the competent ministry to rectify the matters or submit recommendations to the President concerning dismissal of officers.

(5) The minister of the competent ministry shall perform proper corrective measures when requested to do so pursuant to the provision of Section 4.

ARTICLE 8 (Matters to be provided for in By-Laws)

(1) Each invested enterprise shall prepare by-laws prescribing the matters referred to in the following items and submit them to the minister of the competent ministry for approval. The preceding provisions shall also apply when the contents of the by-laws are to be altered.

1. Purpose
2. Name
3. Address of head office
4. Matters on share capital
5. Matters on stock and investment certificate
6. Matters on officers and employees
7. Matters on general meeting of stockholders or investors
8. Matters on operation of the board of directors
9. Matters on business and its execution
10. Matters on accounting
11. Matters on method of public notice

12. Matters on issuance of company debenture
13. Matters on revision of by-laws
14. Other matters determined by Presidential Decree.

(2) The Board of Directors shall be composed of a few directors including a chairman and a president.

(3) The auditor may attend, and express his opinion at, meetings of the Board of Directors.

(4) Whenever necessary, the Board of Directors may require the auditor to audit the business of the invested enterprise.

ARTICLE 10 (Method of Resolution by Board of Directors)

Resolution by the Board of Directors shall be adopted by a majority vote of the entire membership.

ARTICLE 11 (Officers of Invested Enterprise)

(1) The officers of an invested enterprise shall consist of directors including a chairman, a president and an auditor.

(2) Directors, including the chairman, shall be permanent or non-permanent as directed by Presidential Decree.

(3) The chairman and the president shall be appointed or dismissed by the President on the recommendation of the minister of the competent ministry. The number of other directors, and the method of their appointment and dismissal, shall be determined by Presidential Decree.

(4) The auditor shall be appointed by the President on the recommendation of the minister of the competent ministry, and the minister of the competent ministry shall consult with the Minister of Finance before making the recommendations.

ARTICLE 12 (Terms of Office for Company Officers)

(1) The terms of office of directors including the chairman and president shall be 3 years.

(2) The term of office of the auditor shall be 2 years.

(3) Officers whose term of office has expired shall continue to carry out their duties until successors are appointed.

ARTICLE 13 (Duties of Officers)

(1) The chairman shall convene, and preside at, Board of Directors meetings. When the chairman is absent, a director shall perform the duties of chairman by virtue of by-laws.

(2) The president shall represent and preside over the business of the invested enterprise and shall be responsible for managerial performance.

In the absence of the president, his duties shall be performed based upon the provisions in the company's by-laws.

(3) Directors shall deliberate items on the agenda presented to the meeting and participate in voting.

(4) The auditor shall audit the business of the invested enterprise, and report his opinion to the Board of Directors.

ARTICLE 14 (Disqualification of Officers)

A person who falls under any one of the following paragraphs shall not become an officer or employee (limit on the executives designated by the Presidential Decree) of invested enterprise.

1. Person who is not a citizen of the Republic of Korea.
2. Person who falls under any one of the items of Section 1, Article 33 of the State Public Official Act.
3. Persons who are specifically disqualified by the Act which provides for the establishment of the respective invested enterprise (hereinafter referred to as invested enterprise establishment Act) or by the by-laws of the invested enterprise.

ARTICLE 15 (Appointment of Employees)

(1) Employees of invested enterprises shall be appointed or dismissed by the president pursuant to the company by-laws. Executives designated by Presidential Decree shall be appointed from among existing employees.

(2) Employees shall be appointed based on test results, work performance and other real proofs of competence.

ARTICLE 16 (Restriction on Holding More Than One Office by Officers or Employees)

The permanent officers and employees of invested enterprise may not engage in any profit-oriented business outside their office, and the permanent officers and the employees may not concurrently hold other offices without permission of the minister of the competent ministry or the president of the invested enterprise respectively.

ARTICLE 17 (Salaries of Officers and Employees)

(1) Salaries of officers and employees of an invested enterprise shall be determined by the Board of Directors based on guidelines pursuant to the provisions of Article 21.

(2) Non-permanent directors shall not be remunerated. However, actual expenses of carrying out their duties may be reimbursed.

ARTICLE 18 (Treatment as Public Officials in Application of Punitive Provisions)

The officials and the employees of invested enterprises determined by the Presidential Decree shall be considered as public officials in applying the punitive provisions of the Criminal Act and other acts.

ARTICLE 19 (Accounting Year)

The accounting year of invested enterprises shall correspond to the fiscal year of the government.

ARTICLE 20 (Accounting Principles)

(1) To clarify managerial performance, the accounting of invested enterprises shall be performed according to principles of business accounting.

(2) Matters concerning acounting standards and procedures under Section 1 shall be determined by the Minister of Finance.

ARTICLE 21 (Common Guidelines)

Each year not later than October 31, the Minister of Economic Planning shall formulate guidelines on matters that are commonly applicable to budget formulation by all invested enterprises and communicate them to presidents of invested enterprises.

ARTICLE 22 (Formulation of Budget)

(1) The budgets of invested enterprises shall consist of general provisions of budget, a projection of profit and loss, a projected balance sheet, and a financing plan.

(2) The president of an invested enterprise shall formulate and confirm the budget of his company before the beginning of the fiscal year in accordance with the management objectives referred to in Article 5 and the common guidelines referred to in Article 21.

(3) The budgets of each invested enterprise formulated under the provision of Section 1 are subject to the confirmation by the Board of Directors. The preceding procedural requirement is applicable when a confirmed budget is to be revised for reasons of revisions in management objectives or other unavoidable circumstance.

(4) When the budget is confirmed or revised, the president of the invested enterprise shall report the contents without delay to the Minister of Economic Planning, the minister of the competent ministry, and the Board of Audit and Inspection.

ARTICLE 23 (Quasi-Budget)

(1) If the budget of an invested enterprise is not confirmed before the beginning of the fiscal year for reasons of natural disaster or unavoidable circumstance, the president of the invested enterprise may formulate and execute a quasi-budget equivalent to the budget for the preceding year.

(2) The quasi-budget becomes invalid when a regular budget for the year is confirmed. In this case, the funds spent or allocated under quasi-budget shall be considered as having been used under the regular budget for the year.

ARTICLE 24 (Establishment of Operational Plan)

(1) When the budget is confirmed pursuant to the provisions of Article 22, the president of the invested enterprise shall establish an operational plan for the fiscal year with resolution of the Board of Directors in accordance with the approved budget without delay.

(2) The president of an invested enterprise shall submit operational plans for the fiscal year to the Minister of Economic Planning and the minister of the competent ministry in accordance with the provision of Section 1 not later than 2 months after the budget is confirmed.

ARTICLE 25 (Submission of Settlement Report)

(1) The president of each invested enterprise shall submit a statement of account settlement for the preceding account year to the Minister of Finance and confirm it with approval not later than 2 months after the end of every fiscal year. However, where an invested enterprise has a general meeting of stockholders or investors, the account settlement shall be approved by the general meeting of stockholders or investors.

(2) The statement of account settlement referred to in Section 1 shall be accompanied with the following documents:

1. Financial tables and attendant documents.
2. Other documents that are necessary to clarify the contents of the account settlement.

(3) The Minister of Finance shall gather the statements of account settlement presented by the invested enterprises which have been confirmed pursuant to Section 1, and submit them to the Board of Audit and Inspection not later than June 30.

(4) The Board of Audit and Inspection shall examine the statements of account settlement submitted pursuant to the provision of Section 3, and forward its findings to the Minister of Finance not later than September 30.

(5) The Minister of Finance shall report the statements of account settlement referred to in Section 3 together with the results of the Board of Audit and Inspection's examination to the Cabinet Council not later than October 31.

ARTICLE 26 (Disposition of Profit or Loss)

The profit or loss of an invested enterprise that accrues from account settlement s[illegible] be disposed of in accordance with the relevant invested enterprise establishment Act, other Acts or decrees, or the by-laws of the relevant invested enterprise.

ARTICLE 27 (Entrustment of Material Procurement and Engineering Contracts)

Where it is deemed necessary, the president of an invested enterprise may entrust the Head of the Office of Supply with procuring needed materials or negotiating engineering contracts relevant to the invested enterprise. However, the materials or engineering contracts which are mandated by Presidential Decree shall all be procured or negotiated through the Head of the Office of Supply.

ARTICLE 28 (Commodity Management)

To facilitate the proper management of commodities belonging to invested enterprises, the presidents shall standardize commodities used by their invested enterprises and classify commodities according to use or disposition, and formulate commodity management plans incorporating commodity requirements and a supply plan.

ARTICLE 29 (Audit)

(1) Invested enterprises shall be subject to internal and external audits.

(2) Internal audits shall be performed by the auditor of the relevant invested enterprise in the manner determined by the Minister of Finance.

(3) External audits, pertaining to accounting and business transactions of the invested enterprise, shall be implemented by the Board of Audit and Inspection in the manner determined by the Board of Audit and Inspection.

(4) The Board of Audit and Inspection may entrust the external audit referred to in Section 3, to the minister of the competent ministry or the heads of the agencies determined by the Presidential Decree.

(5) Upon completion of audits in accordance with the provisions of Section 3 or Section 4, if there are any matters which need to be rectified, the head of the agency which implemented the audit shall require the minister of the competent ministry or the president of the relevant invested

enterprise to take appropriate steps to rectify the matters. In this case, the minister of the competent ministry or the president of the invested enterprise who is required to rectify shall perform proper corrective measures.

ARTICLE 30 (Method of Investment)

When government invests capital in invested enterprises, the Minister of Finance shall determine the time of and method of delivery, and carry it out.

ARTICLE 31 (Enforcement Decree)

Matters related to the enforcement of this Act shall be determined by Presidential Decree.

ADDENDA

ARTICLE 1 (Enforcement Date)

This Act shall enter into force on March 1, 1984.

ARTICLE 2 (Acts to be Repealed)

The Government-Invested Enterprise Administration Act and the Government-Invested Enterprise Budget and Account Act are hereby repealed.

ARTICLE 3 (Applicable Example)

If there are any provisions in the relevant invested enterprise establishment Act, or other Acts or decrees which regulate matters related to the by-laws, Boards of Directors, officers and employees, budget, account settlements, commodity procurement, engineering contracts, commodity management, time of and method of share capital delivery, or audit of invested enterprise at the time of the enforcement of this Act that are in conflict with the provisions of this Act, the provisions of this Act shall take precedence.

ARTICLE 4 (Interim Measures Appointing Officers and Employees)

(1) The minister of the competent ministry shall take necessary measures to appoint officers in accordance with this Act within three months from the date of enforcement of this Act.

(2) The officers of invested enterprises who hold the office at the time of the enforcement of this Act shall carry out their respective duties under the prior provisions until officers or executives are appointed pursuant to this Act.

(3) The officers of invested enterprises who hold the office at the time of the enforcement of this Act can be appointed to executive positions in invested enterprises regardless of the final provision of Section 1, Article 15.

ARTICLE 5 (Alteration of By-Laws)

The presidents of invested enterprises shall alter the by-laws in accordance with this Act and acquire approval from the minister of the competent ministry within three months from the date of enforcement of this Act.

ARTICLE 6 (Interim Measures Concerning Management Objectives and Budgets)

The management objectives and the budgets of invested enterprises for the year 1984 which were formulated before the enforcement of this Act shall hereafter be considered as having been established under this Act.

ARTICLE 7 (Readjustment of Other Acts)

(1) The phrase "Government-Invested Enterprise Administration Act" in the provision of Article 2 in the Stock Company External Audit Act shall hereafter be taken as "Government-Invested Enterprise Management Act".

(2) If there are any acts not referred to in Section 1 which use quotations from the Government-Invested Enterprise Administration Act and the pertinent provisions exist in this Act, such quotations shall be considered as having been taken from the relevant provisions in this Act in place of the Government-Invested Enterprise Administration Act.