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The Performance Contract System in The Gambia with special reference to The Gambia Ports Authority

Reasons for Establishing Performance Contracts in The Gambia

The financial performance of public enterprises deteriorated sharply during the pre-performance contract era (up to 1987). The PE sector reported aggregate profits in 1977/78 and 1978/79 and thereafter reported substantial aggregate losses to 1982/83 in excess of D110m. Most PEs financed these losses by inadequately maintaining their assets and accumulating arrears with banks and suppliers.

Among the major causes of the poor performance of PEs were the imposition of non-commercial objectives and uneconomical pricing policies, managerial and technical weaknesses and poor initial project design and/or financial structure. The poor state of PEs led to debt accumulation and deterioration of plants and equipment which necessitated substantial financial restructuring and investment to rehabilitate the run-down plants and equipment. In 1985, the Government adopted a comprehensive Economic Recovery Programme (ERP) to address the structural imbalances in the economy and increase productivity and performance.

Reforms were introduced in the PE sector in the form of Performance Contracts and privatisation and rationalisation of PEs. The reforms followed the following strategy:

- identifying the causes of poor performance;
- identifying which PEs or activities should be rehabilitated, privatised or liquidated;
- preparing rehabilitation plans for PEs to be retained;
- setting explicit enterprise objectives and clarifying government/ enterprise relationships.

The Introduction of the Performance Contract System in The Gambia

The performance contract system as developed in The Gambia involved the following steps:

- definition of enterprise objectives;
- identification of commercial and non-commercial activities of the enterprise;
- development of mechanism for reimbursement of non-commercial/social services cost by the Government;
- selection of performance indications and fixing of targets for a particular year;
- determination of management incentive/sanctions scheme.
- execution of performance contract;
- regular reporting of enterprise performance and its monitoring;
- performance evaluation on quarterly and yearly basis;
- award of Management Incentive (bonus) or sanction.

The first phase of performance contracts was signed with three enterprises, i.e. Gambia Ports Authority (GPA), Gambia Produce and the Marketing Board (GPMB), and Gambia Utilities Corporation (GUC), on a trial basis between January and June 1987. In July 1987, the performance contracts were formally executed with these enterprises. The contracts were executed for a period of three years, and were signed by His Excellency the President on behalf of the Government, and the Managing Director on behalf of the management of the enterprise. The issues covered in the performance contracts included:

- (i) Purpose and Duration
- (ii) Enterprise objectives
 - scope of activities
 - strategies
 - performance targets
- (iii) Undertakings of Enterprise to the Government
 - responsibility for enterprise performance
 - adherence to plans and policies
 - use of assets and responsibility for their safeguard
 - supporting non-commercial/social services

- declaration and payment of dividends
- notification of exceptional events
- payment of amounts due to government

(iv) Limits of Management Authority

- capital expenditure
- borrowing limits
- procurement
- organisation changes
- institutional arrangements
- approval of tariff
- adherence to government regulations
- contract compliance

(v) Undertaking of Government to the Enterprise

- recognition of management's autonomy
- non-commercial/social services costs and its reimbursement
- tariff approval
- settlement of debts to enterprise
- annual budget procedure
- monitoring of contract compliance
- arbitration and settlement of disputes
- management incentive/sanctions scheme

After the introduction of the performance contract system, the ultimate control and responsibility of public enterprises were taken over by the Office of the President, as His Excellency The President executed the contracts on behalf of the Government. The steering committees, having representatives from line ministries, the Office of the President, the National Investment Board (NIB) and the enterprises, were formed. These committees were given the responsibility of approving the budgets, performance indicators/targets, performance evaluation and management incentive (bonus)/sanctions. The line ministries were expected to concentrate their efforts on the development of sectoral policies, the objectives and the framework within which the public enterprises were expected to operate.

The National Investment Board was brought under the purview of the Office of the President and was given the central role of reviewing enterprises' policies and plans, monitoring and evaluation of their performance, ensuring contract compliance and analysing their operations to identify key issues and provide assistance for resolving them. NIB was also made responsible for regularly reporting the performance and other operational activities of public enterprises to the Office of the President.

The boards of public enterprises were reconstituted to include key members of management and representatives of line ministries and NIB. In order to consolidate the existing legislation under which various public enterprises were operating and to give them requisite autonomy and make their institutional arrangement effective, the Public Enterprise Act 1989 was enacted. The Act contained provisions relating to the execution of performance contracts, annual budget procedures, reporting requirements, monitoring of contract compliance by NIB and the appointment of directors, chief executives and the chairman of board of public enterprises. The NIB Act was also amended to incorporate the expanded role assigned to it under the performance contract system.

Roles and Responsibilities

The responsibilities and roles of various institutions as envisaged under the performance contract system are detailed below:

(i) *Public Enterprises*

The public enterprises were assigned the responsibility to:

- ensure that their planned operating budgets lead to the achievements of objectives;
- meet and comply with the budget procedure and reporting requirements of NIB;
- implement the approved budgets, corporate plans and investment programmes.

(ii) *Line Ministries*

Under the performance contract system, the line ministries of public enterprises were expected to concentrate their efforts on the development of sectoral policies and objectives within which PEs had to operate.

The line ministries were also expected to:

- represent the ministries in the steering committee;
- specify the non-commercial activities and negotiate the cost to be paid to PEs;

- participate in the selection and fixation of performance indicators/targets;
- examine budgets, corporate plans and investment programmes;
- review tariff policies.

(iii) ***National Investment Board (NIB)***

NIB was assigned a central role in the implementation of the performance contract system. NIB's responsibilities include:

- submitting performance contracts for execution;
- ensuring that PEs budgets/reports are submitted within the agreed time frame;
- examining budgets, plans, investment proposals to ascertain that they conform to the objectives of the enterprises and policy guidelines;
- selecting and fixing performance indicators/targets in consultation with the enterprises and line ministries;
- convening and chairing steering committee meetings;
- monitoring and evaluating performance of PEs and identify key issues affecting their performance;
- making recommendations to the Office of The President for the award of management incentive (i.e bonus) or sanctions;
- preparing and submitting to the Office of The President quarterly, annual reports/evaluation on performance of PEs;
- providing assistance to PEs in attaining their objectives, implementing their budgets/plans and resolving key issues affecting their performance.

(iv) ***Steering Committee***

This is a form where all the parties to the performance contract are represented, i.e. enterprise, line ministry, Office of The President and NIB. The Steering Committee approves and negotiates the selection and setting of performance indicators/targets; approval of budgets; plans; performance evaluation and recommendations for management incentive (i.e. bonus) sanctions.

(v) ***The Office of the President***

The Office of The President is ultimately responsible for performance of PEs. The Office of the President's responsibilities include:

- execution of performance contracts by the President;
- approval of budgets, corporate plans, tariffs and related matters;
- approval of performance indicators/targets and evaluation;
- appointment of chairman, managing directors, directors and members of management teams;
- award of management incentive (i.e. bonus) or sanctions.

Performance Evaluation Mechanism

The performance evaluation mechanism under the performance contract system is based on the principle that once the government and enterprise relationship is clearly established, and management is given autonomy for the operation of the enterprise, the performance of the enterprise shall be monitored and evaluated against targets agreed at the beginning of the year, including both operational and financial parameters. The management receives an incentive (i.e. bonus) for exceeding the targets, and sanctions or penalties, including dismissal, for poor or inadequate performance. The evaluation mechanism consists of the following elements:

- selection of performance indicators and fixing of targets;
- assignment of points/scores to selected indicators so that their relative importance is reflected;
- submission of quarterly and annual performance reports by the enterprises;
- submission of annual audited accounts and management's assessment of its enterprise's performance;
- annual performance evaluation and recommendation of management incentive (i.e. bonus) or sanctions.
- review and finalisation of NIB's performance evaluation by steering committee;

- submission of performance evaluation report and recommendation of management incentive (i.e. bonus) or sanctions by NIB to Office of the President;
- approval of NIB's performance evaluation and management incentive (i.e. bonus) or sanctions by the Office of the President.

Selection of Performance Indicators and Fixing of Targets

As performance indicators/targets are the primary instruments of evaluating management performance, they are the focal point of the performance evaluation mechanism. The performance indicators being used are classified under quantitative and qualitative measures. Under each group, various indicators are selected. These indicators reflect different goals of the enterprise and help in judging the management's achievement of these goals. Among the quantitative group, the indicators which are normally regarded as key to the success of the enterprise are financial (i.e. profits, return on capital employed, trade debtor ratios and other costs ratios), operational and productivity-related. The qualitative performance indicators include measures/changes or systems which the management is expected to implement over the period and which are expected to contribute towards higher efficiency and effectiveness of the enterprise. Examples of such indicators are the introduction of management information and corporate planning systems, and computerisation of accounting and other systems.

The performance indicators, especially operational indicators, vary from enterprise to enterprise. In order to give an idea about the performance indicators and their applicability, the performance indicators used for evaluation of GPA are presented below. The variations primarily exist in operational performance indicators as they are dependent on the nature of the business or operations in which an enterprise is engaged. The performance indicators are finalised by the steering committee after discussions and negotiation between the Government/NIB and the management of the enterprise.

Once performance indicators have been selected, the next step is to assign weights to each group, i.e. quantitative and qualitative, and then to assign scores to the individual indicators in each group. This is once again discussed and negotiated between the enterprise and the Government/NIB in the steering committee meetings. The weights and points/scores assigned are based on the importance of the group or individual indicators to the enterprise and the priorities of the Government.

In the performance contracts executed under the first phase, the quantitative indicators were given a weighting of 60 per cent while qualitative indicators were assigned a weighting of 30 per cent. The balance of 10 per cent was given to

overall performance. In the second phase, the distribution of weights for quantitative and qualitative indicators has been kept as 60 per cent and 40 per cent.

In the case of GPA, the quantitative indicators include net profit; return on capital employed; cargo handled; debtors as percentage of turnover and number of employees. The qualitative indicators include timely submission of the corporate plan, debt servicing and the staff development programme.

Apart from the indicators discussed earlier, the first-phase contracts assigned 14 points for overall management/operational performance. The need for assigning these points was felt as during any year, there are aspects of running the business which are not reflected appropriately in the indicators discussed above because of unusual circumstances beyond management's control.

The examples of such eventualities can be:

- specific actions taken by management to contain cost because fuel oil prices rose significantly and there was no compensating tariff adjustment;
- detailed and meritorious efforts to implement a new programme, e.g. development of EDP;
- opening new markets or obtaining higher selling prices from new customers.

The practice of assigning points for all management/operational performance has been discontinued in contracts executed in the second phase, as well as for GPA.

The final stage is the setting of targets. The targets to be achieved by each enterprise are incorporated in the annual budget approval process. The quantitative indicators/targets, i.e. financial, operational and productivity, are set out by the management in their budget proposal. The budget proposal as well as targets are reviewed by NIB and the respective line ministry, the targets are finalised in the steering committee meetings. The targets are finalised after taking into consideration:

- enterprise performance during recent years;
- various financial and operation constraints which the enterprise is expected to face during the evaluation period;
- the enterprise's macro-economic environment.

The Case of The Gambia Ports Authority

(i) *Key Assumptions*

The key assumptions for the GPA are, for example:

- tariff levels;
- physical levels of production and input (tonnage throughout, number of vessels calling at port and availability of equipment);
- macro-economic factors;
- inflation;
- exchange rate;
- interest rate; and
- GDP/market growth.

The non-quantitative indicators/targets are primarily fixed considering the state of the enterprise and the priorities of the Government.

Apart from finalising the quantitative and qualitative indicators and targets, the steering committee also determines which point on the scale of points the enterprise has achieved. This point is illustrated by the example of GPA.

The approved budget of GPA for a certain year aimed to generate a return on capital employed of 13.5 per cent and net-profit of D7.150 million, and a weightage of 25 points was attached to this indicator. If GPA is exactly on target for these indicators it will score 25 points. But actual return and profits are bound to vary from the target figure. In order to cater for this eventuality, a scale of points is used, to determine the points for different levels of performance achieved by the enterprise.

As reported, when return and profits increase, a higher point score is awarded, while less points are awarded for a lower level of return and profits. Normally, a maximum points award is set at three times the point score for target achievement. The scale points are shown below:

| <u>Indicator</u> | <u>Rating Score</u> |
|-----------------------------------|---------------------|
| Return of Capital Employed (ROCE) | |
| 18.0% | 30 |
| 17.0% | 25 |
| 15.5% | 20 |
| 14.5% | 15 |
| Target 13.5% | 10 |
| 11.5% | 5 |
| 10.0% | 1 |

(ii) ***Performance Evaluation***

Performance evaluation is undertaken on a quarterly as well as on an annual basis. This quarterly evaluation is undertaken with the objective of monitoring and identifying the variances so that corrective measures can be taken and performance can be improved. Annual evaluation is undertaken to judge finally management's performance during the year, as compared to the agreed targets, and to decide on the level of incentive, i.e. bonus or sanctions to be awarded/applied. The process of annual evaluation begins immediately after the enterprise submits to NIB its annual report and audited accounts. The enterprise also submits to NIB its own assessment of its performance.

On receipt of the annual report and audited accounts of an enterprise, NIB undertakes its own evaluation. For quantitative targets, the annual audited accounts are used as the source of information. NIB examines and evaluates each performance indicator and scores them. The scores of all indicators achieved are totalled and compared with total targeted score and accordingly, recommendations regarding the incentive (i.e. bonus payment or sanctions) are made. The evaluation is finalised and recommendations about the incentive (i.e. bonus) or sanctions to be imposed are submitted to The Office of the President in a report from NIB. Management's assessment of performance is also included in the report.

Strengths of the System

The assessment of the performance contract system and its impact on the enterprises, as well as on their operating environment, has revealed that, on an overall basis, the system as implemented in The Gambia can be deemed successful. However, there is a need to strengthen the system in order to avoid the shortcomings of the past and to improve further on the results achieved so far:

- Prior to the introduction and execution of the contracts, an in-depth appraisal of the enterprise should be undertaken and the required developments and changes determined, i.e. that almost all pre-conditions to the signing of the contracts are met.
- The performance contract system has been able to introduce a performance-oriented culture at management level.
- The bonus system is based on a management incentive scheme with sanctions, which therefore provides a motivation for the management team.
- A database should be developed and updated on a regular basis at the enterprise level.

Weaknesses of the System

- At present, no arrangement exists with NIB to verify the performance data of various operational and financial indicators, so that the reliance is placed on reported figures.
- Ministries are not involved to the level envisaged in the system.
- NIB should also evaluate and report enterprise performance on the basis of financial and public profitability. It is a considered opinion that public profitability in constant prices is a more meaningful measurement of operational efficiency.
- It is generally felt that considerable time is taken for obtaining budget approval, subsequent changes to it and other similar matters.
- The bonus system is based on a management incentive scheme and therefore does not motivate employees in general (beside management).

Lessons Learned

Performance contracts are most successful when:

- management has been extensively involved in their preparation;
- they are supported by adequate management information systems and rehabilitation plans;

- there is agreement among the enterprise, the ministry responsible and central agencies on the key underlying assumptions and strategic directions;
- there is an adequate system to monitor PE performance; and
- there are rewards and sanctions related to performance.

Gambia Ports Authority

Objectives

The Enterprise shall:

- a) provide safe, efficient and reliable port services, pilotage and navigation services;
- b) act on behalf of the Government of The Gambia in regulating seaborne and inland waterways transport;
- c) offer a competitive pricing structure that is based on cost recovery for the benefit of port users without necessarily weakening its financial position;
- d) operate and extend loss-making services as defined in Section 2.3 and 2.4 only where required to do so by Government in such circumstances the Enterprise shall manage loss-making services with maximum efficiency in order to minimise cost and the need for subsidies;
- e) achieve an average rate of return on capital employed, after the Government subsidy referred to in (d) above of at least 15 per cent, measured as: profit before interest, tax and depreciation on total net assets employed;
- f) maintain its strong financial base. Conscious efforts will continue to be channelled towards maintaining adequate levels of liquidity consistent with the level of business and building up of financial reserves. These reserves will be utilised for future investments, and also serve as an instrument of support in adverse times.

Strategies

For the duration of the Contract, the Enterprise shall:

- a) ensure maximum serviceability of all assets of the Authority through the upkeep of an efficient maintenance system;

- b) ensure cost-effectiveness in the maintenance of all assets;
- c) ensure the implementation of projects planned for a particular period, to be completed within the approved contract schedule;
- d) establish a sound equipment replacement policy;
- e) with respect to (d) undertake to finance a part of the expenditure with internal resources. In this regard, a special reserve account will be set aside mainly for equipment replacement purposes;
- f) introduce a scale of fees to recover the full cost of maritime regulatory services other than the provision of advice to Government;
- g) continue its discussions with the Government towards the acquisition of all land designated port area under the Greater Banjul Land Use Plan 2000;
- h) initiate discussions with Government for additional land space in the Greater Banjul Area to be designated Port Area for future development of a distribution and transshipment centre;
- i) undertake measures to enhance the competitiveness of the Port through effective marketing strategies;
- j) implement a 24-hour pilotage service to improve ships' turn around time.

Summarised Accounts (1980/81 - 1984/85)
(Thousands of Dalasi)

| Profit and Loss Account | 1980/81 | 1981/82 | 1982/83 | 1983/84 | 1984/85 |
|--------------------------------|----------------|----------------|----------------|-----------------|-----------------|
| Revenue 11,003 | 10,163 | 13,919 | 15,867 | 15,998 | |
| Operating Costs | (7,579) | (10,903) | (11,574) | (12,131) | (12,159) |
| Gross Profit (Loss) | <u>3,424</u> | <u>(740)</u> | <u>2,345</u> | <u>3,736</u> | <u>3,839</u> |
| Depreciation | (2,286) | (2,405) | (2,423) | (2,567) | (2,205) |
| Interest (995) | (995) | (1,059) | (996) | (964) | (3,808) |
| Prior Year Adjustment | - | - | 405 | 250 | 952 |
| Net Profit (Loss) | <u>143</u> | <u>(4,204)</u> | <u>(669)</u> | <u>(45)</u> | <u>(1,222)</u> |
| Balance Sheet | | | | | |
| Fixed Assets | 32,768 | 33,566 | 45,819 | 61,328 | 63,708 |
| Current Assets | 8,960 | 8,751 | 9,280 | 12,694 | 15,863 |
| Less: Current Liabilities | <u>(2,539)</u> | <u>(4,571)</u> | <u>(6,331)</u> | <u>(11,390)</u> | <u>(15,571)</u> |
| Net Worth | <u>39,189</u> | <u>37,746</u> | <u>48,768</u> | <u>62,632</u> | <u>64,000</u> |
| Financed by: | | | | | |
| Debt | 22,348 | 24,264 | 33,433 | 46,981 | 51,318 |
| Equity and Reserves | | | | | |
| - Equity & Grants | 9,498 | 10,343 | 12,500 | 12,643 | 6,122 |
| - Revaluation Reserve | 6,116 | 6,116 | 6,076 | 6,045 | 9,866 |
| - Retained Profits/Losses | <u>1,227</u> | <u>(2,977)</u> | <u>(3,241)</u> | <u>(3,037)</u> | <u>(3,306)</u> |
| Net Worth | <u>39,189</u> | <u>37,746</u> | <u>48,768</u> | <u>62,632</u> | <u>64,000</u> |

GAMBIA PORTS AUTHORITY
FINANCIAL AND STATISTICAL SUMMARY 1987-1993

| | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| FINANCIAL | | | | | | | |
| Revenue | 25,952 | 35,274 | 42,124 | 45,344 | 60,710 | 74,106 | 64,190 |
| Working Expenses | 20,071 | 18,063 | 27,049 | 25,276 | 27,343 | 31,759 | 35,104 |
| Net Earnings | 5,881 | 17,211 | 15,075 | 20,068 | 33,367 | 42,347 | 29,086 |
| Debt Servicing Charges | 8,400 | 8,925 | 8,858 | 9,253 | 9,290 | 10,093 | 9,004 |
| Other Charges | (9,122) | (752) | (622) | (2,134) | (5,521) | (5,727) | (10,491) |
| Balance Surplus/Loss | 6,603 | 9,038 | 6,839 | 12,949 | 29,598 | 37,981 | 30,673 |
| Fixed Assets (loss depreciation) | 115,125 | 160,808 | 158,815 | 120,501 | 117,815 | 137,261 | 136,737 |
| Net Current Assets | 23,733 | 33,035 | 31,686 | 36,865 | 61,632 | 87,676 | 106,049 |
| Net Operating Assets | 138,858 | 193,843 | 190,501 | 157,366 | 179,447 | 224,937 | 242,786 |
| Capital Work-in-Progress | 13,948 | 7,114 | 12,594 | 6,354 | 1,758 | 1,532 | 2,571 |
| Long-Term Investment | - | - | - | 16,099 | 16,333 | 16,202 | 16,202 |
| Net Assets | 152,806 | 200,957 | 203,095 | 179,819 | 197,538 | 242,671 | 261,559 |
| Public Debt | 99,869 | 101,830 | 100,298 | 103,555 | 96,113 | 106,104 | 85,569 |
| Equity and Reserve | 52,937 | 99,127 | 102,797 | 76,264 | 101,425 | 136,567 | 178,090 |
| RETURNS | | | | | | | |
| Ratio of Working Expenses to Revenue | 77 | 51 | 64 | 56 | 45 | 43 | 55 |
| Ration of Net Earnings to Net Operating Assets | 4.20 | 8.90 | 7.90 | 13.00 | 18.59 | 18.83 | 11.98 |
| Ratio of Net Earnings to Net Assets | 3.80 | 8.60 | 7.40 | 11.00 | 16.89 | 17.45 | 11.12 |
| Ratio of Net Earnings to Equity and Reserves | 11.10 | 17.40 | 14.70 | 26.00 | 32.90 | 31.01 | 16.34 |
| STATISTICAL | | | | | | | |
| Ships entering Gambian Ports (No.) | 282 | 280 | 284 | 262 | 258 | 264 | 245 |
| Cargo Handled ('000 Tonnes) | 432 | 539 | 448 | 527 | 623 | 675 | 742 |
| Passengers embarked/dismbarked ('000s) | 1,221 | 1,300 | 1,390 | 486 | - | - | - |
| Vehicles handled (Ferries) (No.) | 176 | 162 | 90 | - | - | - | - |
| Vessels Slipped (No.) | 39 | 26 | 47 | 31 | - | - | - |
| Number of Staff employed | 682 | 664 | 652 | 478 | 395 | 403 | 390 |