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DATE: January 21, 1985

FROM: Mr. Ronald D. Morgan, Contractor

SUBJECT: Interim Review of the Dominica Banana Project No. 538-0083

REF: Contract No. 538-0083-S-00-5005-00
TO: Mr. William B. Baucom, ARDO

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1. Summary

The objectives of this review are threefold: (i) to determine the extent to which the industry has improved the cost-effectiveness and financial viability of its operations, (ii) to evaluate the impact of AID's assistance, and (iii) to recommend how remaining technical assistance funds best could be utilized. As events unfolded, it appeared useful also to comment on critical issues that the Dominica Banana Marketing Corporation (DBMC) should focus on in 1985.

The major portion of this analysis was conducted in Dominica where a review of the operational and financial records was performed and interviews with key staff and representatives of the Government, and Board of Directors were conducted. No direct contact was made with WINBAN, Geest Industries or the British Development Division. A verbal summary of this report was presented to the DBMC, with representatives of ARDO present, on January 16 and to the USAID Mission on January 18, 1985.

To summarize events since the signing of the US$1.75 million Grant Agreement in 1982, the DBMC has made substantial progress towards being a more cost-effective organization and has complied with substantially all the performance targets set forth in the Agreement (as amended, September 1983). Major changes since 1982 include:

(a) Export production has increased 15% since 1982 inspite of substantial wind and rain damage in the second half of 1984.

(b) While the Green Market Price for bananas in the United Kingdom has increased since 1982, it (as well as the increased production) has been off-set by the continued erosion of the Pound Sterling. The current Pound/EC dollar exchange rate is 23% below what it was in 1982, and some 34% below the Grant Agreement assumptions.

(c) Operating costs have decreased between 1982 and June 1984, by 15%, largely as a result of improved control over boxing plant and associated costs.

(d) Administrative and financial expenses have been reduced; and the DBMC is now making a profit on its distribution of grower inputs. The "bottom-line", before the infusion of donor assistance, is that a loss of EC4.6¢/lb. in 1982 was reduced to a EC1.0¢/lb. loss by the first half of 1984.

(e) The DBMC's improved operation strengthened its balance sheet; between December 1982 and July 1984: current assets have increased 7% while current liabilities have decreased 23%, working capital has moved from a deficit of EC$1,693 thousand to a surplus of EC$373 thousand and the accummulated capital deficit was reduced by 8% to $12,961 thousand by mid-1984.

In addition to these overt financial measures, the DBMC has undertaken a number of organizational and managerial changes. The old Dominica Banana Growers Association was restructured in June of 1984 to provide for a commercially oriented Dominica Banana Marketing Corporation and a separate representational association for banana growers. The internal management of the old DBGA (now DBMC), with the assistance of British technical advisors, has been streamlined, strengthened and greatly improved in its efficiency. For the first time in years, accounting records are accurate and current. With computerization of major accounting functions, costs are now budgeted and monitored by function and location (e.g. transport costs for individual boxing plants). The major objective of "privatizing" the boxing plants was addressed through increasing field packing from 11% in 1982, to 45% by the end of 1984. In effect, the boxing plant function is being divestited back to the individual grower (who receives additional payment for the improved fruit resulting from early field packing).

The Project disbursed only US$132 thousand in 1983 (the Agreement was amended in September of 1983 to modify Conditions Precedent) and approximately US$380 thousand in the first half of 1984. These funds were for production inputs; in addition, approximately US$40 thousand was made available for technical assistance. By July of 1984, out of the US$1,312 thousand set aside for inputs, US$511 thousand had been received by the DBMC. These funds provided critical support to their cash flow situation (the producton Grant inputs was equivalent to giving them money). These chemical inputs for ground and aerial spray operations allowed the DBMC to maintain control of leaf spot disease inspite of difficult conditions. Perhaps, more importantly, the conditions of the Grant Agreement brought about: (i) the formal restructuring of the organization, (ii) strengthened the capacity of the British advisors to streamline operations, (iii) continuation of the Leaf Spot Control program, and (iv) encouraged the Board of Directors to make tough, but necessary, decisions as to grower payments, staff reductions and closing of boxing plants. In many ways the policy and operational changes sought by the Grant Agreement were achived before major disbursements took place.

While substantial managerial and financial improvements, under difficult market situations, have been acheived by the DBMC, the organization remains in a precarious position. The major economic constraint is the declining Pound Sterling. The major financial constraint is the long-term debt burden. The DBMC will have to reduce still further its costs, continue reduced levels of grower payments, restructure its debt payments and increase production. The banana industry has high fixed costs; the major way to achieve sustained financial viability is to raise export production well above the current level of 31,000 tons. To increase yields and total production will require higher levels of chemical inputs than now available to the growers. It is recommended that a major portion of the remaining technical assistance funds be converted to purchase of additional chemical inputs.

The DBMC technical assistance requirements are less than originally envisioned in the Grant Agreement. The major portion of the US$438 thousand was for long-term advisors to assist with the divestiture of boxing plants to cooperatives and private entrepreneurs. With the focus on field packing to achieve "privatization", these funds were not utilized. It is estimated that only US$75 thousand will be needed by the DBMC during the remaining life of the Agreement. This assistance would be used for short-term training of financial and administrative staff, and short-term field staff advisors. The British Development Division will continue to provide a long-term financial advisor to the DBMC.

The following sections detail the financial and operational changes since 1982, the impact of AID assistance, and spell out suggested changes in DBMC's financial plans for 1985 and 1986, and supporting changes for the existing Grant Agreement.

2. Financial Position of the DBMC

(a) Background:

The current situation of the DBMC is hard to understand without reference to a little history. While the current situation is difficult, it has been much worse. The banana industry is the central, if troubled, economic core of Dominica. Numerous consultants over the past decade have decried the economic, agronomic and operational difficulties facing the industry. Dominica is a high cost producer selling into a protected United Kingdom market. Inspite of consultants, hurricanes and a declining Pound Sterling, bananas do get cut and the growers do receive a fortnightly cash income. It is not elegant, but it is the dominate agricultural, economic, and income generating activity of the island; it is likely to remain so.

Over the years, the industry has been buffeted by a series of external forces which have made it difficult to sustain long-term development or consistent short-term profitability. There were also some self-inflicted wounds: poor management and occasional political interference resulted in a bloated organization, inefficient operations and subsidized grower payments. The most recent "normal" year for the industry was 1978, when it managed to breakeven on a production of 37,000 tons. At the end of that year, net worth stood at EC$1.9 million; it has yet to regain that level of economic health. Two years later, after a series of natural disasters sharply reduced production, (but not costs), the predecessor to the DBMC had an accummulated capital deficit of EC$11.5 million. By the end of 1982, the deficit has risen to almost EC$14 million. By the time of AID's involvement, the Dominica banana industry was insolvent, without adequate managerial resources or discipline, and was faced a shrinking production base.

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In September of 1982, AID signed a Project Agreement with the Government of Dominica (GOD) to provide up to US$1.75 million of Grant assistance to the banana industry. The purpose of the Grant was to "improve the cost effectiveness and financial viability of the industry, while maintaining control of leaf spot diseases in bananas", and to increase private sector involvement. The Grant provides up to US$1,312,000 for chemical spray inputs and $438,000 for technical assistance. A major condition of the Grant was the formation of a new, more commercially oriented, banana institution which could be financially self-sufficient -- it should be noted however, the question of how to refinance the massive long-term deficit was not addressed. The old Dominica Banana Growers Association was restructured and renamed the Dominica Banana Marketing Corporation in June of 1984; at the same time the grower representational function was put into a separate institution called the Dominica Banana Growers Association. To avoid confusion, this report uses DBMC to refer to the current and predecessor marketing institution, and uses DBGA to refer to only the present, voluntary growers association). In addition, to AID assistance, the British Development Division (BDD), made available two long-term technical assistance advisors and fertilizer inputs on concessionary terms.

(b) Comparative Financial Statements:

The Comparative Statement of Earnings, on page 5, illustrates several of the major changes that took place between 1982 and mid-1984:

(1) Production -- Export tonnage increased 34% over the period. The high annualized rate of the first half of 1984 was not maintained due to storm damage later in the year; export production for all of 1984 was 31,300 tons, an increase of 17% over 1982. The banana industry has high fixed costs, increased production is the major way to reduce unit costs.

(2) Sales Revenue -- On a unit basis, revenue increased only slightly during the period. While the wholesale or Green market price for bananas in the United Kingdom increased approximately 15%, the eroding Pound Sterling wiped out any benefits. The Pound Sterling/EC dollar exchange rate decreased 23% since 1982; it is currently 34% below the rate assumed in the Grant Agreement. The DBMC is exporting more, at a higher sales price, and has fewer EC dollars to show for it.

(3) Operating Expenses -- A major change during period was improved cost controls. While the Gross Margin declined 5% over the period, Operating Expenses went down by 15% to EC 20¢/lb. This reduction was largely due to improved control of leaf spot, boxing plant and transport costs, and a reduction in carton costs and inventory losses. These improvements resulted in a net surplus for the first half of 1984 of EC$884 thousand, or EC2.2¢/lb., as compared to the small deficit at the end of 1982.

COMPARATIVE STATEMENT OF EARNINGS (DEFICITS)

(In EC$000's and EC¢/lb.)

For Period Ending:

	12/31/82		12/31/83		06/30/84	
EXPORT TONS (2,240 lbs.)	26,683	¢/Lb.	28,563	¢/Lb.	17,817	¢/Lb.
Sales	$24,798	41.5	$28,025	43.8	$16,744	42.0
Cost of Sales (Paid to Growers)	10,807	18.1	12,862	20.1	7,868	19.7
Gross Margin	$13,991	23.4	$15,163	23.7	$ 8,876	22.3
OPERATING EXPENSES						
Field Operations	390	-	345	-	150	-
Leaf Spot Control	2,717	4.5	3,199	5.0	1,516	3.8
Boxing Plants	2,748	4.6	2,688	4.2	2,252	5.6
Cartons & Assoc. Materials	6,860	11.5	6,334	9.9	3,735	9.4
Transport & Handling	1,209	2.0	1,201	1.9	62	0.2
Other	143	-	151	-	114	-
SUB-TOTAL	$14,067	23.5	$13,914	21.7	$ 7,992	20.0
SURPLUS (DEFICIT) ON OPERATIONS	(76)	-	1,248	1.9	884	2.2
Administrative Expenses	(831)	(1.4)	(906)	(1.4)	(463)	(1.2)
Division for Doubtful Accounts	(100)	-	-	-	-	-
Finance Charges	(1,337)	(2.2)	(1,427)	(2.2)	(612)	(1.5)
SUB-TOTAL	$(2,344)	(4.0)	$(1,085)	(1.7)	$ (191)	(0.5)
OTHER INCOME (EXPENSES)						
Input Operations	(364)	(0.6)	129	0.2	(241)	0.6
Other (Incl. BISS & WINBAN	(40)	-	(777)	(1.2)	(455)	(1.1)
Net Before Grant	(2,748)	(4.6)	(1,733)	(2.7)	(405)	(1.0)
Grants Received	3,758	6.3	1,157	(1.8)	1,082	2.7
Net Earnings (Loss) For Period	$ 1,010	1.7	$(576)	(0.9)	$ 677	1.7

(4) Administration -- Overhead costs were reduced from EC1.4¢ to 1.2¢/lb. More impressive, was the sharp reduction in finance charges due to the steady repayment of bank overdrafts. Another area of systemic improvement was the input operations (providing growers with fertilizer and related inputs). DBMC turned a deficit operation costing $364 thousand in 1982, to one which covered costs and returned a modest profit of EC$241 thousand in 1984. This area of input distribution and grower credit had long been a source of confusion and abuse.

(5) Net Earnings -- Before Grant assistance is considered, the DBMC lost EC$2.7 million or 4.6¢/lb. in 1982; by the middle of 1984 the loss had been reduced to EC$405 thousand or 1.0¢/lb. Net "earnings", including Grants, was EC$1.7¢/lb. in 1982 and 1984; the difference was that it took substantially less donor help to achieve that result in 1984.

The Comparative Balance Sheet for the periods 1982, 1983 and the first half of 1984 is set forth on page 7. These three snap shots of the DBMC reflect the changes in earnings and operations noted above.

(1) Assets -- Current assets increased by 6%. This was in large part due to improved repayment of grower credit and tight cash flow management.

(2) Liabilities -- Current liabilities decreased by 23% for the period. This was largely due to a significant decrease in the use of bank overdrafts to finance weekly operations, and reduction of trade credit. Three years ago, DBMC virtually had exhausted all bank credit facilities; trade suppliers refused to extend credit. Today, the DBMC receives normal credit terms, a sign of marketplace approval and a key in running its input distribution scheme at a profit. The sharp increase in amount "due to GOD" in 1984 is apparently the conversion of BDD Grant fertilizer to concessionary loans made through the GOD.

(3) Capital Deficiency -- As a result of the above changes, the large working capital deficit in 1982 became a modest surplus by June of 1984. This, in turn, reduced the accummulated negative net worth of the DBMC to approximately EC$13 million by mid-1984. This reduction was inspite of a slight rise in long-term debt. The continuing debt service burden, and ultimate need to repay principal, has not been resolved. To date, neither the DBMC, GOD, bankers, or international agencies have found a solution.

COMPARATIVE BALANCE SHEET

(In EC$000's)

	PERIOD ENDING		
	12/31/82[a]	12/31/83[a]	6/30/84[b]
CURRENT ASSETS			
Cash - Unrestricted	$ 97	$ 784	$ 26
- Restricted	608	544	620
Accts. Receivable (Net of Allowances)	2,849	2,447	2,604
Accts. Receivable (USAID/BDD)	987	731	1,224
Staff Receivables	90	58	38
Inventories	1,033	1,040	1,313
WINBAN Refund	-0-	-0-	263
Prepaid Expenses	44	106	-0-
SUB-TOTAL (1)	$ 5,708	$ 5,710	$ 6,088
CURRENT LIABILITIES			
Bank Indebtedness	$ 1,483	$ 1,006	$ 588
Accts. Payable & Accrued Liabilities	4,705	3,905	3,147
Due to GOD (BDD)	200	200	980
Current Portion L-T Liabilities	1,013	1,155	1,000
SUB-TOTAL (2)	$ 7,401	$ 6,266	$ 5,715
WORKING CAPITAL (Deficiency) (1) - (2)	($ 1,693)	($ 556)	$ 373
Investments	$ 149	$ 149	$ 149
Fixed Assets (Net of Depreciation)	2,248	$ 2,005	$ 1,843
Long-Term Liabilities	(14,876)	(16,347)	(15,326)
CAPITAL DEFICIENCY	($14,172)	($14,749)	($12,961)

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a/ Audited Figures.
b/ Estimated.

(c) Comment and Recommendation:

As reflected in the Comparative Financial Statements, the DBMC turned in a solid financial performance under difficult conditions. The question is whether the DBMC is more financially viable? In a strict sense an enterprise either is or is not financially viable. Clearly, the DBMC is insolvent and faces very difficult economic conditions in its one and only market. Just as clearly, the DBMC has improved its financial ability to survive; however, long-term survival and consistent profitability will require more than just a very tight ship.

Beyond the above financial analysis, and just as important to the issue of viability, is the systemic improvements which have occurred. The DBMC may have now the best current accounting records and systems of WINBAN/BGA. Granted, that says as much about the norm as it does about DBMC's success. But the success is real. The quality of Dominica export fruit has risen from the bottom of WINBAN's list to the top. The leaf spot control program is one of the better ones in the islands. The DBMC has taken the lead in getting Geest Industries to transfer sale receipts directly to their Pound Sterling account with the National Commercial Bank of Dominica (who have in turn offered the DBMC a preferred exchange rate). This arrangement resulted in a small profit of EC$26 thousand in the first five months of its operation. Not a lot of money, but indicative of the kind of financial management systems that can pay long range dividends.

In the important, and in the past troublesome, areas of grower prices, the DBMC has been prudent. It has maintained the prepaid cess level at an average of EC5¢/lb. (this assures the growers of a modest level of inputs when the time comes to replant). The cash price to the growers has been slightly increased to an average of EC14¢, probably close to the minimum needed to encourage replanting and intensification of production. Another example of the board making hard decisions, was the decision to allocate scarce additional fertilizer inputs to only those growers who had production of 15 or more tons over the last twelve months. The improved financial performance and decisions of the DBMC indicate that it is better able to face the difficult period ahead.

While improvements have been made, more needs to be done. The tentative DBMC budget for 1985 indicates a deficit of EC$1.4 million, after AID assistance (see pages 10 and 11 for proposed budget and cash flow projection for 1985). Certainly the approval of such a budget with an unfunded deficit would not enhance the Board's reputation for "business like management". The DBMC should promptly undertake to:

(1) formulate a 1985 and 1986 budget without a deficit, using a realistic exchange rate and grower prices,

(2) initiate discussion with the commercial banks to reschedule loans coming due in 1985,

(3) initiate discussion with the BDD to determine if re-financing of commercial bank loans at 11% can be done through concessionary loans to Dominica under the "Independence Assistance Package", and

(4) request from USAID that a major portion of the technical assistance funds be converted to additional inputs to be used during 1985.

This Amendment to the Grant Agreement, if approved, would represent a substantial change in the form of AID's assistance, but not in level or intent. The DBMC's substantial compliance with the performance tagets of the Grant Agreement and its willingness to take difficult decisions should be recognized. As noted later in this report (see page ___) only a small portion of the technical assistance funds are needed. The need to increase production to lower unit costs and improve DBMC's ability to repay its heavy debt is clear. A major constraint on increased production is the availability of sufficient inputs (fertilizer and various chemicals). The DBMC appears to have a sound accounting system for monitoring grower accounts and repayments. Therefore it is recommended that in addition to continuing draw-downs of funds for "Spraytex", the DBMC be allowed to purchase other inputs with funds transferred from the Technical assistance to the input side of the Grant Agreement.

3. Impact of AID Assistance

The Grant Agreement was signed in September of 1982 and amended one year later. The major condition precedent of a restructured DBMC was not met until June of 1984. The result was that for the last part of 1982, and virtually all of 1983, USAID and the GOD were partners in a policy dialogue or implementation dance. While these were difficult months and resulted in limited cash assistance for the DBMC, the process provided the framework for strengthening and ultimately restructuring the DBMC. There was seldom a debate over the objectives, the discussions were over how to implement those objectives. It was a complicated cast of characters, both on and off the island of Dominica. The process was compounded by differing institutional agendas and a dearth of hard, consistent information. While AID took the lead (and most of the heat) for the policy dialogue, the British continued to provide important technical assistance (a long-term Operations Manager and a long-term Financial Manager), pending the return of DBMC staff out for extended training.

The half million U.S. dollars the DBMC received in 1983 and the first half of 1984 (mostly "Spraytex") helped significantly with its continuing cash-flow crisis. In addition, the steady supply of these chemical inputs (with a brief hiatus in the spring of 1984) allowed the leaf spot disease control program to go forward even when the DBMC was strapped for ready cash. USAID technical assistance, in the form of a consultant team to examine boxing plants and field pack operations, helped the DBMC to identify options and understand how remaining boxing plant facilities could be improved when funds became available. Just as important as this formal technical assistance was the continuing assistance and project monitoring of the ARDO staff.

DBMC TENTATIVE BUDGET FOR CY 1985

	TOTAL	COST/LB.
PRODUCTION-TONNAGES	32,320.0	-
FIELD PACK PERCENTAGES	59.1%	-
FIELD PACK TONNAGES	19,095.0	-
COOPERATIVE & PRIVATE TONNAGES	3,232.0	-
DBMC BOXING PLANT TONNAGES	9,993.0	-
BANANA SALES REVENUE	$32,520.2	44.92
PAYMENTS TO GROWERS	11,193.4	15.46
PREPAID CESS VALUE	4,014.1	5.54
FIELD PACK PREMIUM	1,705.4	2.36
DEHANDING BONUS	90.5	0.13
DEFLOWERING BONUS	181.0	0.25
TOTAL PAYMENT VALUE TO GROWERS	$17,184.3	23.74
GROSS MARGIN	15,336.0	21.18
OPERATING EXPENSES:		
FIELD OPERATIONS	308.4	0.43
LEAFSPOT CONTROL	2,999.7	4.14
TRANSPORTATION DBMC TRUCKS	146.8	0.20
BOXING PLANT OPERATIONS	1,371.8	1.89
BOXING PLANT TRANSPORTATION	457.1	0.63
BOXING PLANT T/PORT PRIVATE	997.5	1.38
BOXING ALLOWANCE F/PACK-COOP	1,489.6	2.06
CARTON & ASSOC. MATERIAL	6,856.8	9.47
EXPORT TAX TO GOVERNMENT	171.8	0.24
WASTAGES (DIFF PURC & SALES)	18.0	0.02
LEFT BACK FRUIT	0.0	0.00
BANANA INDUSTRY INSURANCE	164.9	0.23
ADMINISTRATION EXP	1,175.2	1.62
WINBAN CONTRIBUTION	420.4	0.58
DEPRECIATION	384.0	0.53
BISS/BDD PROGRAM	487.5	0.67
TOTAL OPERATING EXPENSES	$17,449.2	24.10
SURPLUS/DEFICIT ON OPERATIONS	(2,113.2)	(2.92)
INTEREST PAYMENT ON LOANS	(1,104.0)	(1.52)
MISCELLANEOUS INCOME	72.0	0.10
FERTILIZER OPERATION INCOME	360.0	0.50
SURPLUS/DEFICIT BEFORE AID	(2,785.2)	(3.85)
USAID GRNAT	1,399.7	1.93
NET SURPLUS/DEFICIT AFTER AID	($1,385.5)	(1.91)

DBMC PRO FORMA CASH FLOW PROJECTION FOR CY 1985

	TOTAL	COST/LB.
SURPLUS/DEFICIT ON OPERATIONS	($1,385.6)	(1.91)
ADD BACK CASH AND NON-CASH ITEMS		
DEPRECIATION	384.0	0.53
GROWERS PREPAID CESS	4,014.1	5.54
GROWERS ACCOUNT RECEIVABLES	520.0	0.72
PROVISION FOR CDB INTEREST	274.8	0.38
NET CASH IN-FLOW	$3,807.3	5.26
CASH OUT-FLOW PAYMENTS, BALANCE OF 1984 BACKPAY	50.0	0.07
REDUNDANCY PAYMENTS	150.0	0.21
QUARTERLY FERTILIZER PAYMENTS	2,360.0	3.26
ADDITIONAL FERTILIZER PURCHASE	150.0	0.21
CHEMICAL AND OTHER INPUTS	817.1	1.13
CAPITAL EXPENDITURE	428.0	0.59
REPAYMENT BARCLAYS BANK LOAN	225.0	0.31
REPAYMENT ROYAL BANK LOAN NO. 1	522.0	0.72
REPAYMENT ROYAL BANK LOAN NO. 2	60.0	0.08
CDB LOAN SFRD-23	244.0	0.34
COOP CREDIT UNION LEAGUE	76.0	0.10
NAT. COMMERCIAL BANK	36.0	0.05
INTEREST ON CDB LOANS	274.4	0.38
NET CASH PAYMENTS	$5,392.5	7.45
NET CASH SURPLUS/DEFICIT	(1,585.2)	(2.19)
CUMMULATIVE CASH SURPLUS/DEFIC	-0-	(15.44)
TOTAL BANKS AND OTHER LOANS	1,163.0	1.61
SURPLUS/DEFICIT BEFORE LOANS	($ 422.2)	(0.58)

In sum, the objectives of the Grant Agreement have been met inspite its overly optimistic assumptions about the exchange rate and the potential for profitable operation of the boxing plants by the private sector. Indeed, many of the policy objectives were met before any significant disbursements were made. It speaks well for all the participants to the project.

4. Measures of Financial Viability

Because there was uncertainty as to the ability and commitment of the GOD and DBMC to bring about the necessary structural and financial reforms, a series of performance objectives were built into the Grant Agreement. Progress on the structural change issue was a condition precedent to continued input disbursement. A series of "measures of financial viability" were set forth in Annex I of the Grant Agreement (amended, September, 1983) by which progress would be reviewed.

The following is a point-by-point analysis of the DBMC performance against those measures. Analysis of the key "privatization", divestiture of boxing plants is addressed separately in section 5.

(a) Grower Payments:

The amended Grant Agreement stated: "payments to growers of which at least 5¢ (EC) per pound must be in the form of prepaid inputs, can be no greater than that which is financially prudent."

Comment: The issue of grower payments and cess accounts is a long standing one. Historically, growers would receive a cash payment based upon the number of export pounds of fruit sold to the DBMC, less its operational costs and various deductions for repayment of past credit and for future input use (prepaid). There is much discussion and preciously little hard information about what is an appropriate level of grower payments when times are tough. At some point there is a magical "trigger" level which is high enough to encourage growers to replant and improve yields. When times are good, and that has not been for many years, the question is largely moot. When times are difficult, the question of the minimum cash price which will keep the growers in production becomes crucial. In practice, what happens is the DBMC will subsidize on occasion the cash payment to the grower. When the sales price is low, it will pay out say 12¢ a pound cash to the grower even when the resulting gross margin would not cover DBMC operating costs. This is a fortnightly decision and is in constant flux. Another way to cover these, hopefully short-term, losses is through deducting less than EC5¢/lb for prepaid inputs and thereby raise the cash price to some assumed minimum level. This, in effect, reduces the growers later claim on inputs (a chit he can take to the DBMC warehouse for supplies).

The performance target was meant to encourage maintaining at least a EC5¢/lb prepaid cess while not allowing a greater cash price than what the DBMC could afford. Because of the number of variables involved in making these fortnightly decisions, it is really a judgement call on the part of the DBMC as to what, given the facts they have at the time, is a "prudent" level for grower payments.

With the exceptions of a few months at the start of 1982, the DBMC has maintained an average of a EC5¢/lb prepaid cess through the period of the Project Agreement. The total price to the grower (including cess accounts and various premiums for field packing, sleeving, dehanding, etc) averaged EC18.1¢/lb in 1982 and EC19.7¢/lb in the first half of 1984. Given the facts available ~~at~~ the time, and the resulting production and financial performance of the DBMC these were "financially prudent" decisions.

(b) Inventory Control:

The amended Grant Agreement stated:

> "The physical losses on spray oil, fertilizer, and cartons (defined as the difference between that amount in inventory at the beginning of a period plus purchases during the period less amounts accountably used during the period less ending inventory) must be no more than 4% of the sum of beginning inventory plus purchases during the fourth quarter of 1983 for each of the above items, and shall be 3% for the first quarter of 1984. Physical losses shall be no greater than 2% for each item in all succeeding quarters."

Comment: As reported in the DBMC three quarterly performance reports, covering 9/30/83 to 6/30/84, the inventory control of spray oil and fertilizer resulted in "nil" shortages. The loss for cartons varied between 1.4% and 1.5% of the total of opening stock, plus purchases, less accounted for uses and ending stock on hand. Based upon these reports the DBMC has compiled with this performance indicator. As with the following two measures, no independent audit was performed; however, the reports were compiled by the BDD financial advisor and appear to be reasonably given other review measures.

(c) Trading Losses:

The amended Grant Agreement stated:

> "Trading losses on plants owned and operated by the DBC, or its equivalent organization, (trading losses are defined as the tonnage of bananas purchased by the DBC, less the tonnage of bananas sold to Geest, less bananas unable to be accepted by Geest due to production beyond agreed upon space limitations on Geest ships) can be, during each quarter of 1983, no more than 3% of the total tonnage purchased, and 1% during each quarter of 1984."

Comment:

As reported in the three quarterly performance reports, the trading losses arising from DBMC plants ranged between 0.2 and 0.4%. Based upon those reports, the DBMC has compiled with this performance indicator.

COMPARATIVE PERFORMANCE INDICATES
(IN EC$ 000's)

	1983 4th Qtr.	1984 1st Qtr.	1984 2nd Qtr.	Net Change Total Period
Grower Input Credit				
Balance Start of Period	$ 3,014	$ 2,883	$ 2,662	
+/- For Period	(132)	(221)	(211)	(563)
Balance End of Period	2,882	2,662	2,451	
Other Input Credit				
Balance Start of Period		58	53	
+/- For Period		(5)	(15)	
Balance End of Period		53	38	
Expenditures for Fixed Assets	13	56	9	70
Repayment, Long-term Debt	18	23	33	74
Repayment, Geest Loan	-	-	238	238
Repayment, Trade Creditors (Winban)	-	-	126	126
Long-term Debt				
Balance Start of Period	17,075	17,269	17,285	
+/- for Period	194	16	21	+ 231
Balance End of Period 9/30/82	17,269	17,285	17,306	1.4% over
Short-term Debt				
Balance Start of Period	1,081	997	1,055	
+/- for Period	(84)	(58)	(467)	(493)
Balance for Period 9/30/82	997	1,055	588	46% under
Cash Flow Gross	(148)	(183)	641	+ 310
Cash Flow Net of Donor Aid	(654)	(597)	627	-1,224
Contribution to Contingency Fund	-	-	-	
% Banana Processed at DBMC Plants	55%	56%	52%	(3%) points
Average Cash Grower Payment	14.15¢ /lb	12.45¢ /lb	14.52 /lb	
Average Grower Prepaid Cess	5.0¢ /lb	5.0¢ /lb	5.01 /lb	

	1983 4th Qts	1984 1st Qts.	1984 2nd Qts.	Net Change Total Period
Inventory Shortage				
Cartons	1.4%	1.4%	1.5%	
Spray oil	Nil	Nil	Nil	
Fertilizer	Nil	Nil	Nil	
Banana Trading Losses	0.2%	0.4%	0.25%	
Payment of Trading Losses From Private Boxing Plants	Nil	Nil	Nil	
Boxing Costs (Excludes cartons, includes transportation)	3.75¢ /lb	3¢ /lb	3.5¢ /lb	
Other Cash Costs	$ 1,170	$ 975	$ 927	

(d) Trading Losses

The amended Grant Agreement stated:

"The DBC, or its equivalent organization, will pay for no more than 1% trading loss arising from privately operated boxing plants."

Comment: The three quarterly performance reports of the DMC show that the trading losses arising from DBMC transactions with private and cooperative boxing plants were "nil". Based upon these reports, the DBMC has compiled with this performance indicator.

(e) Boxing Plant Costs:

The amended Grant Agreement stated:

"Total boxing costs, excluding the cost of cartons, but including transportation to the docks will not be more than 6.25¢ per pound."

Comments: The boxing plant's costs are an area of historical concern. At the time of agreement they appeared to be high, and not under control. This provision was to assure that as the DBMC moved to rationalize the boxing plants, they would closely monitor costs. The DBMC's quarterly performance reports showing boxing plant costs ranging between EC 3¢ to 3.75/lb for the three quarters. Based upon these reports, the DBMC has compiled with this performance indicator.

It should be noted that as field packing increases, the unit costs of boxing plants will go up. While it is planned to close some plants, with the need to maintain minimal island wide coverage and with closing costs (e.g. severance pay etc.), boxing plant costs are estimated to rise to EC 6¢/lb during 1985. While still within the limits of this provision, these costs should be monitored as a measure of DBMC's management of the overall shift to field packing for growers.

(f) Other Cash Costs

The amended Grant Agreement stated:

"The total of other cash costs of the DBC (anything other than direct carton and chemical purchases, boxing costs, payments to owners, interest and principal payments on debt, reduction in outstandings to trade creditors, purchases of fixed assosts, WINBAN levy, or export tax) can be no more than $500,000 per quarter unless USAID otherwise agrees in writing."

Comment: The total for other cash costs is in EC dollars. Based upon quarterly performance reports, the DBMC has not complied with this provision. Their calculation show other cash costs ranging between EC$927 and $1,170 thousand for the three quarters. The components which make up this calculation are not specified. Based upon the intent of the provision it would be reasonable to include "Field Operations", "Transport and Handling" and "Administrative" expenses. Using these components drawn from the Comparative Earning Statement shown on page 6, the DBMC would have been in compliance with this provision. As defined above, the quarterly "other cash costs" would have ranged between EC$244 and EC$463 thousand.

As the BDD reduces its support for the Banana Improvement Support Scheme (BISS), "other cash costs" will substantially increase. Clearly the DBMC is not in compliance and should be notified. It is recommended that this provision be clarified to define how the costs calculation should be made. In addition, some adjustment should be made to reflect increased production levels and resulting costs.

In addition to the amended "Measures of Financial Viability", set forth above, there were other covenants in the amended Project Agreement. Two of these warrant attention as it appears that the DBMC may not be in full compliance with their provisions.

(g) Long-Term Debt:

The amended Agreement stated that:

"The Grantee will assure that the DBC, or equivalent organization, undertakes no additional long-term borrowings or increases in short-term borrowing limits without the prior written approval of A.I.D."

Comment: It appears that in late 1983 the BDD converted its Grant assistance (fertilizer inputs) to long-term concessional loans to the GOD. The DBMC correctly shows these inputs, however "soft" the terms, as an increase to their long-term debt (in this case, owed to the GOD). While it was a reasonable action on the part of the DBMC (they had no alternative), they should have requested formal permission from USAID/RDO/C; it appears that they did not. It is now an accomplished fact and perhaps was known at the time given the USAID's on-going discussions with the DBMC and BDD; however, it is a technical violation of the Grant Agreement.

(h) Use of Cash-Flow Surpluses:

The amended Agreement stated that:

"The Grantee will assure that for any calendar quarter, or other period agreed to in writing, the gross cash flow, surpluses, if any (cash inflow less payments to growers, other operating costs, interest and principal payments, fixed assets, purchases and trade creditors reductions, plus donor assistance in the form of grower inputs, other materials or cash) will be assigned as follows:

(1) If the net cash flow surplus (gross surplus less donor assistance) is positive, 75% of the net will be used to further reduce long-term debt and/or trade credit; the remaining 25% along with an amount equal to A.I.D. assistance will be placed in a contingency fund for disasters or for other purposes agreed to by A.I.D. and DBC, or equivalent organization.

(2) If the net cash flow surplus is negative, the entire amount of the gross cash flow surplus will be placed in the contingency fund for disasters or other purposes agreed to by A.I.D. and DBC, or equivalent organization."

Comment: In the second quarter of 1984, according to the DBMC calculations, there was a gross cash-flow surplus of EC$641 thousand and a net cash-flow negative surplus of EC ($27) thousand. According to the apparent meaning of this provision, the total amount of the gross cash-flow surplus should have been placed into a contingency fund. There is no record of a formal agreement between DBMC and AID to do otherwise.

The language of this provision is at best awkward and may be counter productive to the intent of the Grant Agreement. It would seem to require the DBMC to adopt a zero cash-flow balance at the end of each quarter. The intent was to prevent the DBMC from using donor assistance for paying off bank debt. The provision, as it stands, would require the DBMC to use bank credit to finance working capital needs for any quarter there was a gross cash-flow surplus. Apparently the DBMC was not in compliance with this provision for the second quarter of 1984.

It is recommended that this provision be clarified and its intent directly linked to its language. It is suggested that means other than a zero balance cash-flow each quarter may be more appropriate (such as approval of DBMC cash-flow budget, or the existing limitations on repayments of bank indebtedness without AID approval).

5. Private Sector Participation

The major opportunity for increased involvement of the private sector (individual entrepreneurs, corporations or cooperatives) was through divestiture of the DBMC boxing plants. They were viewed as being inefficient, and while the "heart" of the DBMC banana operation, it was felt that the private sector could operate them more efficiently. Indeed, they were expensive and there was some evidence from other islands that private operators were more efficient (operating closer to EC3¢/lb. rather than EC6 - 8¢/lb. the DBMC seemed to incur).

The Grant Agreement stated that:

"The DBC, (or equivalent organization) shall undertake a detailed analysis of each boxing plant and shall restructure its operations, through consolidation, modernization and divestiture on a cost effective basis. Maximum emphasis will be given to divesting boxing plants to private groups. Where existing cooperative plants are consolidated into larger more efficient units, cooperative ownership and operation of that centralized plant shall be given priority. It is planned that by December 1984, no more than 50% of export bananas will be processed in DBC (or equivalent organization) plants."

Evidence since 1982 indicates that the plants while inefficient were not a golden opportunity for the private sector. Existing plants are obsolete and wage rates are relatively high due to union agreements. The key to efficient operation would be increased throughput. These conditions did not make them attractive investments to the Dominica Private sector. A lack of local business expertise and capital may have been contributing factors to the lack of interest in taking over DBMC plants.

The DBMC has done a detailed cost analysis of each plant, streamlined operations, and reduced costs. After a review of the options, the DBMC decided to divest the boxing plant <u>function</u> by spinning off the operation to growers. This was done by encouraging the use of field packing. The fruit is directly processed and packed in the field by the grower who receives a EC3¢/lb. premium for field packing and probably increases his output due to reduced transport losses.

In 1982, 75% of export bananas were processed in DBMC plants (14% were processed in private or cooperative plants, and 11% were field packed by growers). By the end of 1984, 45% of bananas were processed by DBMC plants, 45% were field packed and 10% were processed by private or cooperative plants. It is the intention of the DBMC to increase field pack to 65% by the end of 1985. They will reduce the number of DBMC plants from 19 to 10 or 12 plants. The remaining plants would provide wet pack services to those growers who could not meet the standards for field packing. With more modern, central plants, costs would be reduced.

The fly in the ointment is that, in the short-run boxing plant costs will go up after having dropped in 1983 and the early part of 1984. The reason for this is that, throughput is the major variable for boxing plants once they are efficiently organized. As the percentage of fruit diverted to field pack increases there is less to go through the boxing plants. These plants, with high fixed costs, will increase per unit costs until such time as there is a balance between facilities and throughput.

It is not clear how fast further divestiture of the boxing plant function can proceed. When a plant closes, all the growers in that catchment area have to go to field pack or incur the additional costs of taking their bananas to a more distant wet pack boxing plant. As the DBMC works with smaller growers, to get them ready for field packing, it will make more demands on the Field Operations staff to educate and monitor the growers. In addition, there are social and political costs for the immediate area when a boxing plant is closed. The DBMC is now closing three high cost, marginal plants. They will closely monitor the cost savings and "grief" incurred when all growers for an area are forced to meet field pack standards or travel to a more remote wet pack plant. Given the costs of closing plants and the vagaries of matching throughput with each plant's optimum operation, it is anticipated that boxing plant costs will increase to EC6¢/lb. in 1985. Eventually, the cost of boxing function will decline closer to the EC3¢/lb. premium paid to field pack growers (adjusted upward by the percent of fruit still going through the remaining - and hopefully modernized - boxing plants).

It would appear that the DBMC made a reasonable decision to divest the boxing plant function rather than the boxing plants. There is still a need to assure that cooperative plants receive help to improve their own operations. Indeed, some cooperative plants are suffering the same throughput problem, as their growers move to field packing. Given their decision to use field packing as the way to increase private sector involvement, the DBMC has implemented the program with a remarkable degree of success.

Another area for potential private sector involvement was the aerial spray function. The DBMC has a spray plane, minimum ground facilities and provides the chemicals and all aircraft maintenance. The actual flying is done by a private, contract pilot off-island. This is an expensive and inefficient operation. The Deloitte, Haskins and Sells, Associates consultant team estimated total cost of aerial spraying for 1983 at EC6¢/lb. The aircraft and associated equipment are vastly under utilized at only 200 to 250 flying hours a year. A logical solution to this problem (shared by other BGAs) would be for a region-wide aerial spray service that could more efficiently utilize and maintain equipment. The consultant made such a proposal either as a part of, or separate from, WINBAN. It is not known what action, if any, will be taken on the consultant's recommendations of October, 1984.

An alternative would be for DBMC to sell its aircraft and contract out the entire operation to a private company. This was the case prior to 1980; however, an unreliable contractor who did not perform at the time of a major leaf spot infestation led the DBMC to buy its own aircraft to assure timely aerial spraying.

Other opportunities for private sector involvement in the DBMC operations are not obvious. Major field operation activities are more likely the function of a Ministry of Agriculture than a private contractor. The DBMC already uses private transport contractors, rather than its own trucks and drivers, for bulk hauling of supplies and fruit.

6. Technical Assistance

The Grant Agreement provided US$438 thousand dollars to cover: 57 months of technical assistance to new private and cooperative owners of divested boxing plants, 6 months of technical assistance to analyze the divestiture of the aerial spray and input distribution functions of the DBMC, and 3 months of technical assistance to design and implement a communication network among DBMC facilities.

To date some US$40 thousand has been expended for technical assistance (fruit processing consultants). The bulk of the funds were not used since the decision was made to divest the boxing function rather than the boxing plants themselves.

A series of interviews with DBMC staff, Board members and GOD officials indicates relative little interest in major additional technical assistance. This is in part due to the continuing presence of a long-term BDD financial advisor. The lack of interest is also due, perhaps, to their total attention given to problems resulting from the exchange rate and ongoing cash flow needs. The GOD did make a request for several long-term cooperative advisors, but they would be working with all cooperatives, not just banana cooperatives.

There were areas where limited training and assistance was requested: (i) short-term training in inventory control procedures and the use of computer based procedures -- one person, three to six months; (ii) short-term training in computer accounting systems for mid-level accountants -- two people, six months; (iii) an advisor to review, consolidate and modernize internal office and personnel procedures -- one person, six months; (iv) training for field staff who work with informal grower cooperative field packing groups -- one person, three months; (v) assistance to strengthen management of cooperative boxing plants -- one person, six months; (vi) training for field staff in simple farm management techniques that could be imparted to growers -- one person, three to six months, preferable with approval of WINBAN; and (vii) assistance to the Dominica Banana Growers Association in the area of education and group meeting techniques -- one person, three months.

These requests were informal and were not supported with details as to the specifics to be addressed by the training or technical assistance. There is a history within the DBMC of viewing technical assistance as being more for the benefit of the donor than DBMC. Thus, consultant reports are read, but they await AID's action for implementation. There is <u>not</u> a feeling that these advisors work for the DBMC, or that the DBMC has the lead responsibility in seeing that they are well used and their recommendations thoroughly reviewed on-site. I would recommend that further technical assistance not be made available to the DBMC without a formal request with specifics as to how DBMC will support and utilize the advisor or the training. It would be prudent to reserve a modest portion of the remaining technical assistance funds for these possible, future requests (e.g. US$50 - 75 thousand). Remaining technical assistance should be reprogrammed to other uses.

As noted earlier in this report, there is a need for additional inputs if the DBMC is to increase production. I recommend that the approximately US$300 thousand remaining in the technical assistance portion of the Grant Agreement be converted to the purchase of inputs for the DBMC during 1985. Such a request from the DBMC, and it will be made to USAID shortly, should be part of a larger effort. I recommend that the DBMC address its immediate financial needs as a total effort and not on a piece meal basis. This would require the DBMC to put together a single package for presentation to commercial bankers as well as the BDD and AID, to demonstrate how their assistance is needed, how it would be used and the benefits in terms of each institution's interests.

This is an immediate need. While the DBMC has the information, they will need help to package the request in realistic, business like fashion which can be favorably acted upon by the various participants. I suggest that assistance be made available to work with, and for, the DBMC in this effort.

Such advisor should be a financial or business analyst familiar with the operations of the DBMC (Messrs. Proctor or Wagner already known to USAID and the DBMC would be likely candidates). This effort would take approximately ten days in Dominica with another three to five days in consultation with BDD and AID. The following is a suggested Scope of Work.

The contractor would assist the DBMC in the analysis and written preparation of a financial plan for 1985 and 1986. This plan should include:

(a) A realistic balanced budget for 1985 and 1986. The effects of a zero deficit budget given existing financial and market circumstances should be identified. These budgets should be supported by cash flow projections for 1985 and 1986.

(b) A formal request to the commercial banks to reschedule loans coming due in 1985. This request would be supported with alternative cash flow projections for 1985 - 1987, showing the effect of the proposed postponement and indicating how the rescheduled loans would be serviced in the later years.

(c) A formal request to the BDD to provide concessionary loan inputs to the DBMC as part of the "Dominica Independence Assistance" package. These inputs, procured from the United Kingdom on zero percent loan terms would be sold to the growers at market pries; the resulting funds would be used to pay off existing (11%) commercial bank loans. The GOD (which would be the formal recipient of the loan) would be repaid at 3% interest with a five year grace period. The net reduction of interest charges and the rescheduling of payments would substantially benefit the DBMC. This request should be supported with alternative budgets and cash flow projections showing the effects of the proposed arrangement.

(d) A formal request to AID to allow the unused and unreserved portion of the technical assistance monies to be used for additional production inputs in 1985. This request for a formal Amendment to the Agreement should be supported with alternative budgets and cash flow projections indicating the effect of the proposed arrangement. This request should include other modifications to the Grant Agreement as indicated in this report.

While this package need not be fancy, it should be realistic and timely. It is important that DBMC make its case to the banks and donor agencies as soon as possible to assure prompt consideration.

Please note that attached to the original of this report are the following documents:

(a) DBMC 1985 Budget and Cash-Flow Projections,

(b) Estimate of Draw Down against AID Input Assistance Funds,

(c) Dominica Banana Growers Association Annual Report and Accounts for 1982 and 1983, and

(d) Photocopy of DBMC Audited (but not approved) Financial Statements for 1984.

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