

**Report On the Reconciliation of Cross-Arrears
Between
State Owned Enterprises (SOEs),
Government and SOEs, &
Gambia Revenue Authority (GRA) and SOEs**



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INTRODUCTION:

There are 13 commercial state owned enterprises (SOEs) in The Gambia that are present throughout the economy. Historically their operational and financial performance, and that of their predecessors since they were first formed in the 1970s, has not been good. Periodic SOE reform efforts dating back to the 1980s, late 1990s, and early 2000s, were only partially successful. Subsequently, since the Gambia Divestiture Agency was closed in 2009 until very recently, there was little focus on SOE reform or on the monitoring of the performance of the sector. SOE outcomes deteriorated markedly during this time, and this led to rising fiscal pressures along with growing public finance risks tied to increased SOE debt guarantees. These risks became manifest as the SOE burden on the national budget reached crisis levels in 2014, when the largest SOEs were unable to service their debts, and the Government had to meet SOE external financing requirements equivalent to 5 percent of GDP. SOE tax and other payments arrears also reached unacceptable levels, with tax arrears reaching the equivalent to 4.3 percent of GDP at end 2014. Financial problems experienced by the National Water and Electric Company (NAWEC), the mobile and fixed line telephone operators GAMCEL and GAMTEL, and for the Gambia Groundnut Corporation (GGC) are particularly problematic and have serious macroeconomic and fiscal implications.

The SOE sector has been faced with many challenges in recent years. Key to these challenges is the lack of good governance, unprofessional Board of Directors, financial indiscipline; a culture of not paying for the services provided within themselves and also between them and the government. The Directorate of Public Private Partnership and Public Enterprise have deemed it necessary to conduct an exercise to offset these debts. We are also going to assist the governance of the debt management system of these enterprises. This was mainly due to lack of financial discipline within the SOEs.

The accumulation of expenditure arrears by the government can have a serious effect on the domestic economy. Control and clearance of arrears have been the priority in almost all IMF-supported programs over the past decade. It is widely agreed that large flow of arrears may disguise the true size of the government deficit, significantly reduce the impact of fiscal policy on aggregate demand and potentially undermine macroeconomic stability.

WHY THE RECONCILIATION EXERCISES:

The poor financial performance of the SOE sector is due to a number of factors, many of which were outlined in the previous section. This poor performance is increasing the pressure on public finances, which has prompted acceleration in efforts to improve SOE internal operational efficiency since early 2015. But, the poor performance is not only due to inefficiencies within the SOEs. It is also partially due to the imposition of non commercial public service obligations or below cost pricing formulas on commercial SOEs without any compensation from Government to cover the cost. While MOFEA has intervened on a crisis basis over the last two years to cover losses of NAWEC, GAMTEL/GAMCEL and GGC,

some of these transfers on behalf of the SOEs were made in the form of loans which the SOEs will have to repay.

SOE level responses to accumulating operational losses have been the increasing of arrears and cross debts between the SOEs and the Government, as well as inter SOE transfers, arrears, and cross subsidies. This situation is having an increasingly negative impact on transparency and accountability for performance at the SOE level. At the national level the running up of arrears and the absence of transparent budget allocations to cover non-commercial public service obligations of SOEs is obscuring the processes for setting priorities for public expenditure and investment. If the situation is allowed to continue, accountability for performance at the SOE level will be further eroded, and there will be a further breakdown of financial discipline in the SOE sector. At the same time, the effectiveness of public expenditure and investment management will be further eroded, and the state and the economy more widely will continue to pay a high price as deficits continue to increase.

As highlighted above, the economic and social implications of arrears accumulation can be costly. The current increasing trend in stock of arrears has been a cause for concern for the Ministry of Finance and Economic Affairs, since it does not only affect the public sector but also the private sector, rendering government fiscal policy ineffective. This together with the above mentioned negative effects of arrears has prompted the Ministry to embark on this exercise in order to establish a comprehensive stock of arrears that allows for a more effective and efficient way of budget planning, execution and economic policy formulation and implementation, thus creating incentives for robust private sector investment. Another significant amount of the arrears of public enterprises is in the form of tax arrears generated from value added tax (VAT) in addition to corporate taxes.

Arrears accumulation creates avenues for tax evasions, rent seeking as well as increase government cost of procurement of goods and services, hence expanding the level of expenditures that eventually results to large budget deficits, thereby resulting to increase borrowing, rising interest rates and finally creating unnecessary price hikes (inflation).

In addition to the above, this will help in having financial discipline within the SOEs and make them to pay for the services rendered by other SOEs. Certain SOEs are facing challenges due to their high uncollected debts from either government institutions and/or other SOEs. This reconciliation exercise can greatly increase their liquidity and give them better financial standings.

MECHANISM OF THE RECONCILIATION EXERCISE:

The exercise is led by the Directorate of Public Private Partnership and Public Enterprises in collaboration with Gambia Revenue Authority and all the State Owned Enterprises. To ensure the most effective execution of the exercise, all State-Owned Enterprises are represented by their Managing Director and

Finance Managers, while the Gambia Revenue Authority is represented by a senior officer. This will help ensure a comprehensive discussion of the arrears by and verification of the figures by each SOE.

After the first meeting, individual SOEs will have meetings with each other to reconcile their figures. Once the figures are agreed on, a repayment plan will be agreed on and signed. Copies of these Agreements will be filed by the DPPP and progress will be monitored by the respective Desk Officers of the SOEs.

The exercise began with the Ministry issuing a circular for submission of all cross-arrears between SOEs and those of SOEs, government and the revenue authority. From this initial stage we were able to establish initial figures across all the SOEs listed below. The second stage was to allow the State Owned Enterprises and the Gambia Revenue Authority to verify all tax claims as well as consolidate these claims to arrive at concrete figures for the final net off exercise. The third and final stage is to net-off all claims and counter claims between GRA, SOEs, and Government.

EXPECTATION OF THE RECONCILIATION EXERCISE:

At the end of the exercise, the team should be able to come up with a comprehensive database that fully captures the total stock of arrears between government and SOEs and amongst the SOEs themselves. A write-off exercise will be carried out to establish the net of arrears, on the basis of which a framework for a payment plan between the concerned entities will be agreed on and parties will sign off to the deal.

Crucially, the Ministry will then come up with a policy recommendation to control the stock of arrears in order to avoid rebuild of arrears. This will eventually chart a sustainable path towards sound public financial management framework to mitigate against the negative economic and social effects of arrears in the medium to long-term.

SUMMARY:

The table below gives a summary of arrears up to 31st December 2017, between SOEs, Government and SOEs, GRA and SOEs.

The last column of the table, Net Arrears, indicates the net position of the 13 commercial SOEs. The positive figures depict a creditor's position and the negative figures, those in bracket, shows a net debtor position. Five (5) enterprises, GCCA, GIA, NAWEC, GAMCEL and GRTS are net debtors while eight (8) enterprises GGC, GNPC, GPA, GAMPOST, GPPC, GAMTEL, SSHFC, and AMRC.

NAWEC, GCCA, and GAMCEL have the biggest exposure to the government. NAWEC owes approximately D1.6 billion to government, GCCA owes around D907 million whilst GAMCEL owes the government around D72 million.

| Institution | Owed to GRA | Owed to Gov't | Owed to Other SOEs | Owed by Gov't | Owed by Other SOEs | Net Arrears |
|-------------|-------------|---------------|--------------------|---------------|--------------------|-----------------|
| GCCA | - | 907,408,000 | 29,681,653 | - | 125,487,000 | 811,602,653 |
| GGC | 7,500,000 | - | 227,249,179 | 309,508,344 | - | (74,759,165) |
| GIA | 13,782,694 | 61,755,453 | 48,352,930 | 21,692,319 | 16,725,299 | 85,473,459 |
| GNPC | - | - | - | 68,455,000 | 898,628,000 | (967,083,000) |
| GPA | 10,542,719 | - | 10,485,112 | - | 41,975,416 | (20,947,585) |
| GAMPOST | 5,217,282 | - | - | 62,179,521 | 2,307,600 | (59,269,839) |
| GPPC | 17,996,926 | - | 1,254,487 | 17,558,859 | 1,858,643 | (166,089) |
| NAWEC | 63,667,573 | 1,606,871,485 | 1,746,311,909 | 579,879,416 | 129,785,605 | 2,707,185,946 |
| GAMTEL | 54,576,000 | - | 83,417,000 | 8,000,000 | 380,000,000 | (250,007,000) |
| GAMCEL | 199,694,000 | 72,187,000 | 477,201,000 | 8,456,000 | 16,544,000 | 724,082,000 |
| SSHFC | - | - | - | 548,900,000 | 1,527,595,000 | (2,076,495,000) |
| GRTS | 28,818,923 | - | 63,724,990 | - | 82,894,183 | 9,649,731 |
| AMRC | - | - | - | - | - | - |