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The Role of Privatisation in the Development of a Capital Market in The Gambia

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This thesis is dedicated to the memory of my late sister Aissatou who supported me in the most difficult time of my educational career.

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Executive Summary

This thesis constitutes part of the Master Programme in Banking and Finance conducted at the African Centre for Higher Management Studies, better known by its French acronym (CESAG).

The objective of the study is to try and see how the privatisation process in The Gambia could be used to spur the development of a capital market. The motivation behind this topic is that privatisation programmes have often been used in other countries to start a capital market or to strengthen the existing capital market in other countries. However we realised that in The Gambia, there was a first privatisation programme that was launched under the IMF-World Bank-supported Structural Adjustment Programme in the late 80s, but there was no attempt at trying to take advantage of the opportunity to kick-start the capital market. We also realised that the current privatisation programme has also taken off without a clear policy to encourage the development of a capital market. Our study therefore seeks to suggest solutions that would the realisation of this objective possible.

The methodology

The methodology adopted in this work consists essentially in carrying out a macroeconomic analysis of the country to set the economic context in which the privatisation programme is taking place and how could those economic factors affect the objective of the development of capital market in the Gambia. This macroeconomic analysis then leads to a close look at the companies slated for privatisation, identify those that present potentials to be listed on a stock exchange based on their financial records. We then carry out a valuation of those companies and try to come up with a range of values that would provide Government a basis for negotiation.

It is important to note that despite the recognised role that privatisation plays in the development of capital markets, very scanty literature exists on the subject and this present study is the first attempt at establishing a link between privatisation and capital market in The Gambia.

The Economic Context

The Gambia came out the Structural Adjustment Programme supported by the World Bank and the IMF in the late 80s in a better economic shape. This relatively good economic performance went on until 1999 when slippages in Government spending lead to high fiscal deficits, which coupled with the lax monetary policies, created an unprecedented economic crisis. The macroeconomic fundamentals deteriorated sharply in the period 2000 – 2003, when the inflation rate reached a record high of 17%, GDP growth went down to –3.2% in 2002, whilst the fiscal deficit peaked at 15% of GDP in 2001 from only 3.7% the previous year.

However, the situation seems to be under control as Central Bank authorities took stringent measures aimed at bringing back discipline into the financial sector, whilst on its side, Government tried to come regain fiscal discipline by cutting significantly on public spending.

The Financial System

The Gambian financial system is still at its embryonary stage as financial intermediation is almost entirely through the banking system, which is characterised a high level of concentration and a high level of segmentation, with two banks having 79% of the deposits and 76% of the loan portfolio of the banking system. However public awareness about other forms of financial intermediation if fast increasing and the past two to three years have seen the creation of a Mutual Fund and of a Loan and Savings Company in addition to other microfinance institutions.

As far as investors are concerned, the financial sector is dominated by one major investor, that is the Social Security and Housing Finance Corporation (SSHFC). There is therefore the need to carry out large sensitisation programme in order to encourage public participation into the privatisation programme. It is nonetheless promising to note that the Gambia's small middle-income earners and the Gambian expatriates are more and more developing the culture of equity investment and this augurs well for the development of a capital market. However, more efforts have to be done to increase income levels and promote a bigger middle-income group in order to create a larger group of individual investors.

The Role of The Gambia Divestiture Agency

As the institution entrusted with the responsibility of managing the privatisation process, the Gambia Divestiture Agency (GDA), should be given the mandate to not put in place the required institutions for a development of a capital market. In addition to that, the GDA should be more active in its sensitisation process with regards the investors both the investors and the private companies as a vibrant stock market cannot exist without the active participation of the private companies. Given the structure of the Gambian private sector, which is largely composed of Small and Medium Sized Enterprises (SMEs), a particular emphasis should be put on the necessity to set listing rules that would allow SMEs to raise funds from the securities market without additional cost to them.

NOTE DE SYNTHESE

Ce mémoire est une partie intégrante du programme Master en Banque et Finance du Centre Africain d'Etudes Supérieures en Gestion.

L'objectif principal de ce travail est de voir dans quelle mesure le programme de privatisation des entreprises publiques en Gambie pourrait servir de catalyseur au développement d'un marché des capitaux. Le thème du mémoire est motivé par le fait que les privatisations en Afrique de l'Ouest et en Gambie plus particulièrement n'ont pas eu d'effets sur les marchés financiers, contrairement à ce qui s'est passé en Europe de l'Est et en Asie du Sud-Est. En Gambie, une seconde phase de privatisation a été lancée en 2001 avec la mise en place d'une agence chargée de la privatisation sans qu'on puisse voir clairement parmi ses objectifs, le développement d'un marché des capitaux. Notre étude ambitionne donc de proposer des solutions qui permettraient la réalisation de cet objectif.

La méthodologie

La méthodologie que nous avons adoptée consiste essentiellement à mener une analyse macroéconomique pour déterminer le contexte économique de ce programme de privatisation. Cela permettrait de voir dans quelles mesures ces facteurs économiques affectent l'objectif de développement du marché des capitaux. L'analyse macroéconomique aboutit à une analyse individuelle des entreprises figurant sur la liste des entreprises publiques à privatiser. L'objectif de cette analyse est de voir les potentialités qu'offrent ces entreprises pour une éventuelle cotation sur une bourse de valeurs. La dernière étape consiste à une évaluation des entreprises sélectionnées pour arriver à une valeur qui pourrait servir de base de négociation pour le gouvernement.

Il est important de noter que malgré l'important rôle que la privatisation joue dans le développement du marché des capitaux, il existe très peu d'écrits sur le sujet et notre étude constitue l'une des rares tentatives visant à établir un lien entre la privatisation et le marché des capitaux en Gambie.

Le Contexte Economique

La Gambie est sortie du Programme d'Ajustement Structurel avec l'appui du Fonds Monétaire International et la Banque Mondiale, avec un profile économique nettement amélioré. Il s'en est suivi des années de bonne performance économique jusqu'en 1999, lorsque des débordements sur les dépenses publiques ont mené à des taux de déficit fiscaux très élevées, en plus d'une politique monétaire de la Banque Centrale, trop relaxe. Ceci a abouti a une crise économique sans précédent en Gambie. La période 2000-2003 a été marquée par une considérable détérioration des fondamentaux macroéconomiques avec un taux d'inflation qui a atteint 17%, pendant que le taux de croissance n'était que de –3.2% en 2002. Le déficit fiscal quant à lui est passé de 3.7% du PIB en 2000 à 15% en 2001.

On peut cependant noter un début d'amélioration de cette situation avec l'intervention de la Banque Centrale qui a pris des mesures très strictes visant à ramener un peu de discipline sur le marché financier, alors que de son cote, le gouvernement également s'efforce à adhérer à des principes de discipline dans sa gestion budgétaire.

Le système Financier

Le système financier Gambien est encore à l'état embryonnaire avec une intermédiation financière totalement presque entre les mains du système bancaire, qui se caractérise par son niveau de concentration et son niveau de segmentation élevé. En effet deux banques dominent le secteur bancaire, mobilisant a elles seules 79% des dépôts et octroyant 76% des crédits. Cependant, le public devient de plus en plus sophistiqué et on assiste en ce moment à la création de nouvelles formes d'intermédiation avec la création d'une OPCVM et d'une société de crédits à petits montants, en plus des institutions de micro finance.

En ce qui concerne les investisseurs, le secteur financier est dominé par un seul investisseur institutionnel qui est la Caisse de Sécurité Sociale.

Il est donc impératif de mener une large campagne de sensibilisation en vue d'encourager le public à participer dans le programme de privatisation en tant qu'investisseur. Il y a déjà quelque progrès dans ce sens parce que de plus en plus la classe moyenne et les expatriés gambiens développent une culture de marché. Ce qui est de bonne augure pour le développement du marché des capitaux. Les autorités doivent cependant redoubler d'efforts pour, d'une part développer le cadre législatif d'une intermédiation financière qui prendrait en compte les exigences du marché des capitaux et d'autre part d'adopter des politiques économiques qui viseraient à promouvoir l'élargissement de la classe moyenne créant ainsi une base plus large d'investisseurs individuels.

Le rôle de l'Agence pour la Privatisation des Entreprises

La Gambia Divestiture Agency en tant qu'agence qui a en charge le programme de privatisation doit donc être pleinement mandatée pour mettre en place toutes les institutions nécessaires pour le développement et le fonctionnement d'un marché des capitaux. Cette agence doit en outre s'impliquer davantage dans le processus de sensibilisation aussi bien des investisseurs potentiels que des entreprises privées, car un vivant marché des capitaux ne saurait exister sans la participation effective des entreprises privées. A cet égard, une attention toute particulière doit être donnée aux petites et moyennes entreprises qui constituent la plus large partie des entreprises opérant en Gambie, de manière à les encourager à faire recours au marché des capitaux dans leur recherche de financement.

INTRODUCTION

The second half of the 80s saw a tremendous movement of privatisation programmes around the world. In some instances, these programmes were developed by governments, as part of an economic reform programme aimed at making State-Owned Enterprises (SOEs) more performing. But most often and especially in the developing world, privatisation programmes were more a result of pressures from the international institutions such as the World Bank and the International Monetary Fund (IMF) than a felt-need from the policy makers. Because of the repetitive failures of SOEs and the negative impact these failures have on government budgets, the World Bank and more particularly the IMF saw privatisation as a solution to these problems. The rationale underlying the philosophy behind the international organisations is based on the fact that private enterprises tend to be better managed than public enterprises and that their contribution to economic development is greater than that of public enterprises for a number of reasons that we can classify into two levels: the micro level and the macro level.

At the micro level, we first of all have to recognise that the agency relationship is stronger in a private enterprise than in a public enterprise. Therefore, the manager of the private firm has the pressure of the shareholders constantly on him, to increase shareholders funds. This pressure is even more emphasised where a stock market exists as then the stock market functions as a monitor. If profits fall, shareholders tend to sell their shares and share prices will decline, ceteris paribus, and will thus expose the firm to takeover from competitors. This is to say that bad performance, in such a case, is directly sanctioned by the market. In the case of a public enterprise however, there is more likelihood for mangers to get away with inefficiency because there is little if not no mechanism to sanction bad performance. Public enterprises are usually not under the threat of takeover and free from the danger of bankruptcy.

The second argument we wish to put forward at the micro level is the efficiency required to process information for quick decision-making. Even where the State is willing to make the necessary decisions that would allow the firm to run efficiently, it cannot replicate the market's ability to process information in a decentralised manner. This weakness of the State is even more acute in developing countries like The Gambia where the State capabilities are especially weak. Added to this is the constant risk of a decision being taken more to promote political objectives rather than to maximise profit.

These are some of the reasons why the IMF advises States to play more a role of a watchdog, by ensuring that the effects of externalities in the smooth functioning of the market are minimised.

The Gambia as a small and developing country is not an exception to that as in the late 70s and early 80s public enterprises suffered poor results, which had a negative impact on the public accounts. This prompted Government to seek the support of the IMF in restructuring the ailing economy. Part of the solutions suggested by the IMF was a vast privatisation programme, which was carried out in during the period 1985 – 1994 as part of the Structural Adjustment Programme (SAP), and the Enhanced Structural Adjustment Facility (ESAF) supported by the World Bank and the IMF.

At the macro level, one can assume that the efficient management of the firm at the micro level would also lead to an efficient allocation of resources in the economy. This is because when we aggregate the actions of all private enterprise taken at the individual level, we should get economic efficiency at the national level, with of course the State taking care of the externalities to avoid serious market distortions.

The popularity of privatisation programmes is largely based on the assumed superiority of privately managed enterprises over State-managed enterprises as far as good performance is concerned. According to a research document published by the United Nation's Economic and Social Commission for Asia and the Pacific[1] the rationale for privatisation is based on three premises principally:

[1]Research published by the United Nations Economic and Social Commission for Africa and available on www.unescap.org/drapd/publication/dp22_2122/chap3.PDF

1. Privatisation promotes economic efficiency
2. Privatisation helps restore fiscal balances
3. Privatisation is a tool to ensure distributional equity

Private ownership has efficiency advantages over public ownership under a competitive market structure due to the way mangers are monitored and due also to the difference in objectives assigned to a company under public or private ownership.

Privatisation is seen as a means to restore fiscal balances in that the sales proceeds of a privatised firm are recorded as a loan repayment. In accounting terms, the fiscal deficit will be reduced by the amount of the sales proceeds. That is why many governments have seen privatisation as a source of fiscal revenue and have initiated privatisation programmes with this as an objective. For less developed countries, privatisation with such an objective serves a double purpose as it allows them to increase revenue without having to raise taxes or cut spending. It comes also as a real breather because these countries are often constantly under budget support from the IMF, to allow them bridge their financing gaps.

Privatisation is a tool to ensure distributional equity because divestitures have an impact on wealth distribution and could have a negative distributional impact when the majority of the shares issued fall in the hands of a minority to the detriment of the majority. However, the adverse impact of the redistribution could be minimized if all citizens could be given an equal share in a divested enterprise. This is difficult to achieve though and that is why Governments resort to voucher-based programmes as one method to redistribute asset ownership more equitably. However, this is not a solution to the problem especially where beneficiaries are risk-averse or prefer to sell their shares immediately. Nevertheless broad-based ownership strategies offer political and social advantages over traditional privatisation methods and can thus help Governments to achieve legitimacy and support for privatisation programmes.

The impact of Privatisation on Capital Market Development is one of the least researched fields in the academic circles in spite of the obvious importance of capital market development, and of privatisation's potential role therein. In their work **"The Impact of Privatisation on Capital Market Development and Individual Share Ownership"**, which appears to be one of the very first academic studies in this field, W. L. Megginson and M. K. Boutchkova, lament the absence of research or empirical study prior to the one they have done. In the Gambian context, I. Jagne is a precursor in the field of research relating to the capital market, when she wrote her Masters thesis on **"Capital Markets for Developing Countries (The case of The Gambia)"**. She however did not dwell on the role that privatisation could play in the development of capital markets although she recognised the privatisation efforts that have been made and the proceeds that went to Government further to the divestiture of Government controlled enterprises. We can therefore assert that this present work is the first of its kind as far as the Gambian context is concerned.

We therefore are going to try and answer the following questions:

- What is the volume of shares of privatised companies that is held by the public and institutional investors?
- Is there a system that would allow determining the average volume of shares traded annually and what is it?
- How to restructure targeted companies to make them financially attractive to the investors?
- What valuation methods should be adopted to ensure that Government gets a fair value from the privatised companies without undermining investors' interest?
- What could be the role of institutional investors in the Gambian Stock Market?

Our interest in this exercise is to try and see how the on-going privatisation programme in the Gambia could be used as a catalyst to the development of a capital market by endeavouring to propose answers to the questions raised above.

The procedure we adopt to achieve this will first of all to conduct a brief review of the Gambian economy with a view to assessing its strength and identifying the possible major players in a Gambian capital market in terms of investment potentials. This will involve taking into consideration the capacity of institutional investors as well as the individual investors. Second we will review the public enterprises and assess the ones that show potentials to be listed on a capital market. The third step will consist in looking at valuation issues and trying to come up with a fair value of companies that are identified as having the potential of being listed on the stock exchange.

1. The Economic Context

The Gambia is located in the Western-most part of the African Continent. Bordered by Senegal on the North, East and South, and the Atlantic Ocean on the West, it is the second smallest country in Africa, with only 11300 square kilometres and a population of 1.4 million inhabitants. The population growth-rate is estimated to be 3% per annum, with a high influx of immigrants from the sub-region. Up to 60% of the population lived in the rural areas as at 1993, but the recent population census conducted in 2003 reveals that this repartition has remarkably changed, as up to 55% now live in the three major administrative areas, which are Banjul, Kanifing and Brikama[1].

1.1 Economic Overview

Building on its tradition of being a trading nation it acquired since the colonial period and on the cultivation of groundnut as introduced by the colonial administration, the Gambia based its economy on re-export trade into the sub-region and on the export of un-processed groundnut to Europe and Great Britain particularly.

However, the continued drop of the prices of most agricultural products in the international market combined with poor harvests, have forced the rural populations to gradually give up their farms to settle in the urban areas in search for jobs. This has led to the development of petty trading and other small services and consequently, the services sector has grown to the point of being the highest contributor to GDP as indicates table 1.1 below, which reproduces the distribution of GDP by sector.[2]

[1]2003 Population census, The Gambia Central Statistics Department

[2]The Gambia Central Statistics Department

Table 1.1 GDP by Sector at Current Market Prices, 1998 - 2003 (In Millions of Dalasis unless otherwise indicated)

	1999	2000	2001 Est[1].	2002 Prel.[2]	2003 Prel.
Agriculture	**1,493.3**	**1,654.3**	**2,042.3**	**1,832.7**	**3,054.8**
Groundnuts	347.1	389.7	464.7	284.5	866.5
Other crops	566.0	662.7	838.3	655.6	1,039.7
Livestock	390.1	405.8	494.6	597.3	765.1
Forestry	58.5	60.8	73.4	88.7	113.6
Fishing	131.6	135.3	171.1	206.7	269.8
Industry	**545.4**	**584.4**	**736.8**	**964.4**	**1,274.2**
Manufacturing	233.0	244.8	301.6	378.2	485.4
Large and medium manufacturing	155.3	163.2	201.7	254.1	324.0
Small manufacturing	77.7	81.7	100.0	124.1	161.4
Construction and mining	234.4	265.5	350.5	483.7	665.1
Electricity and water supply	78.0	74.0	84.7	102.5	123.7
Services	**2,311.4**	**2,497.3**	**3,174.0**	**3,845.0**	**4,989.7**
Trade	462.8	490.6	650.5	778.6	1,012.7
Groundnuts	6.4	7.4	10.3	12.9	17.3
Others	456.4	483.2	640.2	765.7	995.4
Hotels and restaurants	194.3	213.8	305.7	408.9	611.4
Transport and communications	693.8	798.5	1,040.4	1,279.8	1,740.8
Transport	364.1	378.7	486.3	581.6	824.4
Communications	329.7	419.8	554.2	698.2	916.4
Real estate and business services	312.5	331.5	400.3	478.8	567.1
Public administration	438.0	455.3	525.8	607.7	712.9
Other services	210.0	207.6	251.2	291.1	344.8
GDP at factor costs	4,350.1	4,736.1	5,953.1	6.642.1	9,318.7
Indirect tax (net)	571.8	646.3	602.8	722.2	956.6
GDP at market prices	**4,921.9**	**5,382.4**	**6,555.9**	**7,364.3**	**10,275.2**
Nominal GDP growth (in percent)	9.9	9.4	21.8	12.3	39.5
Real GDP growth (in percent)	6.4	5.5	5.8	-3.2	8.8
GDP deflator (in percent)	3.3	3.6	15.2	16.1	28.3
CPI (annual average change, in percent)	3.8	0.9	4.5	8.6	17.0

Source: The Gambian authorities and IMF staff estimates.

[1] Estimates
[2] Preliminary figures

The Gambia is a member of the Economic Community of West African States (ECOWAS), which is a free-trade zone that offers a unique opportunity to be part of a market of 360 million people. However, the main trading partners of the Gambia remain the European Union (EU) member states, especially Britain. In the past five years, 73% of the exports went to the 15 members of the EU and 36% of the imports were from there as well. See in appendix 1 the table of the direction of trade.

After the Economic Recovery Programme (ERP) and the Programme for Sustained Development (PSD) supported by the World Bank and the IMF, (1985-1993), The Gambia experienced a relatively good spell of macroeconomic stability from 1993 to 2001, with steady GDP growth that averaged 6% under the period 1998-2001 and an average inflation rate of 3% under the same period. However, the economic conditions deteriorated significantly since 2002, with a significant increase in the fiscal deficit, which reached 14% of GDP in 2001 before dropping to 6% of GDP in 2003[1]. (See in Appendix 2 the table of the Central Government Operations).

Poor coordination between fiscal and monetary policy is the major cause for the macroeconomic imbalances mentioned above, which in turn have resulted in the declining of the internal and external value of the currency. The dalasi depreciated sharply against the US dollar at a period when the latter was losing ground on the international markets. As a matter of fact the dalasi lost 22% of its value in 2001, 21% in 2002 and 24% in 2003. This shows how gradually the local currency depreciated, fuelling inflationary pressures at the same time as is always case when a net importing country faces such situations. Inflation increased from a low 3% in 2000 to a record high of 17% in 2003.

This sharp increase in the inflation rate could however partly be attributable to the change in the Consumer Price Index (CPI) basket, which had remained the same since 1978 and was therefore found to be no more representative of the average Gambian basket of goods. The re-composition of the CPI suggests that the average inflation rate of 3% was

[1] IMF Country Report No. 04/142 May 2004

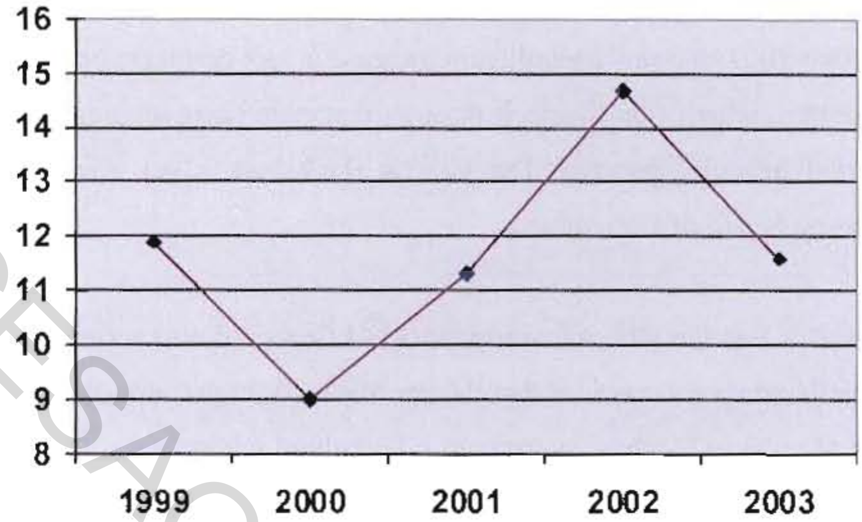
not reflective of the real movement of prices. The other reason for the increase in inflation could be found in the growth in broad money, which went up by 34% in 2002 alone, as well as the poor performance of the traditional export products, that is groundnut and fishing.

The period 2000-2003 also saw a significant increase in Government spending, creating a large fiscal deficit, which was financed through domestic borrowing essentially, due to limited external financing sources. The Central Bank had to get involved by issuing Treasury Bills on behalf of Government.

The weak level of Foreign Direct Investment (FDI) flows did also act as a compounding factor, especially when we consider that the privatisation programme, which should be a major source of revenue for the Government is far behind schedule.
Records of proceeds from privatisation indicate a payment of USD5 million from a total of USD9 million representing the sale of a hotel.

Gross domestic savings for the past five years averaged only 11.7% of GDP. Yet domestic savings play a crucial role in the development of capital markets for the positive relationship that exists between savings and investment. (See in Appendix 3 the savings and investment table as published by the IMF).

Figure 1.1 Evolution of Domestic Savings in per cent of GDP



Source: IMF Country Report No. 04/142 May 2004

1.2 Structure of the Financial System

The financial market in the Gambia remains at an embryonic state both in terms of the number of operating institutions and the products that are offered. Apart from Central Bank of The Gambia, which is the apex financial institution, the banking industry consists of six commercial banks, with a seventh one to be opened before the end of 2004. Other non-bank financial institutions are eleven insurance companies, one Savings & Loan Company, two micro-finance institutions one Mortgage Company and one Mutual Fund. (See list of financial institutions in Appendix 4). In addition to these institutions there are two brokerage companies for trading in shares.

1.2.1 Role of the Central Bank

The Central Bank of The Gambia (CBG) is entrusted with the responsibility of formulating and implementing the monetary policy. This is in addition, of course, to the traditional roles assigned to a Central Bank, that is to regulate and supervise the operations of the banks in the banking industry and to serve as the lender of the last resort. However, the past five years have seen the CBG financing the Government fiscal deficit with the issuance of Government Treasury Bills. This has led to the increase in the

Treasury Bills rate, which is the benchmark for bank lending rates, to record levels from about 13% in 2000 to 31% in 2003. (The structure of the interest rates, including T-bill rates is shown in Appendix 5).

As the five member countries of the West African Second Monetary Zone[1] are gearing up for the deadline of July 2005 for monetary integration, the CBG is currently trying to implement a tight monetary policy to curb inflation to a single digit figure, which is one of the convergence criteria for the admission into the ECO zone in July 2005.[2] The Central Bank is heavily involved in the financing of the fiscal deficit through the issuance of Government Treasury Bills. In the years 2002 and 2003 alone, the total amount of Treasury Bills floated constituted about 3% of the GDP. In fact the IMF has raised concerns over the financing of fiscal deficit by the Central Bank by stating that with no budgetary support from foreign donors, all the financing of government's fiscal deficit was provided by the central bank[3]. The financing of the fiscal deficit by the Central Bank has cast some doubts on the independence of the latter, which is a condition sine qua non for a good functioning of the financial sector especially if a stock market were to operate therein. Commenting on the lack of independence of the Central Bank, the IMF states that the Central Bank of The Gambia Act of 1992 (CBG Act) constitutes the current legal framework for monetary policy in The Gambia. Among the multiple objectives listed in the CBG Act, the CBG has chosen price stability as its principal policy objective. However, limited policy autonomy, in practice, over interest rates has restricted the choice of effective monetary policy instruments, while a weak internal control system has eroded the efficiency of policy implementation. The CBG Act contains several provisions that allow for direct government intervention in monetary policy and limit the autonomy of the CBG. The Secretary of State for Finance and Economic Affairs can override CBG policy if he determines that the policy pursued by the CBG is not adequate for the achievement of the objectives of the Central Bank. Moreover, officials of the Department of State for Finance participate actively in several policy committees of the

[1] The five member countries are The Gambia, Ghana, Guinea, Nigeria and Sierra Leone
[2] The five convergence criteria are: gross external reserves of 3 months of import cover, single digit inflation, a fiscal deficit ratio of no more than 4% of GDP and a Central Bank deficit financing of not more than 10%.
[3] IMF Country Report No. 04/142, May 2004

CBG (and the Permanent Secretary of the Department of State for Finance is a member of the CGB board).

Article 44 of the CBG Act provides for a government override but also states that, during the period of any override, the government accepts responsibility for the policy adopted[1].

In relation to this, the experience of the West African Economic and Monetary Union (WAEMU)[2] should be meditated. The WAEMU statutes do not allow any more the common Central Bank of West African States or BCEAO for its French acronym, to finance the expenditures of member Governments. Now governments are under the obligation to borrow directly from the market by issuing bonds. This has not only the effect of keeping down inflationary pressures by controlling money supply and keeping interest rates at low level, but it also has the effect of stimulating the market. The latest of such operations took place in September of this year when the Government of Senegal was able to issue a one-year bond at 3.5% interest rate for a total amount of CFA40 billion. Table 1.2 below presents some of the transactions that were carried out between June 2002 and September 2004 by member-States on the bond market.

Table 1.2 Operations Carried out on the UEMOA Bond Market by Member-States Between June 2002 and September 2004

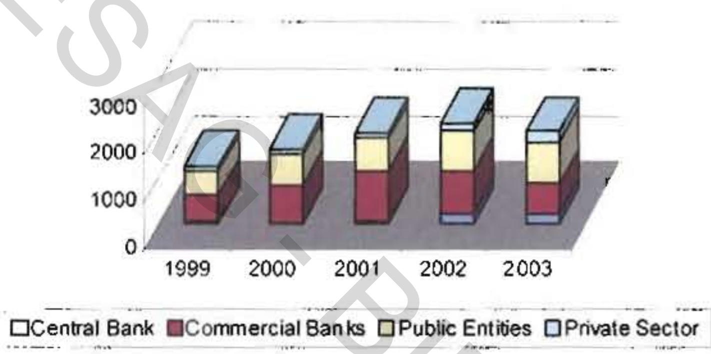
Date	Country	Amount raised in CFA Francs	Interest rate
June 2002	Burkina Faso	7.5 billion	4.5%
September 2002	Burkina Faso	37.7 billion	4.4%
December 2002	Burkina Faso	11.625 billion	3.5%
July 2004	Mali	21 billion	3.4%
July 2004	Burkina Faso	16.5 billion	3.39%
September 2004	Senegal	40 billion	3.5%
Total		**134.325 billion**	

Source: Bank Ouest Africaine de Development

[1] IMF Country Report No. 04/142, May 2004
[2] Comprises of Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo

In The Gambia, operations of the Central Bank are exclusively short-term as even the Treasury Bills operations are of a maximum of 1year maturity, making the determination of long term interest rates impossible. Because CBG uses reserve money as its own operational target in order to achieve price stability and because of the shallow securities market, it relies mainly on the primary issue of Treasury Bills as the policy instrument to reach the operational target. Figure 1.2 below gives the distribution of Treasury Bills for the period 1999 – 2003.

Figure 1.2.4.2 Distribution of Gambia Government Outstanding Treasury Bills for the Period 1999 - 2003



Source: IMF country report No. 04/142 May 2004

As the figure shows, commercial banks and the public enterprises are the biggest buyers of Government Treasury Bills. The public enterprises including the Social Security and Housing Finance Corporation.

1.2.2 The Banking System

The commercial banks have a limited number of products to offer to their customers. Mostly, their operations are limited to the provision of short-term loans and to financing letters of credit of not more than ninety-day maturity. The absence of product diversification, the non-existence of an inter-bank market and the increasing demand for credit by Government has created the ideal situation for banks to invest their excess

liquidity into Government Treasury Bills. For instance, between 1999 and 2003, the commercial banks acquired on average about 40% of the Government Treasury Bills floated by the Central Bank. As a result, Government domestic borrowing has remained high over the five-year period, 1999-2003 at an average of 30% of GDP as indicates the table of Central Government Operations provided in Appendix 6.
In addition to the hike in interest rates that this situation has engendered, it has as well crowded out the private sector in their run-up to access investment funds as banks find it extremely lucrative to lend to Government and make high returns of 31% currently. In real terms however, these returns are not more than 14% because of the effect of the inflation rate, which stands at 17%.

Most of the commercial banks' credit operations go to the distributive trade. Their clients are mostly businessmen in the trading sector who solicit their products to finance trading operations consisting mainly of imports of basic commodities such as rice, sugar, flower, milk. It is important to note here that according to trade statistics, the Gambia re-exports 70% of its imports of food and textile products into the sub-region.

The commercial banks are some of the most profitable and stable business entities in the Gambia. A look at the aggregate figures of the banking system shows a reasonably healthy sector with the overall capital adequacy ratio averaging 10% for the period 2001-2003. This is above the requirement of the Basel Accord, the Cooke ratio, of 8%. The percentage of non-performing loans to the total loans even declined over the period from 11.4% to 5.5%.

The general situation of the banking industry coupled with the high inflation rate are obviously negative elements that mitigate the development of a bond market in The Gambia. The importance of a bond market in a financial system cannot be overemphasised though, as government bonds as well as corporate bonds play a crucial role in the regulation of the market.

The mitigating elements to the development of the bond market that we talked about earlier are mainly due to long-time existing weaknesses in the legal framework and to the causal link between non-performing loans and high interest rates. To that we have to add of course the eroding effect of inflation on returns. A study carried out by the World Bank on the Gambian financial system[1], reveals that attempts at creating development banks or at inducing banks to expand their long-term credit have proven unsuccessful due mainly to high amount of bad-debts and to the difficulty in recovering them. If it is true that the high level of interest rates could be a major contributor to the relatively important number of bad debts, it is also true to say that the frequency of defaults has prompted banks to charge high interest rates.

As far as the legal framework is concerned, it appears from the World Bank study that the Mortgage Act of 1992 is too much biased in favour of the debtor and it costs banks a lot of time and money to recover their money from the sale of the asset backing the debt. This also contributes to the high level of interest rates when banks factor in all these expenses.

Because of all these problems surrounding the long-term debt provisions, we are founded to believe that unless solutions to the causes of these problems are found, it would be quite difficult to see the development of a vibrant bond market.

Tables 1.3, 1.4 and 1.5 below show the statistics of the financial sector indicators, the distribution of bank credit and the liquidity position of the banking industry respectively, as published by the CBG and reproduced by the IMF in their Article IV consultations with The Gambia.

[1] The Gambia Financial Sector Study, World Bank, Africa Region, Macroeconomics 5 (AFTM5)

Table 1.3 The Gambia Financial Sector Indicators, 2001 - 2003 (in millions of Dalasis unless otherwise indicated)

	2001 Dec.	2002 Dec.	2003 March
Total Assets	2903.0	4338.5	5012.2
Total loans [1]	743.5	1317.2	1586.8
Holdings of government and CBG bills	1129.3	1004.5	1014.6
Total Capital and reserves	315.1	460.6	480.9
Non-performing loans (NPLs)[2]	84.6	88.9	87.5
Provisions against NPLs	67.6	68.5	62.1
NPLs/total loans (in per cent)	11.4	6.7	5.5
NPLs/total assets (in per cent)	2.9	2.0	1.7
Total capital / total assets (in per cent) (Simple capital adequacy ratio)	10.9	10.6	9.6

Source: Central Bank of The Gambia

Bank lending rates have been very high of recent due to the high Treasury Bills rates as we indicated earlier. It is however quite surprising to discover that interest rate spreads are relatively high. While the benchmark yield on Treasury Bills rates is at 31%, deposit rates are ranging from 15% to 17%, which means that depositors are making negative returns on their funds in the banks given the level of inflation in the economy (17%). Real interest rate on depositors' funds is currently not more than a mere 2%. The depositors are the losers in all this because with lending rates currently ranging between 36% and 41%, banks' spreads average about 23%.[3] Such large spreads would not have been possible if there was a stock market as arbitrageurs would have taken advantage of the situation and their actions would have brought the rates to more competitive levels.

Although these large spreads contribute to the profitability of the banks, they are nonetheless a nuisance to the economy, as they discourage long-term investment initiatives. The high interest rates in the economy could be a very big hindrance to the development and smooth functioning of a bond market in The Gambia, which is an essential component of a securities market. This assertion is corroborated by the absence

[1] There are currently six operating commercial banks. 2001 data including a defunct commercial bank which was subsequently put into liquidation by the central bank in January 2002.
[2] The large increase in outstanding loans reflects both several major investment projects and a sizable increase in household overdrafts. However, overdrafts in default are not included in NPLs.
[3] Databank Gambia country report 2004.

of a viable development bank. As a study carried out by the World Bank[1] states, various attempts have been made over the years to create development banks or to induce commercial banks to expand their long-term lending. But these initiatives have proved unsuccessful, as the banks have suffered large losses from non-performing loans. The causal relationship between high interest rates and non-performing loans goes in both directions because if it is true that the high level of interest rates has contributed to the large volume of non-performing loans, it is also true that the loan losses suffered by banks have, in their turn, been a key factor in raising bank spreads.

Another important contributing factor to the absence of long-term lending and, which if not corrected could mitigate the development a bond market, and by extension the entire capital market, is the absence of a well-structured legal framework governing debt and debt recovery. The World Bank review of the financial system has effectively revealed that the Mortgage Act of 1992 is largely in favour of the mortgagor, which increases the amount of time and cost involved in the recovery of asset-backed debts.

Table 1.4 Distribution of Commercial Banks Loans 1998 - 2002

In percent unless otherwise indicated

	1998	1999	2000	2001	2002
Agriculture	11.0	7.8	15 2	5 0	5 4
Fishing	1 8	0 2	0.5	0.7	0.4
Mining and quarrying	0 0	0 0	0.0	0.0	0.0
Building and construction	5.6	5 2	7.5	7.4	5.9
Transportation	4 4	8 0	4 1	6.3	7.0
Distributive trade	**42.8**	**47.9**	**46.1**	**44.1**	**40.4**
Tourism	3.9	4.0	3 7	4.1	1.6
Personal loans	23.9	18.3	15.9	24.7	23.5
Other	6 5	8 7	7.0	7 6	15 9
Total	100	100	100	100	100
Total Commercial Bank Credit (In millions of Dalasis)	590.6	620.7	677 0	792 8	1,337.4

Source: Central Bank of The Gambia

[1] The world bank, macroeconomics 5 (AFTM5). Africa region. The Gambia Financial Sector Study

Table 1.5 Liquidity Position of Commercial Banks, 1998 - 2002

End of period data in millions Of Dalasis unless otherwise indicated	1998 Dec.	1999 Dec	2000 Dec.	2001 Dec.	2002 Dec.
Liquid assets	720.8	798.8	1,034.6	1,368.0	972.3
Reserves	178.1	213.7	162.6	248.9	342.0
Deposits at central bank	163.5	187.5	127.0	193.3	292.2
Cash holdings	14.6	26.1	35.6	55.6	49.8
Treasury bills	503.6	667.3	923.6	1,191.2	893.0
Required cash reserves	135.0	152.7	201.9	247.0	337.0
Excess cash reserves	43.1	61.0	(39.3)	1.9	5.0
Required liquid assets	289.2	318.3	408.5	511.7	689.3
Excess liquidity	431.6	480.5	626.0	856.3	283.0
Required reserves/ total deposits (in percent)	14.0	14.0	14.0	14.0	14.0
Memorandum item: Total deposit liabilities	964.1	1,090.6	1,442.0	1,767.0	2,405.0

Source: Central Bank of The Gambia

The banking industry in the Gambia has been entirely controlled by the private sector since the privatisation of the Gambia Commercial and Development Bank and the sale by Government of its 15% stake on Standard Chartered Bank Gambia in 1986. Although there are currently six commercial banks operating in the country, the industry is characterised by a high level of concentration with two banks dominating in terms of deposits and loans as could be seen from table 1.6 below.

Table 1.6 Structure of the Commercial Banks, December 2002 (in millions of Dalasis unless otherwise specified)

	Date of Establishment	Shareholders[1] Public	Private[2]	Capital and Reserves	Total Deposits	Total Loans
Standard Chartered Bank (Gambia)	1895	0	100	200 0	1, 123. 9	630. 3
International Bank of Commerce and Industry	1968	0	100	72.7	252. 0	158. 7 3
Trust Bank Limited	1997	0	100	154.3	785. 7	387. 1
Arab Gambia Islamic Bank	1996	0	100	13.2	118. 8	109. 5
First International Bank	1999	0	100	20.4	34. 4	36. 7
Guaranty Trust Bank (Gambia) LTD	2002	0	100	32. 3	86 4	15 8
Total				492.9	2401.2	1338.13

Source: Central Bank of The Gambia.

As we can see from table 6.1 above, 79% of total deposits are concentrated in two banks only, namely Standard Chartered Bank and Trust Bank Ltd. These two banks also have 72% of total capital and reserves of the banking system, whilst they hold together 76% of the total loan portfolio of the industry. It is also worthy to note that Standard Chartered Bank is by far the biggest bank in The Gambia with 40% of total capital and reserves, 47% of deposits and 47% of total loans.

The analysis of the table also shows that loans are 55% of total deposits while capital and reserves cover 20% of deposits, which confirms the over-liquidity of the system that we talked about earlier.

1.2.3 The Non-bank Lending Institutions

There exist actually few non-bank lending institutions, of which we are able to site the Gambia Women Finance Association (GAWFA), which is a Non-Governmental Organisation (NGO) active in the provision of micro-finance, one Savings & Loans company (GAMSAVINGS) and the Social Development Fund (SDF), which is a

[1] In percent
[2] Including Social Security and Housing Finance Corporation

government-owned micro-finance organisation. Little information is available on these institutions but their capacity to mobilise resources is not yet significant to the level that could allow them to play a significant role in a capital market.

Whereas GAWFA is involved solely in the provision of small credit to farmers associations, GAMSAVINGS on their part collect deposits and give out credit although the provision of credit has not yet started due to logistical problems. GAMSAVINGS' capacity to mobilise fund is in the range of GMD800000 to GMD1 million per month. This money collected is invested mainly in Government Treasury Bills, because the managers are somewhat risk-averse and are not yet into equity investments.

1.2.4 Other Non-Bank Financial Institutions

The other non-bank financial institutions that play a significant role in the financial industry of the Gambia are the insurance companies, and the Social Security and Housing Finance Corporation. There are a couple of other institutions that have the potential to be major players if financial intermediation develops further.

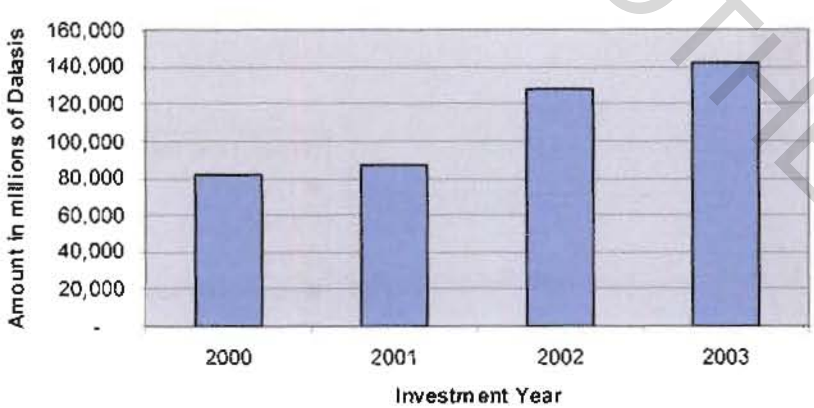
1.2.4.1 The Insurance Companies

These are mainly the eleven insurance companies operating in the country. They are Gambia National Insurance Company, Great Alliance Insurance Company Ltd, Gamstar Insurance Company Ltd, Global Security Insurance Company Ltd, Prime Insurance Company Ltd, New Vision Insurance company Ltd, Londongate Insurance Company Ltd, Sunshine Insurance Company Ltd, International Insurance Company Ltd, Gamstar Life and Health Assurance Company Ltd. One of them, the Gambia National Insurance Company Ltd was formerly Government-owned and was divested in the first privatisation programme. In fact the divestiture of this insurance company, which was then operating as a monopoly, paved the way for the setting up of the other private insurance companies. Unfortunately, the insurance industry is also characterised by a lack of product innovation, concentrating mainly on motor insurance, to the exception of three that have introduced into the market new products such as life and health insurance products. But the competition is heating up and companies that would want to survive will have no choice but to innovate. Furthermore, the CBG has recently introduced the new Insurance Act, which requires insurance companies to have liquidity reserves of GMD3,000,000 among other requirements. This presages for a deep restructuring of the insurance industry as these stringent requirements would force companies that are not able to comply to either go out of business or to merge.

1.2.4.2 The Social Security and Housing Finance Corporation

The Social Security and Housing Finance Corporation (SSHFC) is a non-bank financial institution that plays a major role in the industry. It is a Public Enterprise that has been established in 1981 through the enactment of the Social Security and Housing Finance Corporation Act to administer and manage the Federated Pension Scheme (FPS), the National Provident Fund (NPF), the Housing Finance Fund (HFF) and as a recent addition, the Injuries Compensation Fund (ICF)[1]. The SSHFC is without doubt the largest fund manager in the Gambia. Following the continuous increase in the membership to the fund, the total gross income and consequently, the funds available for investment increased substantially. Between 2000 and 2003, the SSHFC investment funds increased by 74%, growing from GMD81 million to GMD142million, as we can see from figure 1.3 below.

Figure 1.2.4.2.1 Evolution of SSHFC Investment Funds for the Period 2000 - 2003



Source: Social Security and Housing Finance Corporation

[1] GDA Public Enterprise Sector Review 1989/1990 – 2000.

The SSHFC is without doubt the biggest institutional investor in the Gambia, where it controls 17% of Standard Chartered Bank Gambia (SCBG), 36% of Trust Bank Ltd, 23% of Arab Gambian Islamic Bank, 13% of CFAO Gambia, 35% of Home Finance Company and 100% of Ocean Bay Hotel. Furthermore SSHFC holds 52% of Central Bank-floated Government Treasury Bills.

To conclude this section, we will mention the setting up in 2001 of the very first mortgage company, the Home Finance Company of the Gambia (HFC). It has just started its operations and we therefore are not in position to determine its strength and the possible role it could play in re-shaping the financial sector in The Gambia. The rapid increase in interest rates just after it was set up has undoubtedly handicapped HFC as people refrain from going into mortgage contracts in these conditions. But we presume that it will play a major role when interest rates come down to moderate levels and when we also take into account the fact that SSHFC and the Great Alliance Insurance Company, one of the leading insurance companies, are the major shareholders in HFC.

1.2.4.3 The Sahel Mutual Fund

This mutual fund was established in 1999 with the number of investors limited to 100. According to the fund managers the limit put to the number of investors was because first they wanted to test the viability of the market for the management of a mutual fund and second, for prudential reasons due to the fact that the proper legislation for the management of mutual funds was not in place. As far as performance is concerned, the fund has been doing very well as between 1999 and 2004 it has registered a 900% growth, from GMD100,000 to GMD1,000,000.

The funds investments are mainly in equity although the managers are considering diversifying into medium-term debt securities with the purchase of government Development Stocks, which are Gambia Government bonds.

1.3 The Public Enterprises

The government of the Gambia maintained some Public Enterprises under their control following the first divestiture programme. The list of those companies, their share ownership structure and the planned divestiture strategies are in appendix 6.

In 1998, the Government of The Gambia signed a Memorandum of Understanding (MOU)[1] with each of the six main Public Enterprises[2] with a view to clarifying the relationships between the two entities. The rights and obligations of each party in relation to the other were specified in the MOUs and performance targets set to the enterprises. It is however worth noting that neither of the parties was able to honour their part of the MOU and all Public Enterprises drifted well away from the targets that were set to them to the exception of the Gambia Ports Authority (GPA), the SSHFC and the Gambia Telecommunications Company Ltd (GAMTEL).

In this chapter we have carried out an analysis of the Gambian economy leading to an analysis of the financial system. If it is true that the Gambian economy has gone through a quite long period of economic growth, it is also true that this economic development has not resulted in a sophistication of the financial system. It appears that there is need to develop a wider pool of institutional investors and more importantly there is a need for the government of the Gambia to be more active in the divestiture of public enterprises identified to that effect.

[1] A copy of the MOU for SSHFC is provided in appendix.

[2] These are Gambia Telecommunications Company Ltd, Gambia Ports Authority, Gambia Public Transport Corporation, Social Security and Housing Finance Corporation, National Water and Electricity Company.

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2. REVIEW OF THE FIRST PRIVATISATION PRGRAMME

The first World Bank and IMF supported privatisation programmes took place during the period 1985–1994, with the divestiture of commercial enterprises operating within a competitive environment under the implementation of the Economic Recovery Programme (ERP) and the Programme for Sustained Development (PSD).

2.1 Objectives of the programme

The first privatisation programme achieved the following results[1]:

1. Reduced the number of Public Enterprises under the Government's portfolio and enhanced the capacity and capability of the Government to focus on key strategic enterprises with a view to improving on their operational efficiency and strategic orientation in support of economic policies and programmes.
2. Reduced the demand on government to provide new loans and equity to Public Enterprises, and therefore allowed the Government to direct its finances to areas of high priority particularly within the social sectors.
3. Effectively eliminated the Government subsidies to Public Enterprises and reduced the crowding out effect for credit within the banking sector.
4. Allowed for the creation of new Public Enterprises and instilled greater private sector participation in economic activities.
5. Enhanced the productivity and profitability of divested enterprises by exposing them to greater market competition and market discipline, as well as foster the development of productive Public Enterprises in the economy, and
6. Provided substantial cash proceeds from divested enterprises and conditioned grant revenues to the Government linked to the implementation of privatisation benchmarks.

[1] GDA, New Divestiture Strategy and Regulatory Framework, final draft – October 1999.

It is worth noting that the creation of new Public Enterprises as suggested by (4) above, to replace the divested ones was to our mind, an ill-conceived policy as those newly created Enterprises just perpetuated the same management styles and posed the same problems for which their predecessors were divested. In that sense we cannot really say that the objectives set were achieved.

2.2The companies privatised and privatisation methods

We could not have confirmation of whether Government had an objective of developing popular share ownership when it embarked on this programme, but the privatisation methods adopted were well suited for popularising the divestiture and allowing Gambians to have access to the shares. The methods used were public subscription or employee ownership plans, or a combination of the two.[1] For instance, Gambian individual and institutional investors took over the 21% share ownership that Government held on CFAO, whilst the French parent company, CFAO France maintained its 79% control of the company. In the case of Gambia National Insurance Company, the shares were acquired entirely by Gambians when Government relinquished its 100% ownership of the company and the same applies to the National Trading Company (NTC), the largest consumer wholesale and supermarket chain. Appendix 7 provides a run-down of the companies privatised and the privatisation methods.

2.2.1 Number of Shares of Companies Held by Individual Gambians and Institutional Investors

Due to the problems faced in accessing information, it is quite difficult to know exactly the number of shares that are still in the hands of Gambians and local institutional investors. We know however that little trading if any has been done on the shares of the companies since the divestiture took place. The only two companies whose shares are actively traded are Trust Bank Ltd and Standard Chartered Bank Gambia Ltd. We therefore believe that the structure of the share ownership is still the same or has

[1] The table giving the details of the privatisation transactions is in appendix

undergone very insignificant change and furthermore the little trading that is going on is just among Gambians. We believe that the structure of the share ownership is as presented in table 2.1 below.

Table 2.1 Structure of the Privatised Companies Share Ownership following the First Privatisation Programme

Enterprise	Business sector	Outstanding shares	Per cent shares Held by Gambians	Number of shares held by Gambians
Trust Bank	Banking	30 million	70%	21 million
CFAO	Supermarket chain and car dealership	2 million	21%	420000
GNIC	Insurance		100%	
SCBG	Banking	6 million	32%	1.92 million
GPMB	Agriculture	N/A	0	0

Source: Gambia Divestiture Agency

2.3 An analysis of the Performance of Companies Post-Privatisation

As has been alluded to earlier, the performance of the privatised companies under the first privatisation programme has been mixed. Where some of the companies have gone to be leaders in their industry, others failed miserably due to various reasons that we may try to capture here.

2.3.1 Trust Bank Ltd

The privatisation of this bank was among the most open privatisation that the Gambia Government has done so far in the sense that Gambians were given the opportunity to buy shares in a very open and transparent manner. Thus 70% of the shares were acquired by Gambians and Gambian institutional investors such as the SSHFC. Although the bank operates in a very competitive environment, it has made its mark in the industry to be one of the leaders. Now listed on the Ghana stock exchange, the value of its shares has gone up many fold making the most traded share among Gambians who would like to invest.

2.3.2 CFAO (Gambia) Ltd

CFAO had two main activities at the time of its privatisation, which were the vehicle dealership on the one hand and the supermarket retail on the other hand. The vehicle dealership has gone on to be very successful as CFAO still remains the leader in the market in this area. However, the company has not been able to withstanding the competition in the area of supermarket retail. One of the possible reasons for the failure of the supermarket retail division to succeed may be the fact that new entrants came into the market and were able to provide the same goods at lower prices at a time when the majority of the Gambians were feeling the effects of the structural adjustment programmes. Gambians became therefore more price conscious and started to look for better price bargains than quality.

2.3.3 Gambia National Insurance Company Ltd (GNIC)

At privatisation, GNIC moved from a status of public monopoly to a status of private monopoly, with its shares taken over 100% by Gambian private investors. But the situation of private monopoly did not last long as quickly new entrants came into the market. However, GNIC remained strong in the face of competition and maintained a position of a leading player in its industry and as such, it has the potential of being a major institutional investor in a future capital market.

2.3.4 The Gambia Produce Marketing Board (GPMB)

The GPMB was a public monopoly set up to ensure the marketing of the Gambia's main agricultural products, especially, groundnut and cotton. During its privatisation, the company was taken over by a strategic investor, thus moving from a public monopoly to a private monopoly. The new owners after the privatisation failed to invest in the modernisation of the machines at the groundnut processing plant and a result those equipment became obsolete. The company was therefore unable to keep up with developments in its industry especially the demand for higher quality products from its clients in Europe. As it is now, the company processes little and the Gambian groundnut is now bought more for bird feeding than for human consumption.

It appears that GPMB was the least successful among all the companies that were in the first privatisation programme Was due to the fact that it remained a monopoly even after it was privatised? We tend to believe that the company was complacent in its position as the sole buyer and exporter of groundnut produce and was not at any moment challenged by other players in the market.

We are therefore pushed to believe that privatisation within a context of free and fair competition could add value to the operations of a company in the sense that it would be have to find its mark in competition fray if it is to survive.

2.4 Impact of the Privatisation Programme

The first privatisation programme had a significant economic and social impact on the Gambia. It is regrettable to note though that no studies have been carried out so far in order to quantify this impact. We ca n nevertheless say that the first privatisation programme had the merit of bringing about positive changes in the development of the private sector in The Gambia, some of which we will list below.

2.4.1 More Competition

The privatisation programme brought about more competition in the sectors where privatisation took place. Such is the case in banking, where there were only two banks in the country prior to privatisation, but as we have seen in this study the number of banks increased steadily since then and the quality of services has been improving as well.

2.4.2 Broader Ownership of Capital

With the redistribution of shares among Gambian private individuals and private institutional investors, the ownership of the capital has broadened, creating at the same time a new breed of investors who have now the capacity to steer the affairs of a corporate company through their oversight functions as members of the board of directors of those companies. It is also interesting to note that most of those privatised companies are managed by Gambians, thus attesting to the capacity building aspect of the privatisation programme.

2.4.3 Consumer Benefits

The competition generated by the privatisation has pushed companies to be more focused on satisfying customer needs. Where banks and insurance companies would previously wait to be approached by the customers, they now go all out to meet the customers and in order to better understand their needs and provide in some instances tailor-made services.

2.4.4 Improving Enterprise Performance

The laxity that was prevalent in most of these companies prior to privatisation seized with the advent of the competition. With shareholders demanding returns on their investments, the management of these companies have to work hard to ensure shareholders satisfaction. The Chairman of the Gambia National Insurance Company said that their company had course to fire three Managing Directors for lack of satisfactory results since they bought over the company form Government.

2.4.5 Reduced Government Debt

In addition to the amount of money cashed-in in the privatisation process, the government was also relieved from the need to provide support through tax waivers and other incentives to keep ailing companies going. This actually was one of the major argument of the World Bank in advising government to engage in the privatisation exercise.

However, the benefits derived from the privatisation programme could have been wider and more extensively shared among Gambians if there was a mechanism to allow investors easily diversify their investments through an organised stock market. The absence of the capital market has yet not stopped shareholders to trade in their shares from time to time, but this is done through word of mouth most of the time. We look at the existing trading system in the next section.

2.5 Current Share Trading System

This is the murkiest area one can venture into when studying the share ownership in The Gambia. First, because there is little trading going on and second because there is no market, not even what could be termed as an Over-The-Counter Market (OTC). People in The Gambia do not yet have the culture of share trading and we suppose that the absence of a market has got something to do with that. Share owners prefer to hold on to their shares and gain dividends rather than selling them to make capital gains even where the capital gains could be substantial and could have a better yield than the dividend. For instance, when it was privatised, the Trust Bank shares were sold at GMD5 per share. Today the Trust Bank share, which is the first and only Gambian company listed on a Stock Exchange is traded at GMD100 meaning a yield of 1900%. This is to say that people in this country see the holding of a share certificate to be for a lifetime. The case of CFAO Gambia is another illustration of this state of mind. The company has not been able to pay out dividends for the past four years due to poor results and shareholders have been complaining about this fact, at the Annual General Meetings. Although the value of shares has appreciated considerably, since it was privatised in 1985 as it has moved from GMD2 per share to a minimum of GMD10, none of the shareholders is willing to take advantage of the capital gain, get out of CFAO and purchase, say, Trust Bank shares.

To fill up the absence of a market, trading is usually done through a network of friends and other investors, by word of mouth. In the past five years, stock brokerage had started to develop with a couple of companies offering their services to investors who wanted to deal in shares. Unfortunately, the market forces of supply and demand could work properly because of the fact that there is one market player dominating, which is the SSHFC. Being the biggest investor, they were able to attract offers directly from share traders without having to go through a brokerage firm. That is why the brokers are now almost eliminated from the share trading process.

The small volume of shares trading adds to the lack of visibility in the determination of share prices and poses in general a bigger problem of information that we are going to examine next as to how it affects share trading in the Gambia.

2.5.1 Access to Information and Information Flow

Access to information and information flow is a major problem affecting the trading of shares in The Gambia. First the companies whose shares are traded are not willing to release information to the public. We were highly surprised to realise that even Trust Bank Ltd, which is listed on the Ghana Stock Exchange, and which is therefore required by law to disclose information to the public does not do so. One would have expected the company's website to contain all relevant information that would allow an investor to make a well-informed decision as whether or not to trade into Trust Bank shares. Unfortunately, such is not the case and the investor is obliged to go through the process of making inquiries and trying to find out where to get information. Furthermore companies in the Gambia seem to view financial statements as the only information pertinent to the investor. Therefore, important changes in the companies' management structures are almost never announced. Such was the case recently with Trust Bank when the Deputy Managing Director left the bank to join one of their competitors. One can therefore imaging how difficult it could be to get information in a situation where the company is not listed in any exchange. The situation is even worse when it comes to Public Enterprises that is companies that are under Government control, whose operations are shrouded with total secrecy.

The only instances when the information is accessible to the public are usually when the companies hold their Annual General Meetings and there too, the information is scanty and limited to the financial statement. But all these problems are attributable to the lack of professionalism and sophistication that characterises Gambian investors and the current trading system.

2.5.2 Problems Associated with the Current Trading System

The determination of companies' share prices is certainly one of the most acute problems facing any investor who would like to buy shares of a Gambian company. This problem is a combination of factors that we will examine here.

In the absence of a Stock Market one would have expected an OTC market to be functional so as to allow traders to meet. Unfortunately, an OTC market is also not available. Therefore, there is a total lack of visibility as to the number of people who have the intention to sell shares of a particular company and those who intend to buy. Trading is therefore done only when the word goes around that there is an investor who would want to buy or sell shares. This problem is compounded by the fact that SSHFC dominate the market and that all who would like to sell shares go directly to them. When the information get to both parties and they are able to meet, then they negotiate the price between them and the exchange of shares takes place upon reaching agreement on the price.

This situation has created some distortion on the market prices especially where it relates to the Trust Bank stock, which is listed on the Ghana Stock Exchange (GSE). What we have discovered is that there is always a difference between the price of the Trust Bank share on the GSE and the price at which the share is traded in Banjul. For instance, On 30th August 2004, the Trust Bank Share was trading at GMD60in Banjul whilst it was traded at GMD100 in Accra. We see there a huge potential for arbitrage that is not being exploited because mainly perhaps there are not yet professional stock market speculators and that the information is not flowing as it should be. In normal market conditions where the price of the stock would have to integrate all relevant information, such disparities in price would not have been possible.

3. THE NEW DIVESTITURE PROGRAMME

Following the implementation of the first privatisation programme, the number of enterprises in the Government portfolio was significantly reduced, but at the advent of the new regime in 1994, Government took back control of a number of the previously divested enterprises. These included the now financially trapped companies like the Kotu Mechanical Workshop, the Dockyard, the Water and Electricity Company and the Atlantic Hotel. According to the GDA reports, the first two enterprises were leased to Gambian nationals and the latter two to French and British companies respectively. In addition the Gambia Airways was liquidated and incorporated as the Gambia International Airlines and the Government Printing Department was transformed into a limited liability company, which two companies are both ailing and financially trapped as well. This confirms what we said earlier about previously privatised companies being taken back by Government. They have all been listed again for privatisation because there has been no positive change since Government reabsorbed them.

This current privatisation programme is part of the Enhanced Structural Adjustment Facility (ESAF), which is an IMF supported programme, to be pursued within the timeframe 1998-2000 in the area of Public Enterprise reform and it includes the following:

1) Regularise the financial relations between Government and public enterprises on the basis of the memoranda of understanding (referred to in page 10)
2) Implement settlement of cross debts and adopt timetables for settling remaining debts
3) Adopt a new divestiture strategy
4) Offer for sale the Trust Bank

5) Prepare divestiture of Atlantic Hotel and sale of shares in Novotel Kombo Beach Hotel
6) Strengthen the unit in charge of managing the public portfolio, including the reporting of comprehensive data.

3.1 Objectives of the New Divestiture Programme

The overriding objective of the divestiture programme is to roll back government though its withdrawal from activities best suited for operation by the private sector thereby creating the enabling environment for private sector-lead growth. This is considered to be most effective by engendering competition in the best way possible in order to ensure that goods and services are provided at the lowest possible cost.[1] But other objectives of the programme include:[2]

1) Improving the revenue base through better collection of taxes
2) Releasing government resources and redirecting these resources for social sector expenditure programmes
3) Enhancing the role of the private sector in the economy by shifting more of the responsibility for production and delivery of goods and services from the public to the private sector, to create a more level playing field by eliminating preferential treatment, including monopoly rights, and to enable the private sector to enter the areas of activity offered by Public Enterprises on an equitable basis.
4) Reducing the demand of the Public Enterprises on the national budget so as to improve the use of The Gambia's scarce resources, and to enhance the returns on those resources by achieving greater efficiency in both the private and public enterprises through greater responsiveness to market signals and commercial criteria.
5) Reducing the role and rationalising the operations of the Public Enterprise sector.

[1] GDA final draft on New Divestiture Strategy and Regulatory Framework
[2] Ibid

6) Improving the regulatory environment by selecting more economically rational means of regulation, thereby separating the regulatory and commercial functions of Public Enterprises.
7) Broadening the base of ownership and enhancing capital market development
8) Creating an enabling environment for private sector development – a market and friendly business address.

As could be seen, objective (7) above clearly indicates that there was from the beginning an intention and a desire to see the privatisation programme lead not only to the development of a capital market, but also to a broad-base ownership of the shares of the companies to be privatised. Is the GDA on the right track to achieving this goal? If not, what is it that the organisation should do to ensure that this important goal is reached? These are some of the questions to which we will try to find answers in this section.

3.2The Targeted Companies

Currently there are 15 Public Enterprises that are slated for privatisation and in which the Gambia Government has interest at various levels, but the major ones in terms of Government ownership are the National Water and Electricity Company (NAWEC), the Gambia Ports Authority (GPA), the Gambia Telecommunications Company (GAMTEL), the Gambia Public Transport Corporation (GPTC), the Gambia Civil Aviation Authority (GCAA), the Gambia International Airlines (GIA). The Social Security and Housing Finance Corporation (SSHFC), although not a Government-owned enterprises, is also of very high importance to government as the latter is the trustee of the funds that the workers lodge with the corporation. Therefore it is listed among the Public Enterprises.

Table 3.1 Ownership Structure of Public Enterprises Slated for Privatisation

Company	**Outstanding shares**	**Value of Share capital**	**Ownership structure**	**Book value of the shares**	**Divestiture strategy**
GPA		GMD16.3 mil	100% government	GMD16.3 mil	
SSHFC			Owned by contributors		
GAMTEL	6 mil shares	GMD60mil	99% government 1% GNIC	GMD60 mil	
GPTC	5 mil shares	GMD50 mil	100% government	GMD50 mil	
GCAA		GMD139.7 mil	100% government	GMD139.7 mil	
GIA	1.6mil shares	GMD16 mil	99% government 1%GAMTEL	GMD16 mil	
NAWEC	6.8mil shares	GMD68 mil	97% government 1% SSHFC 1% GAMTEL 1% GPA	GMD68 mil	

Source: Gambia Divestiture Agency

Due to the difficulty in access information on some of these enterprises, we are unable to carry out a financial analysis for all of them. We therefore concentrate on three of them, which are GPA, GAMTEL and GIA.

3.2.1 The Companies' Financial Structure and Performance

Table 3.2 below summarises the key financial ratios of the three companies under consideration.

Table 3.2 Key ratios for GAMTEL, GPA and GIA

Key Ratios	**2000**			**2001**			**2002**		
	GAMTEL	GPA	GIA	GAMTEL	GPA	GIA	GAMTEL	GPA	GIA
Current Ratio	1.22	2.82	2.21	1.19	2.80	1.58	1.61	5.48	1.12

Quick Ratio	0.93	2.65	2.20	0.93	2.63	1.57	1.40	5.31	1.12
Working Capital	40795	76914	16033	41805	107461	21534	188978	301921	10757
Net Profit Margin	12%	18%	6.30%	18%	14%	3.94%	13%	11%	1.76%
Total Assets Turnover	0.48	0.28	0.89	0.48	0.29	0.85	0.49	0.32	0.12
Fixed Assets Turnover	0.70	0.38		0.68	0.43		0.89	0.64	
Debt ratio	0.44	0.44	0.27	0.45	0.45	0.49	0.51	0.58	0.74
Debt/Equity	0.31	0.61	0.59	0.36	0.62	1.46	0.46	1.18	3.29

Source: Gambia Divestiture Agency

The ratio analysis for GAMTEL shows that the current and quick ratios, which give an indication of a company's ability to pay its debts are relatively on the low side albeit a slight improvement in 2002. This could be due to an 81% increase in loans between 2000 and 2003. However, the working capital shows a substantial increase from GMD40,795 to GMD188,978, which is a 363% increase. The debt ratio also indicates that the company is well leveraged.

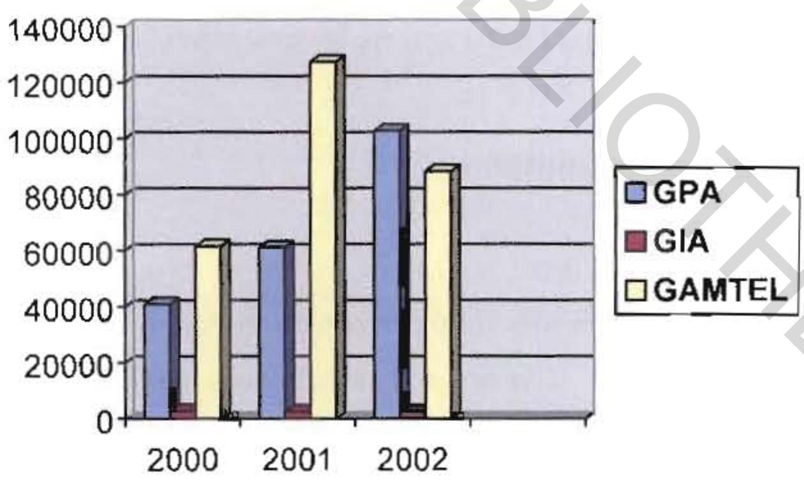
As for GPA, the current and the quick ratio both indicate higher than average ratios, especially in 2002, due mainly to a high level of current assets as compared to the current liabilities and low long-term investments. As a result, Working Capital has increased significantly over the period from GMD 76 million to GMD302 million, that is a 300% increase. But the company seems to be over-leveraged as the debt/equity ratio is on the increase from 0.61 in 2000 to 1.18 in 2002. An analysis of the Profit and Loss Account shows that some of the company's debts are in foreign currency, which have not been hedged to cover for any change in the exchange rate and this has resulted in some exchange losses on long-term loans. These losses amounted to 16% of the total loan portfolio of the company in 2002.

Both the current ratio and the quick ratio indicate that GIA's ability to pay its debts is good, but the evolution of the debt ratio and the debt/equity ratio suggest that the company has been borrowing massively, which could affect its ability to pay. As for the Working Capital, we can observe that it has decreased by 33% from GMD16 million to GMD10 million, over the 2000 – 2002 period. The profit margin has also been eroded. A close look at the Profit and Loss Account shows that whilst Gross Profit has increased 1.5 fold from GMD24 million to GMD60 million over the period, operating cost has gone up 5 fold, from GMD5 million to GMD33 million.

It is against this backdrop that we will attempt at proposing restructuring measures that are aimed at making the three companies ready for privatisation, before proposing possible price tags to be attached to them. It is however difficult to assess the performance of the companies based on industry averages, as they all operate in an environment where there is no competition as yet. The only possible comparison would be to look at what similar companies in Senegal are doing to be in better position to appreciate their performance.

However, an analysis of the respective Profit and Loss Account shows that whilst GPA has registered a strong increase in their Earnings Before Interest and Tax (EBIT), the other two companies have registered mixed results as we can see from figure 3.1 below.

Figure 3.1 Evolution of EBIT for the three companies over the period 2000 - 2003



Source: The Gambia Divestiture Agency

It is always of importance to have an idea of how a company is expected to fare in the future, especially for a company that is listed or is going to be listed on a Stock Exchange. However, with the scarcity of data and information that characterises Gambian companies, it is quite difficult to project a growth rate that could allow us to come up with expected EBIT in the next three years. Nonetheless, we can use the average growth .

3.2.2 Valuation Issues

Valuation of target companies is certainly a crucial issue for Government, as they must ensure that they get a fair value from the privatisation, whilst at the same time not discouraging investors by putting too high a price tag on the companies. We know that valuation is never a straightforward issue as for the same company, different evaluators may come up with different values depending on the method used and the objective pursued in carrying out the valuation exercise. We will therefore put forward the assumptions on which we are going to base our valuation of the target companies so as to be in position to justify the method used as well as the range of values we would eventually arrive at. We would also take into account the context, in which these companies are operating, as these are exogenous factors, we have no control over.

3.2.2.1 The context and the assumptions

The context has been largely presented in detail in Chapter 1, when we gave an overview of the Gambian economy. Just to recap on some of the issues highlighted in that section as being characteristic of the Gambian economy and the financial market, we will mention the issue of the high fiscal deficit and the high inflation rate. We will also stress the rudimentary character of financial products offered in the financial sector as well as the absence of a capital market for long-term investment operations. This makes it difficult to have a view of long-term interest rates. We can as well mention the fact that the only investment alternative available to investors is the Government Treasury Bills, for which the longest maturity is 12 months. There are Government Development Stock, which are government issued debt instruments of three to five years, but these are not very popular and mostly, the SSHFC is the main investor in this type of instruments.

We will assume three different scenarios based on the fact that the Gambian economy has gone through unprecedented recession and indications are that the situation is stabilising. In fact the IMF estimates that in the worst-case scenario, the growth rate of the economy in the next three years will be around 5%, which is higher than what obtained the past year. We also have to take into account that after privatisation, these companies may face stern competition as other companies try to get into their markets. We then assume that the necessary management and employment reforms would be carried out prior to the privatisation exercise. We can therefore take scenario 1 as the situation in which the companies will be operating in better macro-economic conditions and that their past performances would be at least equalled in the next three years. We will take a pessimistic stand in scenario 2, by assuming that the companies will achieve a performance 5% less than in the current year. In scenario 3, we will assume that the companies' performance will be better than both in scenario 1 and 2 and that they will have a growth rate higher than in scenario 1 by 5%. We will further assume that the companies' performance cannot be higher than the overall performance of the sector in which they operate. In the past six years, the sectors registered average growth rates of 14% for trade, which is indicative of the growth of the activities in the Port and of 20% for telecommunications.

The three scenarios are summarised in the table below.

Table 3.3 Summary of Assumed Company Growth Rate

Senarios	GPA	GAMTEL
Scenario 1	14%	20%
Scenario 2	10%	15%
Scenario 3	20%	25%

3.2.2.2 The valuation procedure

We will determine the free cash flow to equity (FCFE) for the respective companies and from there we will work out the estimated values using the constant growth model. The parameters of the model for each of the companies are as follows:

Table 3.4 Determination of FCFE for GPA, GAMTEL and GIA

Free cash flows	GPA	GAMTEL	GIA
EBIT	162272	88340	2608
- interest	-18130	-39,070	-2963
- tax	-16668	-27969	-2960
+ depreciation	32822	71079	4153
- cap exp	-70225	0	-4054
FCFE	90071	92380	-3216

From the outset, we can observe that GIA does not present interesting conditions for any investor, as its FCFE is already negative, unless the company undergoes restructuring. We will therefore restrict the rest of our analysis to GPA and GAMTEL and determine a value for the two companies.

We will first of all determine the weighted average cost of capital (WACC) assuming a Beta of 1.2 based on industry comparables, a risk free rate of 31% based on Government borrowing rate and a market risk premium of 5% and 6.5% for GPA and GAMTEL respectively.

Table 3.5 Calculation of WACC for GPA and GAMTEL

Calculation of WACC	GPA	GAMTEL
risk free rate	31%	31%
Beta	1.2	1.2
Market risk premium	5%	6.50%
cost of equity (ke)	37.00%	39%
average borrowing rate	17%	15%
cost of debt (kd) =borrowing rate(1-tax rate)	11%	10%
Tax rate	35%	35%
Equity	304777	549122
Debt	360364	252943
Wacc	22.94%	29.64%

Based on the scenarios defined above, the valuation using the Constant Growth Model gives the following results, where all the values are in Dalasi

Table 3.6 Estimated Value of Companies based on Three Growth Scenarios

	Scenario 1		Scenario 2		Scenario 3	
	GPA	GAMTEL	GPA	GAMTEL	GPA	GAMTEL
FCFE (GMD millions)	90071	92380	90071	92380	90071	92380
FCFE expected next year	102680.9	110856	99078.1	106237	108085.2	115475
Growth rate	14.00%	20.00%	10.00%	15.00%	20.00%	25.00%
Req ret on equity	23.00%	30%	23%	30%	23%	30%
Value (GMD millions)	**1,140,899**	**1,108,560**	**762,139.20**	**708,246.70**	**3,602,840**	**2,309,500**
Value per share		18,47		11.8		38.49

The table below summarises the value-range in millions of Dalasis arrived at in our valuation exercise.

Table 3.7 Value Range for GPA and GAMTEL

GPA	GAMTEL
GMD762,139 – GMD3,602,840	GMD708,246 – GMD2,309,500

The use of EBIT and the FCFE in carrying out the valuation is based on the fact that these companies are not listed on any exchange and that they are not paying dividends. The use of the EBIT is also justified by the fact that we are limiting our analysis to three years only as, given the relatively unstable macro-economic environment, any projections beyond such a timeframe could be hazardous.

Another valuation that could perhaps be used in this context is the Discounted Cash Flow (DCF) method.

Table 3.8 GAMTEL and GPA Earnings from 2000 to 2002

	GAMTEL			GPA		
Year	**2000**	**2001**	**2002**	**2000**	**2001**	**2002**
Earnings after tax	40482	74919	70456	23217	21250	25676
Add interest	4715	28391	39070	13346	15414	16891
	45197	**103310**	**109526**	**36563**	**36664**	**42567**

The estimated values using the DCF method would be as follows:

Table 3.9 Calculation of GAMTEL and GPA Values Using the DCF Method

	GAMTEL	GPA
WACC	29.64	22.94
Debt	252943	360364
Average growth rate	3%	3%
Estimated value	**557256**	**579969**

An additional assumption introduced in using the DCF method of valuation is that the average growth rate for both companies is 3%. This average growth rate is well below the average growth rate achieved by the Gambian economy in the past 5 years, but we deemed it prudent to set the growth rate at 3% in order to be closer to the analysis that a potential investor in these companies might have. We assume that any potential buyer would base his analysis in the region of the worst scenario.

4. DIVESTITURE AND STOCK MARKET DEVELOPMENT IN THE GAMBIA

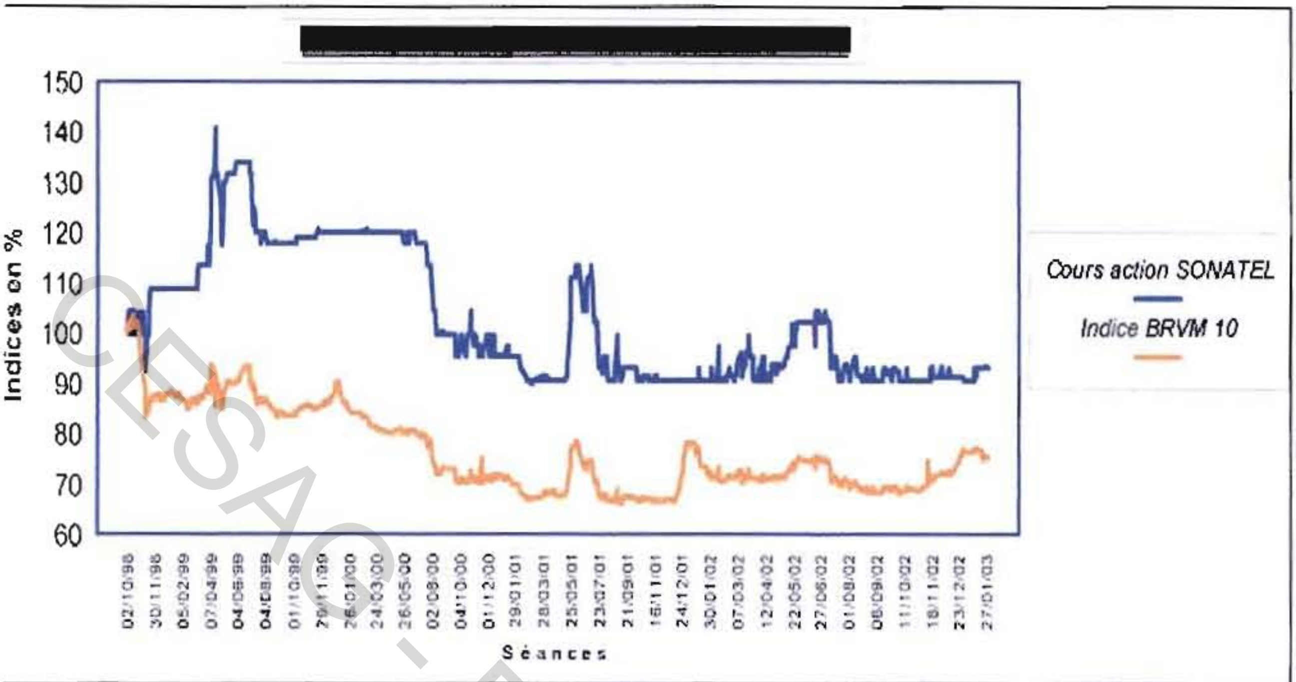
There is no doubt that privatisation could be a good means of spurring the development of capital markets and there are several cases that illustrate well this assertion. W. L. Megginson and M. K. Boutckova have found out that The largest privatised firms account for sizeable fractions of the total capitalisation of national stock markets, even in advanced countries such as Germany (10.5%), Italy (11.8%), Spain (14.8%), Singapore (15.8%) and Austria (19.4%). In emerging markets such as Korea (17.2%) and Mexico (36.3%), individual privatised firms account for very large fractions of the total national market capitalisation. The 25 largest and 35 of the 39 largest share offerings have all been privatisations. This suggests that privatisation may have a tremendous impact on international investment banking[1].

In the West Africa sub-region, statistics tend to also confirm the assertion made by Megginson and Boutchkova. Sonatel (Senegal) is Senegal's leading telecommunications company, which was privatised and listed on the BRVM stock exchange in Abidjan in 1998. After only six years of operations as a public listed company, Sonatel now accounts for 1/3 of the total market capitalisation of the BRVM[2]. As figure 1.4 indicates, the Sonatel stock has since its listing been regularly outperforming the BRVM10 index.

[1] W. L. Megginson and M. K. Boutchkova, "The impact of privatisation on Capital Market Development and Individual Share Ownership.

[2] O. B. Sane, interview in Le Soleil issue of 16th September 2004.

Figure 4.1 Evolution of SONATEL and BRVM 10 Index



Source: Banque Ouest Africaine de Developpement

Trust Bank Ltd. the Gambia's second largest bank was privatised in 1996 and listed on the Accra Stock Exchange in November 2002. Today, Trust Bank can boost of being the 5th best performing company on the Accra Stock Exchange, with its share price rising from an Initial Public Offering (IPO) of D10 to D100 in September 2004, that is a capital gain of 900%.

4.1 The role the Gambia Divestiture Agency could play in the Development of a Capital Market in The Gambia

Thanks to the positive link between privatisation and capital market development, many countries have sought to develop their capital markets through privatisation, especially after the disintegration of the Soviet Union and the fall of the communist system in Eastern Europe. Many of these programmes resulted in success stories such as in Eastern Germany or in elsewhere in Asia for example in Malaysia.

Based on the experience that could be gathered from these privatisation programmes and the researches carried out by scholars such as S. R. Cohn, the success of a privatisation programme and eventually the successful set-up of a capital market requires a transparent and well popularised process. In addition to that, a strong oversight body should be in place for close monitoring before and after the process.

We therefore believe that the GDA should include the following activities in her functions to enhance the chances of achieving a successful privatisation programme leading to the development of a capital market.

a. Creation of a supervisory authority with responsibility of oversight of the issuance and trading of securities. Usually this role is assigned to an agency created by statute.
b. Creation of a stock exchange to facilitate secondary trading in the securities of the privatised Public Enterprises (PEs).
c. Adoption of new laws and regulations for the issuance and trading of securities. Old statues, such as Company laws, are inadequate to meet capital market requirements and conditions. As a result new statutes need to be adopted to govern the purchase and sale of securities, and a securities commission need to be given authority to issue regulations supplementing the statute and providing specific rules where necessary.
d. Adoption of licensing standards and examinations procedures for market intermediaries, including brokers, dealers and investment advisers. Licensing and qualification standards for brokers, dealers, investment advisers and their representatives are very crucial for a smooth operation of a securities market as the public has to be assured of the quality and integrity of those persons who operate the capital market.
e. Development of public education programmes to make the public aware of investment opportunities and the process of buying and selling of securities. It is proven that in many countries, including the developed countries, most people are still uncertain about why a capital market exists or should exist, how it works and why it should be something for them to consider. The lack of knowledge includes

many well-educated people and professionals, because until very recently there was little training or academic emphasis on capital market matters. Therefore education programmes are a very important component of any privatisation programme that should lead to the development of a capital market.

However, all indications are that the GDA was not prepared to use the opportunity of the privatisation programme to develop the capital market in the Gambia. The divestiture strategy and regulatory framework stipulates the guiding principles under which the divestiture programme should be carried out as follows:

- Public Enterprises will be divested into competitive markets; purchasers will not obtain an intact or unregulated monopoly.
- In cases where the Government retains a minority shareholding, it will not exercise any special or extraordinary voting rights.
- Excluding financial and operational (but not physical) restructuring that may be necessary to prepare PEs for sale, there will be a moratorium on new government investments in enterprises that are to be divested.
- All sales will be on cash basis and or secured terms of payment not linked to the divested assets, with the possible exception of shares sold to the workforce of the affected PEs.
- All transactions will be conducted in an open and transparent manner, consistent with normal standards of commercial discretion. At the inception of the sales, all aspects of the transitions will be in the public domain where appropriate, this means:
    - A prospectus or offering memorandum will be prepared and publicised for each PE to be sold;
    - A full body of financial management and other information will be available for disclosure to the investing public.
    - Fair and equitable bidding procedures will be established
    - Criteria for ranking bids will be established and publicised.
    - Bids will be open in public.

- Upon completion of the sale, the names of the purchasers, the price paid, and the conditions of sale will be made public[1], and
- The valuation of the assets and the details of all offers received will be placed in the public domain[2].

- To promote and ensure the competitiveness of the markets in which divested companies will operate, Government will develop competition law to avoid monopolies and cartels emerging and the institutional capacity to implement it in a transparent manner, including rationalise tariffs, and continue the process of price decontrol and the removal of marketing restrictions in all sectors. A more specific review of the regulatory framework will be carried out as and when enterprises, currently under the MOU contract are offered for sale.

4.1.1 What do investors look for in a capital market?

The requirements of investors and more particularly international investors in a market could be separated into three different factors, connected to each other though. These are factors that the GDA should ensure that they are in place if they are to make any headway towards a capital market. We recognise however that most of these factors are not directly under GDA's control, but it is part of its sensitisation role to get all actors in the market aware of the important issues to a good functioning of the stock market.

a) The macro factors

i. Political stability and legislation

Issues such as political stability based on strong democratic fundamentals are of paramount importance to investors, as they would want to be sure that they are not under any likelihood to lose their investments due to political change or political decision. We could also include in this register the currency exchange rate regime as well capital restrictions.

[1] Because bids are open in public, it is important that the names of those whose bids were successful be also announced in public at the same session.
[2] It is important for the sake of transparency that the details of bids, whether successful or not be make known at the bid opening session

ii. Macroeconomic performance

Here, the investors will look at the overall macroeconomic situation of the country, that is GDP growth, inflation rate, fiscal balance, external balance and unemployment rate. These macroeconomic variables are important because they give an indication as to the strength of the economy and are strong determinants of the investors' confidence.

b) The Structural Factors

Investors would want to invest in a market where the rules regulating the market are clear and that there is no room for arbitrary decisions by a government authority thus distorting the rules of the market. A capital market functioning in adherence to the basic rules of share trading should therefore endeavour to have the following factors in place:

i. The accounting and disclosure requirements, which are more and more gaining prominence in financial markets due to the Enron case.
ii. Included in these factors are also the bankruptcy regime and creditor rights.
iii. Government-corporate nexus, which refers to the independence of private companies vis a vis the Government in place where the treatment accorded to private companies would be determined by their relations to the Government. If this happens, then it will distort the market conditions by not allowing all companies to compete on a level playing field.
iv. Trading infrastructure: relates to the entire infrastructure that needs to be put in place to allow trading to go on smoothly. We are talking here for example of how well are communication networks developed.

c) Firm-level Factors refer to the performance of the firm to be listed or which is already listed as the case may be. There are various elements that investors could consider in assessing the attractiveness of the firm for investment, among which we can site:

i. The price-value ratio (which states the ratio of current price to intrinsic value for each company, as determined by the Ford Dividend Discount Model) and the Sharpe ratio (which is a measure of the risk-adjusted return of an investment)

ii. Debt/Equity ratio, which is a measure of a company's financial leverage

iii. Currency and maturity mismatch: this happens when a firm is borrowing in a currency, which is not its currency of operations or is borrowing short-term for long-term financing and vice versa.

iv. International Accounting Standards (IAS) conformity

v. Insider control: how much of the company is under the control of management.

vi. Trading liquidity: refers to how easy it is to sell the firm's shares in the market.

Although all the factors listed above are necessary conditions for a successful privatisation programme and for the development of a capital market in The Gambia, we however are of the opinion that without the full participation of Gambians, it would be very difficult to get the capital market off the ground. It is therefore crucial for the divestiture programme to be popularised, which would be no mean task to say the least.

4.1.2 Popularising the Divestiture Programme among Gambians

The importance of foreign investors in the privatisation programme cannot be overemphasised, but it also goes without saying that the participation of local investors, both individual and institutional is very important. Therefore, conditions should be created for local investors to get access to the market. In this regard, we will suggest that the following strategies be used, in addition to conducted public awareness activities:

a) Support to Gambian investors through outright trade sale, share sale and sale of assets of public enterprises to individual Gambians or Gambian registered companies owned and controlled by Gambians.
b) Allow for staggered payment terms to facilitate the start-up.
c) Where it is possible, allow for Management and Employee Buy out schemes on more concessionary basis.
d) Support the setting up and development of a Unit Trust that allow middle and low-income earners with small capacity to save, to buy shares of privatised companies.
e) Support the development of non-bank financial intermediaries such as private Mutual Funds, by ensuring that the required legal reforms are put in place. This would create competition for the banks and will help in bringing down interest rates. This is also very important to mobilise savings for investment in the securities market.

We also have to understand that there cannot be investors, if there is no company to invest in. So conditions should as well be created for local private companies to be able to raise funds from the market. We have seen already that in The Gambia there are two private companies whose shares are actively traded, that is Trust Bank and Standard Chartered Bank Gambia Ltd. If in addition to GPA and GAMTEL, these two companies were listed, that would provide a good start for the Gambian Stock Exchange.

One has to recognise however that not all companies that need to raise capital would be large enough to meet stock exchange listing standards especially in a country like the Gambia where most of the firms are Small and Medium-Sized companies. Yet this does not mean that such companies should be left out of the securities market because their participation would certainly add to the vibrancy of the market. Without a critical mass of quality companies, public interest in the exchange will remain low and lead to chronic problems of lack of liquidity and undervalued securities. The programme should therefore not minimise the importance of private companies listings, although PEs are the most obvious source of stock exchange listing.

Therefore modified listing standards should be put in place to suit the needs of smaller companies or allow for the creation of an over-the-counter market (OTC) where the shares of such companies could be traded. Some Stock Exchanges tried to solve the problem of small company listing by creating a two-tiered stock exchange. But this should be avoided as S. Cohen states, investors tend to regard the lower tier as inferior companies and there is very little interest in buying those shares. We believe therefore that GDA should play a very active role in sensitising private company owners whose companies meet the required listing standards to go public, and also convince SMEs about the importance of raising capital from the securities market.

We expect a lot of resistance from private companies though, because of the fear for public disclosure requirements and because of the widely held belief that company owners would lose control of their company if they were to go public. GDA's should therefore stress the positive aspects of public offerings in its sensitisation campaign, which are:

a) Public Offerings could reduce the company's cost of capital especially in an environment like the Gambia where bank interest rates are so high. Small companies must understand that equity is a permanent capital investment and has no demands on company revenues except for the payment of dividend, which is discretionary. This permits management to utilise for internal growth purposes the full amount of revenues generated as a result of the capital input.
b) Public Offerings create value and liquidity for Management's shares by unlocking the value in the shares of a privately owned company and by permitting those shares to be readily sold at a fair market value. This is because private company owners are the principal source of funding for their business. So even with successful businesses, company owners have an intangible form of wealth but which remains locked into the company.
c) Public offerings permit owners to diversify investment risks. By creating a secondary market for the company's shares, the public offering allows the owner

to sell portions of his shares in the secondary market and put the proceeds from the sale into other investments. This is a simple portfolio management strategy, which allows investors to diversify their risks by not putting all their wealth in a single investment.

d) Public offering does not necessarily mean loss of control as the owner can still continue to own a substantial number of shares, more than anyone else, and it would therefore be very difficult for any outsider to overcome the original owners' voting in an election contest.

e) The creation of a public market can be very useful for company purposes because shares in a publicly –traded company tend to be much more valuable than shares in a closely-held, non-public company. Shares in a publicly held company are transferable, they can create immediate value, they can be used as collateral for borrowing and they have a market price that gives the owner a sense of what he or she actually owns. The company can take advantage of the fact that its shares are

f) publicly traded to motivate its employees by offering them stock options. The company can as well use its public traded shares to buy assets or other companies because the shares have a clear value and a marketable share can be transformed into cash at anytime on the stock market.

We believe that carrying out this kind of educational campaign directed at company managements and private sector professionals to understand the benefits of public ownership might go a long way to dispel the fears that cause some companies to refrain from going public. This could in turn give the divestiture programme the popularity it needs to boost the development of the capital market.

4.2 Share Distribution Schemes

The share distribution scheme is a very important component of a successful privatisation programme. If we take the case of GPA and GAMTEL, it would certainly make more sense for these companies to have strategic investors to come in as equity holders, because they would then bring along their own managerial skills, experience and technical know-how into the company. It is also good for the State to keep some ownership of the company to be divested where they could earn dividends as a source of income.

But then the problem arises as to how much ownership should the state have or how much control should the strategic partner be allowed to have. If the strategic partner controls the majority of the shares, this would leave relatively a few shares in the public's hands to be traded. It is therefore crucial to strike a balance between the need to give incentives to the strategic partner to invest and to allow enough public-float for the liquidity of the market.

The Gambia can already boost of having a success story that should be meditated in the current divestiture programme. When Trust Bank was being divested, the share distribution scheme that was adopted was the following.

Table 4.1 Share distribution Scheme for TBL Privatisation

Strategic investor (Databank of Ghana)	36%
Gambia Government	10%
Trust Bank employees	1.67%
Public and institutional investors	52.33%

Source: Trust Bank Ltd

Two years after its IPO, the distribution of the shares has changed quite significantly as the State has sold off its shares and Databank have reduced their shareholding so much so that the new distribution of the shares is as follows:

Table 4.2 TBL Share Distribution two Years After IPO

Databank of Ghana	28.71%
Trust Bank employees	1.67%
Public and Institutional investors	69.62%

Source: Trust Bank Ltd

We have to note that in the public's shareholding is included SSHFC's holding which was at 34.29% as of August 2004.

We have seen earlier the wonderful performance of the Trust Bank stock at the Ghana stock exchange.

Another success story is that should also be considered is that of Sonatel Senegal. At the IPO the share distribution scheme was the following.

Table 4.3 SONATEL's Share Distribution at the IPO

Strategic Investors (France Telecom)	42.53
Senegalese Government	27.67%
Sonatel employees	10%
Public and Institutional Investors	20%

Source: Sonatel

This distribution has remained the same so far and the company has achieved a remarkable performance at the BRVM regional Stock Exchange in Abidjan.

Conclusion

The Gambia, like many other developing countries has a small private sector, which is to a large extent dominated by small and medium-sized enterprises. The analysis of the Gambian economy has revealed that it is a small economy and that the few large enterprises that are still in existence are those that were set-up by the Government soon after independence and which were managed as public or State-owned enterprises. Unfortunately, these public enterprises experienced problems, mostly management-related and as they continued using public resources without achieving positive results, their privatization in the 80s, was seen as one of the solutions to their problem, which was done with mixed results. As we moved to the 90s, the same problems seemed to be lingering prompting the Gambia Government to try again the privatization solution.

However as our study has indicated, there is a likelihood that the same policies would yield the same results as in the 80s, that is the failure of the privatized companies to live up to expectations in the post-privatization stage and we strongly believe that nowadays, with the development of a middle class Gambian society both in country and other parts of the world, the second privatization programme should take a different approach.

We have seen in out study that middle income earning Gambians in the Diaspora and those living in The Gambia are more and more looking for investment opportunities but the instruments that should facilitate access to information and the instruments for trading in assets such as shares and bonds do not exist.

Our study has gone to suggest a solution to this problem by demonstrating that it is possible for the government of The Gambia to seize the opportunity of the second privatisation programme to spur the development of a capital market in the country.

The urge to use this privatization as a stepping stone to get to the capital market should be made even stronger by realities on the ground that previously government-owned companies that were privatized with a large participation of the Gambian people in the process came out to be very successful and their shares highly sought after.

However, for the privatization programme to be successful, government must be willing to let go the big companies that are under their control and it should give the Gambia Divestiture Agency the full mandate to put in place the legal and institutional framework through which this objective can be attained.

We remain convinced that capital market offers great alternatives to access to financing for Gambian enterprises especially the medium-sized enterprises who, most of the time find themselves trapped between self-financing and huge bank interest rates.

We will end we note of caution though, because even though the benefits of privatization are well recognised, some specialists still argue that importance of these benefits may vary from sector to sector and that they may not even be worth the exercise in some sectors.

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Appendix 1: Table of Direction of Trade for the Gambia

Table 36. The Gambia: Direction of Trade, 1998-2002 1/
(In percent of total)

	1998	1999	2000	2001	2002	2003
Exports	100.0	100.0	100.0	100.0	100.0	..
Industrial countries	81.9	75.1	83.7	82.6	78.4	...
Of which						
United States	0.4	3.2	0.7	2.1	1.0	...
Japan	1.7	2.2	8.7	2.1	0.5	...
EU-15	79.7	69.7	73.5	70.0	76.6	...
Developing countries	18.1	24.9	16.3	17.4	21.6	...
Of which						
Africa	10.9	18.1	4.0	3.6	3.8	...
Of which						
Ghana	1.0	1.8	0.4	0.7	0.7	...
Guinea	2.5	4.2	0.2	0.1	0.1	...
Senegal	2.5	2.8	0.7	1.2	1.2	...
Guinea Bissau	2.3	6.4	0.4	0.0	0.6	...
Asia	3.3	5.8	7.0	10.6	16.7	...
Of which						
China	2.2	1.5	0.0	0.0	0.0	...
Hong Kong SAR	0.5	0.8	1.9	0.9	1.0	...
Thailand	0.2	0.2	0.8	3.3	0.6	...
Other	3.9	1.1	5.3	3.2	1.0	...
Imports	100.0	100.0	100.0	100.0	100.0	...
Industrial countries	42.3	57.4	35.5	39.6	36.3	...
Of which						
United States	3.2	5.0	2.5	2.4	2.6	...
Japan	2.2	3.2	2.0	1.4	1.7	...
EU-15	36.3	48.6	30.4	35.4	31.0	...
Developing countries	57.7	42.6	64.5	60.4	63.7	...
Of which						
Africa	11.7	8.7	16.6	13.1	15.1	...
Of which						
Guinea	0.4	0.0	0.0	0.0	0.0	...
Senegal	5.4	2.3	11.0	7.5	9.2	...
Côte d'Ivoire	4.5	4.1	3.9	3.4	3.6	...
Asia	39.0	20.3	38.9	34.7	36.6	...
Of which						
China	17.0	6.4	20.6	20.3	22.3	...
Hong Kong SAR	11.5	4.4	8.8	4.3	3.5	...
Thailand	1.0	1.2	1.0	2.1	1.3	...
Other	7.0	13.6	9.0	12.5	12.0	...

Source: IMF, *Direction of Trade Statistics*.

1/ Based on The Gambia's trading partners' data.

Appendix 2: Table of The Gambia Central Government Operations for the period 1998 – 2003 in percent of GDP

	1998	1999	2000	2001	2002 Prel.	2003 Est.
Revenue and grants	20.5	19.2	20.8	17.2	20.8	17.3
Domestic revenue	18.6	17.9	18.5	15.1	16.3	15.3
Tax revenue	16.8	15.7	16.2	13.0	14.1	13.3
Direct tax	4.1	4.1	4.2	3.8	4.3	4.0
Of which: personal	1.7	1.7	1.7	1.6	1.7	1.5
corporate	2.1	2.1	2.1	2.0	2.4	2.4
Indirect tax	12.6	11.6	12.0	9.2	9.8	9.3
Domestic tax on goods and services	1.5	1.6	1.4	1.1	1.7	2.3
Of which: excise duties	0.0	0.2	0.3	0.2	0.1	0.2
domestic sales tax	1.4	1.3	1.0	0.9	1.5	2.0
Tax on international trade	11.2	10.0	10.7	8.1	8.1	7.0
Duty	7.2	6.4	6.7	5.0	5.0	4.1
Sales tax on imports	4.0	3.6	4.0	3.1	3.1	2.9
Nontax revenue	1.8	2.1	2.3	2.1	2.2	1.9
Of which: government services and charges	0.8	1.5	1.8	1.5	1.8	1.5
interests and dividends	0.9	0.4	0.4	0.5	0.3	0.4
Grants	2.0	1.3	2.3	2.1	4.4	2.0
Program	0.6	0.2	1.1	0.0	1.3	0.0
Projects	1.4	1.1	1.1	1.0	1.5	0.9
HIPC	0.0	0.0	0.0	1.0	1.7	1.1
Expenditure and net lending 1/	23.0	22.7	22.1	31.1	25.4	22.7
Current expenditure	17.9	18.0	18.3	18.9	17.9	16.6
Wages and salaries	6.3	6.1	6.3	5.2	5.4	4.4
Other charges	6.2	6.8	7.4	8.1	7.0	5.5
Interest	5.3	5.0	4.6	4.5	5.0	6.0
External	1.3	1.2	1.1	1.0	1.1	1.8
Domestic	4.0	3.8	3.5	3.4	3.9	4.2
HIPC expenditure	0.0	0.0	0.0	1.0	0.5	0.7
Capital expenditure and net lending 1/	5.1	4.7	3.8	12.2	7.5	6.1
Capital expenditure	5.8	5.3	4.6	11.2	7.9	6.4
External	4.7	4.5	3.7	3.4	6.7	5.0
GLF (Gambia Local Fund)	1.1	0.8	0.9	0.9	0.8	0.8
HIPC funded	0.0	0.0	0.0	0.0	0.4	0.7
PRSP-related expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Extrabudgetary expenditure 1/	0.0	0.0	0.0	6.8	0.0	0.0
Net lending	-0.7	-0.6	-0.7	1.0	-0.4	-0.3
Overall balance (commitment basis)	-2.4	-3.3	-1.4	-13.9	-4.6	-5.4
Excluding grants	-4.4	-4.9	-3.7	-16.0	-9.1	-7.4
Excluding grants, HIPC and PRSP expenditure	-4.4	-4.9	-3.7	-14.9	-8.1	-6.0
Adjustment to cash basis (float)	0.1	-0.7	-0.4	-0.5	0.2	-0.4
Errors and omissions	-0.7	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)						
Including grants	-3.0	-4.2	-1.8	-14.4	-4.4	-5.8
Financing	3.0	4.2	1.8	14.4	4.4	5.8
External (net)	1.2	0.6	-0.8	-0.4	1.9	0.6
Borrowing	3.3	3.2	2.5	3.6	9.9	4.0
Project	3.3	3.2	2.5	2.4	5.0	4.0
Program	0.0	0.0	0.0	0.0	0.0	0.0
Other loans 2/	0.0	0.0	0.0	1.2	4.9	0.0
Amortization	-2.1	-2.5	-3.4	-3.9	-8.0	-3.6
HIPC debt relief	0.0	0.0	0.0	0.0	0.1	0.1
Domestic	1.8	3.6	2.7	14.8	2.5	5.2
Bank 1/	-0.4	1.4	0.8	14.5	0.3	3.9
Nonbank	1.9	1.9	2.6	1.0	2.7	0.9
Accumulation / repayment (minus) of arrears	0.3	0.3	-0.7	-0.8	-0.5	-0.1
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0
CBG (unrealized profits)	0.0	0.0	0.0	0.0	0.0	0.4
Basic primary balance 3/	3.6	4.7	4.6	-8.1	2.7	4.6
Memorandum items:						
Stock of domestic debt	25.6	27.0	31.5	38.1	[illegible]	24.6

Sources: The Gambian authorities and staff estimates.

1/ Data for 2001 include US$28.5 million capital expenditure financed by a retroactive loan by the Central Bank of The Gambia (CBG) which the authorities indicated in October 2003 had not been recorded in official accounts.

2/ Includes loan disbursements (D 287.8 million in January and D 94.7 million in April 2001) from Taiwan Province of China for electricity generators and improvement of distribution network. The generators were delivered to the National Water and Electricity Corporation in October 2001. The inflows were used to pay the suppliers.

3/ Domestic revenue minus total expenditure and net lending, excluding interest payments and externally financed capital expenditure.

Appendix 3: The Gambia saving and investment balance for the period 1998 2003 in percent of GDP

	1998	1999	2000	2001 Est.	2002 Prel.	2003 Prel.
GDP market prices	100.0	100.0	100.0	100.0	100.0	100.0
Factor services, net	-4.8	-5.0	-4.9	-5.6	-7.1	-6.7
Remittances of technical assistance staff	-6.2	-6.9	-7.3	-7.6	-9.1	-8.6
Interest receipts, net	1.4	1.9	2.4	2.1	2.0	1.8
GNP market prices	95.2	95.0	95.1	94.4	92.9	93.3
Unrequited transfers, net 1/	9.3	8.0	9.9	8.1	11.5	9.6
Of which: official transfers	8.5	7.1	7.4	7.3	10.5	8.6
Gross disposable national income	104.5	103.0	105.1	102.6	104.4	102.9
Total consumption	88.6	88.1	91.0	88.7	85.3	88.4
Private consumption 2/	72.0	71.3	73.8	64.1	68.6	73.6
Government consumption 3/	16.6	16.8	17.2	24.6	16.8	14.8
Gross domestic savings	11.4	11.9	9.0	11.3	14.7	11.6
Government domestic savings 4/	2.0	1.1	1.3	-9.5	-0.4	0.5
Private domestic savings 5/	9.4	10.9	7.7	20.8	15.1	11.1
Gross national savings	15.9	14.9	14.1	13.9	19.0	14.5
Government national savings	10.4	8.1	8.7	-2.2	10.1	9.1
Of which: domestically generated	2.0	1.1	1.3	-9.5	-0.4	0.5
Private national savings 4/	5.5	6.8	5.4	16.1	8.9	5.4
Total domestically generated 5/	7.4	7.9	6.7	6.6	8.5	5.9
Gross domestic investment	18.3	17.8	17.3	17.4	21.2	19.6
Government investment 6/	5.8	5.3	4.6	4.4	7.5	5.7
Private investment 2/	12.5	12.5	12.7	13.0	13.7	13.9
Private investment rate (% of GDP)	12.5	12.5	12.7	13.0	13.7	13.9
Memorandum items:						
External current account						
Including transfers	-2.4	-2.9	-3.1	-3.5	-2.2	-5.1
Excluding transfers	-10.9	-9.9	-10.6	-10.8	-12.7	-13.8
Government financial balance 7/	-3.8	-4.2	-3.3	-13.9	-7.9	-5.2
Government savings	2.0	1.1	1.3	-9.5	-0.4	0.5
Government investment	5.8	5.3	4.6	4.4	7.5	5.7
Private financial balance 7/	-7.0	-5.7	-7.3	3.1	-4.8	-8.5
Private savings	5.5	6.8	5.4	16.1	8.9	5.4
Private investment	12.5	12.5	12.7	13.0	13.7	13.9

Sources: The Gambian authorities; and staff estimates.

1/ Consists of both official and private transfers.
2/ Includes public enterprise sector.
3/ Government current expenditure (excluding Gambia Local Fund), less capital component of recurrent budget, plus current component of development budget.
4/ Domestic revenue (excluding capital revenue) less government consumption.
5/ Gross national savings excluding official transfers.
6/ Development expenditure (excluding net lending), plus capital component of recurrent budget, less current component of development budget.
7/ Domestically generated financial balances.

Appendix 4: List of Financial Institutions operating in The Gambia

Name of Institution	Type of Institution
Standard Chartered Bank	Commercial Bank
Trust Bank Ltd	Commercial Bank
Arab Gambian Islamic	Commercial Bank
First International Bank	Commercial Bank
International Bank for Commerce	Commercial Bank
Guaranty Trust Bank	Commercial Bank
Gamstar Credit and Savings Company	Savings and Loan Company
Sahel Mutual Fund	Mutual Fund
Home Finance Company	Mortgage Company
Social Development Fund	Microfinance
Gambia Women Finance Association	Microfinance

Source: Central Bank of The Gambia

Appendix 5: Structure of interest rates, including Treasury Bills rates for the period 1998 – 2003

	1998	1999	2000	2001	2002	2003
Commercial bank lending rates 2/						
Agriculture	19.0-24.0	18.0-24.0	18.0-24.0	18.0-24.0	17.0-24.0	...
Manufacturing	19.0-24.0	18.0-24.0	18.0-24.0	18.0-24.0	17.0-24.1	...
Building	19.0-24.0	18.0-24.0	18.0-24.0	18.0-24.0	17.0-24.2	...
Trading	19.0-24.0	18.0-24.0	18.0-24.0	18.0-24.0	17.0-24.3	...
Tourism	19.0-24.0	18.0-24.0	18.0-24.0	18.0-24.0	17.0-24.4	...
Other	19.0-24.0	18.0-24.0	18.0-24.0	18.0-24.0	17.0-24.5	...
Deposits						
Short-term deposit account	9.0	7.0	7.0	7.0	7.0	...
Savings bank account	9.5-11.5	9.0-10.0	8.0-10.0	8.0-10.0	8.0-10.0	...
Time deposits						
Three months	11.5-12.5	9.5-12.5	9.5-12.5	9.5-12.5	6.0-13.0	...
Six months	11.5-12.5	10.2-12.5	10.0-12.5	10.0-12.5	6.0-13.0	...
Nine months	12.0-15.0	11.0-12.5	10.8-12.5	10.8-12.5	7.0-13.0	...
Twelve months and over	12.0-15.0	12.0-12.5	11.0-12.5	11.0-12.5	7.0-13.0	...
Government						
Treasury bills	14.0	12.5	12.0	15.0	20.0	31.0
Government development loans						
1994-99	15.5	15.5	15.0	15.0	15.0	...
1999-2002	...	14.0	14.0	14.0	14.0	...
Central bank						
Bank rate	12.0	10.5	10.0	13.0	18.0	29.0
Secondary market operations						
Discount rate	...	...	...	..	...	..
Rediscount rate	17.0	15.5	15.0	18.0	23.0	34.0

Source: Central Bank of The Gambia.

Appendix 6: Table of The Gambia central government operations for the period 1998 – 2003 in millions of Dalasis

	1998	1999	2000	2001	2002 Prel	2003 Est
Revenue and grants	919.9	944.5	1,117.2	1,125.7	1,328.7	1,776.4
Domestic revenue	831.5	878.7	995.4	989.9	1,201.8	1,569.1
Tax revenue	751.1	773.7	869.9	853.8	1,040.2	1,371.4
Direct tax	185.1	201.8	223.6	251.0	318.0	414.8
Of which: personal	76.4	81.3	90.4	102.6	122.4	149.3
corporate	93.7	102.2	115.0	132.7	176.8	244.9
Indirect tax	566.0	571.8	646.1	602.8	722.2	956.6
Domestic tax on goods and services	65.3	77.3	72.8	71.9	124.9	233.6
Of which: excise duties	0.0	11.0	18.4	11.5	10.8	23.6
domestic sales tax	63.0	64.7	52.4	59.8	108.0	201.0
Tax on international trade	500.7	494.5	573.3	528.9	597.3	722.9
Duty	322.4	315.3	360.0	327.4	367.7	420.4
Sales tax on imports	178.3	179.2	213.6	201.5	229.6	302.6
Nontax revenue	80.4	105.0	125.4	136.0	161.5	197.8
Of which: government services and charges	33.1	75.1	97.7	97.6	134.8	152.2
interests and dividends	38.6	22.0	22.9	34.2	24.1	42.1
Grants	88.5	65.8	121.8	135.9	126.9	207.2
Program	25.6	11.3	60.1	0.0	94.9	0.0
Projects	62.9	54.5	61.3	67.9	109.9	97.2
HIPC	0.0	0.0	0.0	68.0	122.1	110.0
Expenditure and net lending 1/	1,028.4	1,118.2	1,192.1	2,037.4	1,830.7	2,327.9
Current expenditure	799.8	887.0	985.8	1,237.1	1,318.2	1,701.3
Wages and salaries	282.9	301.7	341.2	342.0	395.2	450.4
Other charges	279.9	336.9	397.4	533.4	512.5	561.5
Interest	236.9	248.3	247.3	293.8	370.5	620.8
External	56.4	60.9	60.2	68.7	84.0	186.2
Domestic	180.4	187.5	187.1	225.0	286.6	434.6
HIPC expenditure	—	—	—	68.0	39.9	70.7
Capital expenditure and net lending 1/	228.7	231.2	206.3	800.3	552.5	624.6
Capital expenditure	259.9	261.0	245.6	732.5	585.3	656.2
External	211.2	221.0	196.7	224.5	495.2	511.0
GLF (Gambia Local Fund)	48.7	40.1	48.9	60.9	57.7	77.4
HIPC funded	—	—	—	—	32.4	67.9
PRSP-related expenditure	—	—	—	—	0.0	0.0
Extrabudgetary expenditure 1/	0.0	0.0	0.0	447.1	0.0	0.0
Net lending	-31.2	-29.8	-39.3	67.8	-32.8	-31.6
Overall balance (commitment basis)	-108.5	-173.7	-75.0	-911.6	-342.0	-551.5
Excluding grants	-197.0	-239.5	-196.8	-1,047.5	-668.9	-758.7
Excluding grants, HIPC and PRSP expenditure	-197.0	-239.5	-196.8	-979.5	-596.6	-620.2
Adjustment to cash basis (float)	6.1	-34.5	-21.7	-34.7	17.8	-39.4
Errors and omissions	-30.6	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)						
Including grants	-133.0	-208.2	-98.7	-946.3	-324.2	-590.9
Financing	133.0	208.2	98.7	946.3	324.2	590.9
External (net)	54.5	30.0	-45.6	-23.6	140.9	57.9
Borrowing	148.3	155.2	135.2	233.6	725.8	411.8
Project	148.3	155.2	135.2	156.6	368.4	411.8
Program	0.0	0.0	0.0	0.0	0.0	0.0
Other loans 2/	0.0	0.0	0.0	77.0	357.4	0.0
Amortization	-93.8	-125.2	-180.8	-257.2	-591.9	-368.3
HIPC debt relief	—	—	—	0.0	7.0	12.4
Domestic	78.5	178.2	144.1	969.9	183.3	533.0
Bank 1/	-20.0	71.2	45.0	952.8	22.9	399.9
Nonbank	86.5	93.2	139.3	68.1	197.0	93.1
Accumulation / repayment (minus) of arrears	12.0	13.9	-40.2	-51.0	-36.7	-6.5
Privatization proceeds	—	—	0.0	0.0	0.0	4.5
CBG (unrealized profits)	—	—	—	—	—	40.0
Basic primary balance 3/	251.1	229.8	247.2	-529.2	196.8	373.0
Memorandum items:						
Nominal GDP	4,479.1	4,921.9	5,382.4	6,555.9	7,364.1	10,275.2
Stock of domestic debt	1,146.8	1,328.6	1,693.5	2,496.1	2,694.2	2,524.7

Sources: The Gambian authorities; and staff estimates.

1/ Data for 2001 include US$28.5 million capital expenditure financed by a retroactive loan by the Central Bank of The Gambia (CBG) which the authorities indicated in October 2003 had not been recorded in official accounts.

2/ Includes loan disbursements (D 287.8 million in January and D 94.7 million in April 2001) from Taiwan Province of China for electricity generators and improvement of distribution network. The generators were delivered to the National Water and Electricity Corporation in October 2001. The inflows were used to pay the suppliers.

3/ Domestic revenue minus total expenditure and net lending, excluding interest payments and externally financed capital expenditure.

Appendix 6: List of State owned companies to be divested

Source: Gambia Divestiture Agency

Enterprise	Establishment	Ownership Structure	Major Activities	Possible Strategies
National Water & Electricity Co. (NAWEC)	Limited Liability Company 1996	Govt 97% SSHFC 1% GAMTEL 1% GPA 1%	Water, Electricity & Sewerage	IPP's, PPA's, divest support services, joint Venture
Gambia Ports Authority (GPA)	Act of Parliament 1972	Government 100%	Cargo handling, Shore handling and Ferry services	Divest stevedoring, leasing of Cargo Handling
Gambia Telecommunications Co. Ltd. (GAMTEL)	Limited Liability Company 1984	Government 99% GNIC 1%	Telecommunications & ISP	Unbundle services, divest Value Added Services
Gambia Public Transport Corp. (GPTC)	Act of Parliament *1975*	Government 100%	Bus Services (Urban, Interstate & Rural)	Joint Venture
Gambia Civil Aviation Authority (GCAA)	Act of Parliament 1991	Government 100%	Airport operations and regulations	Concessions, Management Contracts for Airport Terminal
Social Security & Housing Finance Corp. (SSHFC)	Act of Parliament 1982	Owned by scheme Members	Social Security Fund Management & Housing Finance	Restructure, Liberalise Pension Fund Management
Gambia International Airlines (GIA)	Limited Liability Company 1996	Government 99% GAMTEL 1%	Flight operations, ground handling & ticketing services	Open up Ground Handling at Airside
National Printing Stationery Corp. (NPSC)	Act of Parliament 1997	Government 100%	Printing & Publishing	Divest Stake
Maintenance Services Agency **(MSA)**	Act of Parliament 1995	Government 99% GPTC 1%	Vehicle & Plant Maintenance	Divest Stake
Gambia Cotton Co. Ltd. (GAMCOT)	Limited Liability Company 1992	Government 40% DAGRIS 60%	Cotton Ginning	Divest Stake
Kuntaur Rice Mill	1998	Government 100%	Rice Milling & distribution	Joint Venture
Banjul Shipyard	Limited Liability Company 1996	Subsidiary of GPA	Ship Repairs	Joint Venture
Gambia Groundnut Corp. (GGC)	Limited Liability Company 1993	Government 100%	Transportation & Processing of Groundnuts	Divest stake

Annex 1

SCOPE OF THE DIVESTITURE PROGRAMME

There are fourteen (14) commercially oriented PEs with direct government ownership and it is Government's intention to retain a strategic interest in a number of them. The remaining enterprises together with other government departments and businesses and equity holdings in private sector enterprises will be divested.

Enterprises to be divested are divided into two categories, Track I and Track II. Track I enterprises are those that are of key importance to the economy and require legislative support to facilitate transactions (e.g. preparation of sector legislation and regulations and the setting up of a multi-sector regulatory institution). This group comprises the following:

- National Water and Electricity Company (NAWEC)
- Gambia Ports Authority (GPA)
- Gambia Telecommunications Company Ltd. (GAMTEL)
- Gambia Public Transport Corporation (GPTC)
- Gambia Civil Aviation Authority (GCAA)
- Social Security and Housing Finance Corporation (SSHFC)
- Gambia International Airline (GIA)
- National Printing and Stationery Corporation (NPSC)

Because of their strategic importance to the economy, these enterprises need to be thoroughly studied in order to determine the most appropriate divestiture option for each. Studies have been conducted for NAWEC and GGC. The former requires further study and hence remains under Track I.

HIGH LEVEL ECONOMIC COMMITTEE (HILEC)

The High Level Economic Committee (HILEC) will handle the policy decisions involved in the divestiture process. This body is chaired by the Vice President and has the following membership:

- Secretary General, Office of The President
- Secretary of State for Finance and Economic Affairs
- Secretary of State for Trade, Industry and Employment
- Secretary of State for Works, Construction and Infrastructure
- Secretary of State for Communication, Information and Technology
- Secretary of State for Tourism and Culture
- Secretary of State for Agriculture
- Secretary of State for Fisheries, Natural Resources and the
- Environment
- Governor, Central Bank of The Gambia
- General Manager, Central Bank of The Gambia
- Permanent Secretary, Finance and Economic Affairs
- Permanent Secretary, Trade, Industry and Employment
- Permanent Secretary, Works, Construction and Infrastructure
- Permanent Secretary, Communication, Information and Technology
- Permanent Secretary, Agriculture

The Gambia Divestiture Agency serves as Secretariat to the committee.
The setting up of this committee ensures that the issues to be decided in PE divestiture are seen in the broader context of economic management and reforms handled by HILEC. The institution will operate independently of any political pressure through Departments of State or otherwise.

The committee may from time to time during the period of divestiture consult with the commissioner of labour on issues relating to the employees of PEs. This committee has the following responsibilities:

- Approve the operational guidelines for divestiture to be followed by the Agency including the criteria and procedures to be followed in the divestiture decisions;
- Give final approval or rejection through the Divestiture
- Implementation Task Force mandated to sell public assets.
- In the event of a rejection, the reasons justifying the action will be recorded in the minutes of the meetings; and
- To provide impetus for divestiture and participate in building a public awareness and the national consensus in support of the Government Programme

GAMBIA DIVESTITURE AGENCY

The responsibility for the technical preparatory work for enterprises to be divested and serving as a secretariat for the divestiture process, are assigned to the Gambia Divestiture Agency, established by Statute, charged with specific functions and powers, which render it as autonomous as possible as well as being given adequate authority to enable it to carry out its functions in relation to divestiture.

Roles and Functions

The major tasks of GDA will essentially be:

- The temporary task of designing the divestiture programme; and
- The management, co-ordination and implementation of the divestiture programme, as approved by HILEC.

As a technical unit for HILEC, GDA will carry out the following

- Formulate and recommend policies, procedures, programmes and operational guidelines for divestiture;
- Prepare, in collaboration with the line Department of State, where applicable, target lists of candidates for divestiture for approval by the HILEC;
- Prepare, in collaboration where applicable with the line Department of State, PEs for divestiture and monitor all technical divestiture matters undertaken by consultants, including:
    - valuation, selection of optimal divestiture method and sale techniques;
    - preparation of prospectus or offering memorandum;
    - elaboration of marketing plan;
    - identification of financing options;
    - Organise bidding process, receive, evaluate offers and proposals and prepare recommendation to HILEC.

Annex III – Operational Framework

Principles of Divestiture
The principles guiding the Divestiture process are that:

- PEs will be divested into competitive markets; purchasers will not obtain an intact or unregulated monopoly.
- In cases where the Government retains a minority share-holding, it will not exercise any special or extraordinary voting rights.
- Excluding financial and operational (but not physical) restructuring that may be necessary to prepare PEs for sale, there will be a moratorium on new government investments in enterprises that are to be divested.
- All sales will be on a cash basis and/or secured terms of payment not linked to the divested assets, with the possible exception of shares sold to the workforce of the affected PEs.
- All transactions will be conducted in an open and transparent manner, consistent with normal standards of commercial discretion. At the inception of the sales, all aspects of the transaction will be in the public domain where appropriate, this means:
    - A prospectus or offering memorandum will be prepared and publicised for each PE to be sold;
    - A full body of financial, management and other information will be available for disclosure to the investing public
    - Fair and equitable bidding procedures will be established
    - Criteria for ranking bids will be established and publicised
    - Bids will be opened in public
    - Upon completion of the sale, the names of the purchasers, the Price paid, and the conditions of sale will be made public and
    - The valuation of the assets and the details of all offers received will be placed in the public domain.

To promote and ensure the competitiveness of the markets in which divested companies will operate, Government will develop competition law to avoid monopolies and cartels emerging and the institutional capacity to implement it in a transparent manner, including publicising it. The Government will also continue its efforts to liberalise import controls, rationalise tariffs, and continue the process of price decontrol and the removal of marketing restrictions in all sectors. A more specific review of the regulatory framework will be carried out as and when enterprises, currently under the MOU contract are offered for sale. The sale of a PE or portion thereof to another PE or public institution will not be considered as divestiture. No new PEs will be established in the productive sector.

Enterprise Selection Criteria
Selection Criteria for PEs to be divested, which are listed below, have been identified for use by the GDA. These will ensure that the whole enterprise selection process is objective and fully transparent. To facilitate the process of divestiture, preference will be

given to PEs that have the potential to be profitable or have generated an operating profit (before depreciation and debt service) for at least the past two years, excluding subsidies and subventions.

Other complimentary indications will also be reviewed to select PEs that are attractive to the private sector including rate of return on assets and equity; debt and debt to equity rate, inventory turnover and accounts receivable collection periods.

Sector diversity: PEs will be drawn from diverse sectors of the economy.
Availability of reliable PE data: Operational and financial records and accounts should be reasonably accurate, up-to-date and readily available to the divestiture implementation taskforce and to potential investors.
Minimal regulatory adjustments: In the interests of implementation speed, PEs in the initial list of PEs for divestiture will not be selected if there is a need for time-consuming, costly regulatory adjustment prior to divestiture, as is likely to be the case with monopolies.

Minimal Staff redundancies: Preference will be given to PEs that are not severely over-staffed, so as to avoid the necessity of undertaking significant lay-off as part of the divestiture process. This is particularly important in the early stages of the Programme, before a fully funded safety net is in place.

Reduction of budget support: PEs that have needed large business support will be considered for dilution of ownership with management and financial restructuring pending full divestiture.

Guidelines for the Divestiture Process
In addition to the selection criteria, the GDA will use a set of operating guidelines that will also guide their consultants when implementing a divestiture transaction. The guidelines given below will ensure that each divestiture transaction adheres to a standard set of procedures that are transparent and subject to public scrutiny. Each divestiture transaction is likely to have certain aspects, which differ from all others, and therefore, the guidelines will be used flexibly rather than a fixed set of rules and regulations.

The divestiture process will involve two distinct phases: preparation and execution. The first phase will entail a detailed review of the PE (covering operational, financial and legal issues) in order to determine its current condition, its strengths, weaknesses, potential, and financial restructuring requirements, if any. A financial model leading to valuation of the enterprises as a going concern should be developed. This should form the basis for establishing a range of values that can be used in negotiations with prospective investors and in setting the share price for a public offering. For comparative purposes, an asset valuation may be conducted to ascertain the value from both a replacement and a liquidation perspective. This phase will also include a preliminary determination of prospective investor groups, and will conclude with the preparation of a divestiture action plan that fully documents the results of all the analysis conducted up to this stage. The action plan should also include a detailed set of recommendation on how to proceed with the implementation of the transaction. At this stage the GDA will fully review and approve the analysis that has been conducted, as well as the contents of the action plan.

The second and final stage, execution, will entail implementation of the transaction. By this stage, all respective decision-makers will have approved the divestiture action plan. Tasks to be performed during this stage include where necessary the preparation of the sales documentation (e.g. prospectus, information memorandum). The completion of any financial and operational restructuring required before divestiture, resolution of all outstanding legal issues that affect the sale. The design and implementation of public relations campaign to inform the public of the impending sale, and finally execution of the sale itself.

<u>Preparation.</u>
The objective of this phase is to set the stage for the divestiture by conducting an analysis of the PE so as to determine a realistic range of values for the targeted PE and developing a credible sales strategy. The bulk of the work will be carried out on-site by technical assistants in collaboration with GDA and will include, gathering the necessary information, meeting regularly with members of the management and operating team of the enterprise and interviewing other decision makers that have a stake in the outcome of the transaction, such as tax authorities, Social Security and Housing Finance Corporation and workers representatives. This preparatory work will also draw on the support of GDA.

Some of the most important components of this analysis will include:
1. Prospects for the industry in which the PE operates
2. The quality and competitiveness of the PE's goods/services
3. Potential for performance enhancement, such as increasing and/or diversifying output, reducing costs or restructuring debt
4. Market assessment and analysis of PEs strengths, weaknesses and potential
5. Preliminary design of an appropriate financial structure for the PE, once divested
6. Evaluation of management/employee relations and identification of outstanding human resource issues, such as the competitiveness of the compensation structure, over-staffing, etc.; and
7. Identification and assessment of investor demand, both domestic and foreign.

The preparation phase will result in a number of written reports that serve both as a guideline for future action and as documentation verifying to the GDA and HILEC that the analysis is thorough and complete. This will ensure that the transaction has been prepared and executed in a transparent manner. The documents that may be produced during this preparation stage will include:

1. Technical Report:
The Taskforce should include an industry specialist who will concentrate on a technical appraisal of the PE's operational strengths, weaknesses and potential. This appraisal will

include, for example, an assessment of the plant and equipment, the competitiveness of the operating cost structure and the quality of the work force. Any observations about the need for financial and management restructuring prior to divestiture would be raised at this time, along with an estimate of costs and timing, bearing in mind that these will be GDA's responsibility. The results of this appraisal will normally be written in the form of a memorandum and essential aspects will later be incorporated in a more comprehensive enterprise appraisal report.

2. Financial Report:
A similar exercise will be undertaken by the financial analysts, resulting in a report that will raise issues surrounding the financial performance of the enterprise and the need, if any, for financial restructuring before divestiture, including specifically any proposals on the treatment of debt.

3. Legal Issues Report:
The attorney assigned to the divestiture team will usually prepare this report. It will identify outstanding legal issues and claims, such as pre-emption rights, that must be resolved or noted prior to putting the PE up for sale. In addition, it will recommend strategies for overcoming any legal constraints to the transaction.

4. Operational and Financial Projections and Sensitivity Analysis:
Financial projections will be developed, based on expected operating performances and forecast prices for the key inputs. Projections will be carried out to take into account various scenarios (e.g. selling price increase/decrease by x%, cost of vital raw material increases/decreases by x%). The cash flows that result from these projections may serve as the basis for establishing a range of values for the enterprise as a going concern.

5. Marketing Report:
A preliminary review will be presented of the most likely prospective investors, alternative share-holding structures and strategies describing how investor groups should be approached. This report also will clarify the divestiture method(s) to be used.

In most cases, some of these reports can be consolidated into a single written report. However, in almost every case the result of these preliminary written reports will constitute a comprehensive document, (divestiture action plan) that synthesises the information from the preparation phase that will be most relevant to decision makers at the HILEC. This document is the prime deliverable document presented by the divestiture team to the GDA and constitutes the initial blue print to be followed during the execution stage.

Execution.
The objective of this final phase of the work Programme is to complete the sale of the PE at an optimal value, within a reasonable period and in a manner that is fully transparent. This therefore will engender public confidence in the divestiture process.

The essence of transparency and public confidence in the divestiture process is the manner in which the essential documents associated with the transaction are prepared and disseminated. Although in some instances there may be a need to maintain confidentiality of some issues until the transaction is completed, the Government will eventually subject the process for each transaction to public scrutiny.

The essential documents prepared during this phase will include:

Sales Prospectus: Will contain information about the PE and the proposed transaction that is of interest to prospective investors. The information contained in the prospectus is almost totally derived from the PE appraisal report, the valuation report and other relevant information gleaned from the divestiture action plan. This is a sales document that is written so as to elicit interest from targeted investors who have either been identified by the divestiture taskforce or have already demonstrated an interest in participating in the purchase of the enterprise.

Bidding documents: An open, transparent bidding process begins with the preparation of the public notice requesting bids, which will be published in newspapers, trade journals and other publications. The announcement will provide a brief description of the enterprise, the bidding requirements, the period for submitting a bid and the assurance that those who respond to the announcement will receive a copy of the prospectus upon request. The nature of this announcement will vary widely depending on the size and complexity of the enterprise. The criteria to be used to evaluate the bids will be consistent and will be well publicised. Since the GDA will play a pivotal role on the evaluation and the selection process, there will be a clear and well documented set of procedures in place that fully describe how the winning bidder will be selected.

Government permits and approvals: Although each transaction is likely to be different, in virtually every case, a number of Government Departments of State, under the coordination and supervision of the GDA, will become involved and require that the proposed transaction meet specific regulatory requirements (e.g. tax compliance, labour law, industry-specific regulations). If the transaction includes a debt restructuring involving foreign creditors (e.g. debt-for-equity swaps, debt-for-debt swaps, debt buyouts), the DOSFEA must be consulted and its approval must be obtained before reaching any final agreement on the terms and conditions of the financial restructuring.

Any debt repurchases that are conducted either by the PE itself or the DOSFEA will be carried out in a fully transparent manner.

Agreement related to the transfer of ownership: Depending on the method of sale, legal sales agreements must be prepared and executed. The documentation required for a public offering of shares, will differ from that required for a private placement or an employee buy-out. But regardless of the method used, the services of other divestiture specialists, working closely with local legal counsel, will be used to prepare the documents outlining the terms and conditions of the sale.

Public relations documents: Mobilising public support for the privatisation programme will be a major responsibility of GDA management. Part of this process will involve generating broad public interest in the public share offerings that are anticipated. With the assistance of local and foreign public relations specialists, a public relations campaign will be designed and executed to elicit the broadest possible public participation in the process and keep the public informed of all stages as they progress.

Methods of Divestiture.
Private sector participation will take various forms, including:

- Public – Private Partnerships
- Strategic Alliances
- Joint Ventures
- Concessions
- Management Contracts
- Outright Sales
- Financiers/Venture Capitalists
- Employee/management buyout and leasing

Unless justified by the existence of legal rights, no predetermined direct sale or negotiation by private treaty will be entertained except after publicly solicited bids have been obtained. The choice of the option will be determined by the GDA according to the following criteria:

- Objectives pursued by the Government for each sale
- Record of performance and economic prospectus
- Size of the enterprises and the ability to mobilise the private sector; and
- Redundancies and the Safety Net

The public sector in many countries, including The Gambia to a certain extent, has for a long time functioned as an employer of last resort and continued to expand until their marginal product of labour reached zero or become negative. Since The Gambia does not have a social security to cater for redundant employees, the momentum with which implementation of the Public Enterprise Reform programme proceeds will be greatly influenced by the establishment of a safety net fund to underwrite compensation claims arising from the anticipated redundancies.
GDA should undertake a study to determine the potential impact of divestiture on labour.

Publication of Tender Notice:
The Tender Notice for the sale of assets will be published in at least (2) newspapers/radio and television twice a week for a period of three weeks. In the case of businesses that require foreign expertise, finance, technology and marketing, notices will also be placed in one or more foreign publications. In the case of the latter, mail-out letters will also be sent to Gambian Embassies and High-Commissions in major commercial countries as well as local Embassies and High Commissions of other countries.

Notice will provide necessary information on the scheduled date of bidding and will invite prospective bidders to obtain the Sales Prospectus. Interested parties will be invited to visit the PE and inspect its operations. Sufficient lead-time, ideally 60 days, will be provided from the initial announcement of tender to closure date for prospective bidders to prepare their bids. The financial and technical bids will be submitted in two separate sealed envelopes marked only with the name of the PE being tendered. Bids must be accompanied by a banker's cheque or bank guarantee for an amount representing 10% of the total offer. Bids must remain valid for at least 60 days after the closing date.

Public Opening of Tender Bids:
The GDA will be responsible for the public opening of all bids on a date to be announced and notified to all interested parties. For the purpose of ensuring transparency, the interested parties should be invited to witness the official opening of all bids.

Pre-Qualification of Bidders:
In order to facilitate the evaluation of tenders, the following factors will among these be taken into consideration for the purpose of pre-qualifying prospective bidders:

The bidder's proven history of sound management and expertise to improve the performance of the enterprise.

The bidder's financial strength not only to purchase the PE, but also to undertake any necessary additional capital investment.

The bidder's ability to bring new technology, including international marketing knowledge and experience.

Bidder's intention to offer expanded or related services.

Bidder bringing in foreign exchange for the investment.

<u>Evaluation of Tender Bids:</u>
The Divestiture Negotiation Task force will take responsibility for the evaluation of tender bids. Tenders from pre-qualified bidders will be evaluated on the basis of the following criteria:

- The financial value of the offer;
- The bidder's commitment to continue operating the business;
- Feasibility of the bidder's business plan for the PE; and
- The extent to which the proposal offers job protection to the maximum permissible economical level.

Award of Sale:
Based on the recommendation of the Negotiating Committee, the decision of the sale will be approved by the Secretary of State for Finance and Economic Affairs who will provide timely reports of the process to Cabinet through the HILEC.

Public Awareness of the Divestiture Process.
On conclusion of a sale agreement, the GDA will issue a press statement giving complete particulars of each transaction, including the terms of sale, the offers received, and the price at which the sale was executed.

Annex IV - The REGULATORY FRAMEWORK

The Enabling Environment
Effective private sector participation/intervention requires the creation of an enabling environment. In order to implement the divestiture strategy and put in place the necessary institutional and regulatory framework, it will be necessary to review and enact sectoral policies and Acts in the areas of Energy, Communications (telecommunications, information and broadcasting), Transport, Maritime and Water Resources.

Below is an outline of the progress to date on the enabling environment.

Central Bank Act, Financial Institution Act, Mortgages Act and Insurance Act

All the laws in the financial sector are currently undergoing extensive review. The review measures are geared towards ensuring compliance with internationally accepted standards and norms and creating the enabling environment for effective regulation of the sector.

Business Organisations – The New Divestiture Strategy indicates that considerable work has been done in the area of laws relating to business organisation, namely the companies Act, Partnership Act, and Business Registration Act. Since the adoption of the strategy, however, little progress has been made until recently.

The Department of State for Justice is once again looking into revisions and updating the work earlier done on the subject in 1994. The GOTG anticipates that the revisions and updating will be finalized soon.

Laws relating to incentives for investors, however, have been enacted and are operational. These are the Gambia Investment Promotion Act 2001 and Gambia Free Zones Act 2001. Implementation of these two pieces of innovative legislation falls within the mandate for the Gambia Investment Promotion and Free Zones Agency, established under section 3 of the Investment Promotion Act.

Property Law and Land Tenure – Property Law and Land Tenure in the Gambia are regulated by two principal pieces of legislation ;the State Land Act of 1991 and Land Provinces Act of 1946. Under these two legal frameworks, the Gambia has a dual land tenure system.

The State Lands Act regulates land under the purview of the state, i.e the Greater Banjul Area, whereas the Lands Provinces Act regulates provincial land through the use of customary land tenure agreements. The State Lands Act is based on the concept of unitary system of land administration. Even though it is applicable only to a small portion of the country, the Act provides for a mechanism for its extension to the rest of the country, by systematic designation of land to be state lands, with the ultimate intention of having a countrywide coverage. The designation mechanism in the Act is grossly inadequate as it does not take into consideration the views of the affected communities, thus attempts at extending the Act have always been resisted and the courts are presently inundated with claims and suits emanating from such designation.

Competition Law and Consumer Protection – The relevance of the competition law and policy and consumer protection during the post privatisation and regulation stage is emphasised in the strategy. The New Divestiture Strategy recognizes that "the principal role of regulation is to protect consumer from the abuse and excesses of monopoly power, which essentially would require regulation on both the price and the quality of goods and services". It is therefore recommended that the following principal objectives be borne in mind in the development of the regulatory framework.

- Promoting Competition
- Protecting Customers
- Promoting social and national objectives.

Presently there is no Competition Law and Policy in The Gambia. However, DOSTIE has revealed that a draft law and policy have been developed, which are presently going through the legislative process.

Labour Laws – The Labour Tribunals under the Labour Act of 1990 have yet to be set up, thus the courts continue to be lumbered with the resolution of labour and employment matters.

Review of Tax Laws – The review of the tax laws has yet to be carried out on a comprehensive basis. The laws continue to be amended on an ad hoc basis as and when the need arises. This is an undesirable situation, and it is recommended that a consolidated and comprehensive review of the Tax Laws be carried out as a matter of urgency.

PE Regulation and Privatisation Law – The Gambia Divestiture Act has been enacted. The Act established the Gambia Divestiture Agency (section3) and entrusts it with the responsibility of preparing the divestiture plan (section12), divestiture guidelines (section 13) and making recommendations to HILEC (section 4).

The Public Utilities Regulatory Authority Act 2001 has been enacted and the Secretary of State fixed November 1, 2003 as the date of effectiveness of the Act.

The significance of these two pieces of legislation as far as the Divestiture process is concerned is that they provide the ground rules and regulatory framework for both the divestiture process and post divestiture monitoring and regulation. It has been recommended that the PURA and GDA should exist side-by-side but independent of one another. In other words, the effective date of the PURA should not abide the full implementation of the divestiture program. It is recommended that the PURA should commence with the regulation of the existing public enterprises prior to, and in preparation for divestiture.

Review and Enactment of Sectoral Acts Policies in the areas of Energy, Communications (telecommunications, information and broadcasting), Transport, Maritime and Water Resource- Several legislation and policy initiatives have recently been embarked upon relating to these sectors. Furthermore, the privatisation programme for all the Public Enterprises in Track 1are predicted on detailed studies to be concluded prior to divestiture. All these initiative augur very well for the divestiture program and process. Specifically they are:

- Energy – Draft Energy Policy and Electricity Law
- Communication – Draft Communication Policy (NACIP), Draft Telecommunication Law, Draft Broadcasting Law, proposed reorganisation of the postal services as an autonomous body and the Draft Postal Services Corporation Bill.
- Transport – Draft Maritime Administration Bill, Draft Merchant Shipping Bill, proposed revision of the Labour Scheme (Dock Workers).

The above clearly illustrate that there are indeed numerous legislative and policy initiatives relating to the sectors to be divested and regulated. It is important, however to ensure harmony and consistency with the regulatory framework as enshrined in the PURA Regulation.

A regulatory agency, The Gambia Public Utilities Regulatory Authority (PURA), will be set-up to carryout the monitoring of the utilities. The Regulatory Agency's function will relate to Economic Regulation of Enterprises. The Gambia Public Utilities Regulatory Authority Act was passed in 2001.

Post-Privatisation

The mechanism to monitor and regulate the Privatised Entities will be put in place. This will ensure that privatisation obligations and commitments are fulfilled. Procedures for monitoring are defined in the legislation to ensure transparency. These Regulations prescribe:

a. Mechanism for safeguarding the national interest and promoting consumer welfare in essential utility services;

b. Provisions in case of abuse;

c. Procedural rules to ensure accountability and transparency;

d. Rules for granting of licenses and permits, administering tariff adjustment rule;

e. Setting quality standards;

f. Monitoring and enforcing compliance with standards.

<u>Role and Function of the Regulatory Agency</u>

The principal role of regulation is to protect consumers from the abuse and excesses of monopoly power, which essentially would require regulations on both the price and the quality of goods and services. The regulatory functions would also include the promotion of competition and the direction of utility activities to achieve specified social and national objectives within the defined macroeconomic framework. For the purposes of speed of decision making, economy and complementarity, it would be advisable to establish a multi-sectoral regulatory agency responsible for the regulation of enterprises and utility sector. Under this arrangement the selection of appointees to the Regulatory Agency would be of persons with industry specific technical expertise and/or experience in the regulated industry, in addition to appointees with broad based expertise and experiences in economic development and decision-making in the public and private sector.

There is need to develop a regulatory framework – geared towards competition and the reduction of monopoly powers. The introduction of competition into a hitherto monopoly market requires regulatory intervention to assist market entry. Competition may take time to develop, necessitating interim regulations on prices and quality of service. The framework should therefore be developed with the following principal objectives borne in mind:

- Promoting competition
- Protecting customers
- Promoting social and national objectives.

List of Acronyms

BCEAO	Banque Centrale des Etats de l'Afrique de l'ouest
BRVM	Bourse Régionale des Valeures Mobilières
CBG	Central Bank of the Gambia
CESAG	Centre Africain d'Etudes Supérieures en Gestion
CPI	Consumer Price Index
DCF	Discounted Cash Flow
DOSFEA	Department of State for Finance and Economic Affairs
DOSTIE	Department of State for Trade, Industry and Employment
EBIT	Earnings Before Interest and Tax
ERP	Economic Recovery Programme
ESAF	Enhanced Structural Adjustment Facility
FCFE	Free Cash Flow to Equity
FDI	Foreign Direct Investment
FPS	Federated Pension Scheme
GAMTEL	Gambia Telecommunications Company
GAWFA	Gambia Women Finance Association
GCAA	Gambia Civil Aviation Authority
GDP	Gross Domestic Product
GGC	Gambia Groundnut Corporation
GIA	Gambia International Airlines
GMD	Gambian Dalasi
GNIC	Gambia National Insurance Company
GOTG	Government of The Gambia
GPA	Gambia Ports Authority
GPMB	Gambia Produce Marketing Board
GPTC	Gambia Public Transport Corporation
GSE	Ghana Stock Exchange
HFF	Housing Finance Fund
HILEC	High Level Economic Committee
IAS	International Accounting Standards
ICF	Injuries Compensation Fund
IMF	International Monetary Fund
IPO	Initial Public Offering
MOU	Memorandum of Understanding
NACIP	National Communications and Information Technology Policy
NAWEC	National Water and Electricity Company
NGO	Non-Governmental Organisation
NPF	National Provident Fund
NPSC	National Printing and Stationery Corporation
NTC	National Trading company
OTC	Over-The-Counter
PE	Public Enterprise
PIB	Produit Intérieur Brut
PSD	Programme for Sustained Development

PURA	Public Utility Regulatory Agency
SAP	Structural Adjustment Programme
SCBG	Standard Chartered Bank Gambia
SDF	Social Development Fund
SME	Small and Medium-sized Company
SOE	State-owned Enterprise
SONATEL	Société Nationale des Télécommuniations
SSHFC	Social Security and Housing Finance Corporation
TBill	Treasury Bill
TBL	Trust Bank Ltd
USD	United States Dollar
WACC	Weighted Average Cost of Capital
WAEMU	West African Economic and Monetary Union