Bonto Agricultural Farm (Gambia) Limited[1]

BANJUL, THE GAMBIA

In early November 1992, Mr. Sayed Moukhtara, the managing director of Bonto Agricultural Farm (Gambia) Limited, sat nervously at his lap-top computer analyzing his production forecasts. Bonto Farm had just finished a 40-hectare expansion over the previous year, and Mr. Moukhtara was under intense pressure to secure an export market for the additional production. The horticulture season ran from November through March, when the industrial countries in the northern hemisphere were in short supply of fresh fruits and vegetables. This period was the window for success or failure.

To the right of Mr. Moukhtara, a stack of European and American newspapers were strewn across his desk. The United Kingdom was in deep recession. Overnight, the pound was devalued at least 10% against the U.S. dollar and other major European currencies. Germany's economic problems were also leading to social unrest in the east, and foreign neighbors were beginning to lose confidence in the Mark's strength. In the United States, a new president was elected, and the European Community braced itself for an agricultural trade war. The U.S. Government continued its formal protest over European Community subsidies and warned that a 200% tariff would be placed on all European wines. Following that announcement from Washington D.C., French farmers threatened violent protests in Paris. In France, unemployment was already in double digits.

In The Gambia, the cool and dry season was quickly approaching. Mr. Moukhtara closed his lap-top and locked the office. From Kanifing, he drove for an hour to Sifoe. There, he made his usual 7:00 pm evening walk across Bonto Farm. The women in the field responded to his presence, "*Salaamalekum, Jama nga'm.*"Mr. Moukhtara responded in kind, "*Malekumsalaam, Jama rek.*" He bent at the knees and picked the season's first ripe melon. The natural netting was full, indicating a high sugar content. He smiled, but it was a nervous smile. The market was not yet secure, and the Galia melons were beginning to turn yellow. He mulled over how to get his produce to the European market.

Company Background

Mr. Moukhtara fled the 1975 Civil War in Lebanon and found refuge in The Gambia. He started a small business exporting dried fish to other West African countries. Through his relationships with local fishermen, he learned the native languages of Wollof, Mandinka, Fula, and Jola. While in The Gambia, Mr. Moukhtara married a Danish social worker and started a family. His three children were all born and raised in The Gambia. Mr.

Moukhtara came from a traditional farm family in southern Lebanon, and in 1980 he decided to exit the dried fish business and return to his real love, agriculture.

Bonto Farm was originally started in 1981 as a tobacco-producing plantation. Tobacco production was only for the local market, but the curing process failed for two consecutive years. Since local consumers preferred imported tobacco blends to locally cured tobacco, in 1983 Bonto Farm exited tobacco production and began the production of mangos. Exporting to Europe offered Bonto Farm the opportunity to earn foreign exchange. An orchard of 3,000 mango trees was planted. The mangos exported to Europe showed strong potential by meeting the quality standards set by the European Community. In 1986, Bonto Farm expanded to 10 hectares (25 acres) and diversified its production into limes, eggplants, melons, and chilies. Early efforts to export were hampered by insufficient transport to the northern markets, but the demand for health foods, especially fresh fruits and vegetables, was growing in Europe and North America.

By 1992, Bonto Farm had become the second leading producer of horticulture products in The Gambia, West Africa. The farm produced and distributed melons, eggplants, chilies, limes, and mangos and sold them in the domestic markets and to distributors in Europe. For the 1992 season, Bonto Farm horticulture produce accounted for 33% of the total horticulture exports from The Gambia. Sales from 1990 to 1992 had more than doubled from 5.7 million dalasis to 12.3 million dalasis (about US$674,000 to US$1.45 million). Estimated sales for the 1993 season were projected to exceed four million U.S. dollars. (See financial statements in Exhibits 1 and 2.)

Bonto Farm was situated on 125 hectares near the village of Sifoe, 20 kilometers from the Banjul International Airport (see in Exhibit 9). For the 1993 season, all 125 hectares were operational. An additional 50 hectares were available in the adjacent village of Sifoe for expansion. The farm had eight functional pumping stations for irrigation and five power generators for continuous operations. Access was along the Soma Highway, a paved road. All machinery and buildings were privately owned and paid for by Bonto Farm. The land was leased on a 100-year contract from the government.

Mr. Moukhtara acquired the necessary capital to enter mass scale agricultural production from his previous business in trading and his entrepreneurial diversification into a variety of other businesses, including sawmilling, candy manufacturing, and printing. While his other three businesses were profitable, they did not offer the opportunity for export. Mr. Moukhtara used the profits from these other businesses to subsidize his farming operations. Horticulture alone provided an opportunity to export and, therefore, to earn foreign currency.

Bonto Farm Company Organization

The Bonto Farm organization chart appears in Exhibit 3. Responsibilities were divided between the Technical Director in charge of farm production, a General Manager handling harvesting, packing and transportation of produce, and Mr. Moukhara, who performed all marketing functions.

SALES OFFICE

Marketing operations were concentrated in Kanifing (refer to map Exhibit 9). The Kanifing Industrial Area provided better access to telecommunication through satellite links with Europe and basic wire links with the capital and port city, Banjul. Mr. Moukhtara was solely responsible for marketing Bonto Farm produce. Over the years, he had developed a personal relationship with many of his European wholesalers. Mr. Moukhtara had traveled to Europe in order to meet each wholesaler personally, and many had visited The Gambia. Mr. Moukhtara was increasingly concerned about securing a market for his produce. All the commitments to purchase his produce were based solely on trust rather than contract.

Finding skilled labor to aid him in marketing proved extremely difficult. Only 20% of Gambians were literate. Secondly, the few Gambians who were educated abroad in marketing either remained abroad or returned to multinational corporations. Finally, Mr. Moukhtara was skeptical about training someone internally. He would need to spend time and money to train the employee and then perhaps watch the employee leave for a better-paying job with a multinational company.

Exhibit 1

BONTO AGRICULTURAL FARM (GAMBIA) LIMITED
BALANCE SHEET
As of June 30
(1 US$ = 8.50 D)

	Notes	1992 D	1991 D	1990 D
Current Assets				
Stocks Including Inventories	1	3,140,920	1,600,000	1,016,130
Debtors (A/R)		787,246	990,901	324,856
Total Current		3,928,166	2,590,901	1,340,986
Fixed Assets	2	583,442	696,668	809,894
Total Assets		4,511,608	3,287,569	2,150,880
Current Liabilities				
Moukhtara Holding Company	3	335,736	24,456	0
Creditors (A/P)		92,096	98,489	204,120
Total Liabilities		427,832	122,945	204,120
Owners' Equity				
Share Capital	4	500,000	500,000	500,000
Retained Profit/(Losses)		3,583,776	2,664,624	1,446,760
Total Equity		4,083,776	3,164,624	1,946,760

Accounting Policies
The Company's accounting policies are disclosed under the appropriate headings in these notes.

1 **Stock** has been valued by the management of the company at cost on a First In First Out (FIFO) basis.

2 **Fixed Assets**

1992 (Dalasis)	Leasehold Land	Buildings	Equipment	Vehicles	Total
Cost (1.7.89)	250,000	729,758	328,597	61,000	1,369,355
Depreciation:					
Year Beginning (1.7.91)	79,412	218,928	328,597	45,750	672,687
Charge for Year	25,000	72,976		15,250	113,226
Year End (30.6.92)	104,412	291,904	328,597	61,000	785,913
Net Book Value:					
1992	145,588	437,854			583,442
1991	170,588	510,830		15,250	696,668

Depreciation is calculated to write off the cost of the assets over their expected useful lives as follows:

Buildings	10%
Equipment	25%
Vehicles	25%

3 **Holding Company**
Moukhtara Holding Company holds a majority interest in the Company.
The Holding Company is incorporated in The Gambia.

4 **Share Capital**

		1990
Authorized:		
50,000 shares of D10 each	500,000	500,000
Issued and Fully Paid:		
50,000 shares of D10 each	500,000	500,000

5 **Taxation**
The Company is exempt from sales tax and income tax.
*The Horticulture Industry is exempt from these taxes.

6 **Foreign Currencies**
Transactions denominated in foreign currencies are translated into dalasis at the rates of exchange ruling on the date of the transaction. Assets and liabilities at the year end have been converted at the rates ruling as of the 30 June year end date.

Source: Kepling, Towers, and Stern: Chartered U.K. Accountants.

Exhibit 2

BONTO AGRICULTURAL FARM (GAMBIA) LIMITED
PROFIT AND LOSS STATEMENT
Year Ended June 30
(1 US$ = 8.50 D)

	1992 D	**1991 D**	**1990 D**
Sales	12,320,519	10,741,566	5,732,161
Cost of Sales	8,772,882	6,199,235	2,713,478
Gross Profit	3,547,637	4,542,331	3,018,683
Other Income	21,632	42,899	
Gross Profit	3,569,269	4,585,230	3,018,683
Administrative, Selling & General Expenses			
Salaries & Wages	1,277,605	1,265,567	883,770
Licenses	46,236	6,241	1,720
Medical	1,807	2,381	795
Duties	34,144	128,101	730
Post & Tele-communications	49,337	83,412	2,215
Insurance	3,359	3,287	
Transport	168,600	168,162	
Donations	8,333		
Repairs & Maintenance	536,234	1,411,072	121,296
Fuel	673	6,828	6,310
Electricity & Water	65,982	5,254	
Commission	87,995	88,926	19,392
Bank Charges	2,849		
Depreciation	113,226	113,226	195,375
Professional Fees	27,473	6,140	
Rents & Rates	66,259	9,005	5,460
Sundry	74,463	9,017	18,198
Tax & Social Security	88,900	60,676	39,860
Total Expense	2,650,116	3,367,367	1,298,408
Net Profit	919,153	1,217,863	1,720,275
Net Profit/(Losses) B/F	2,664,623	1,446,760	(273,515)
Retained Profit/ (Loss) C/F	3,583,776	2,664,623	1,446,760

PRODUCTION

Bonto Farm production was structured along functional lines. These lines included irrigation, land treatment, fertilization, weeding, planting, transport, material preparation, and packing. All these operations took place at the Bonto facility. With the expansion to 125 hectares for the 1993 season, the two farm managers were finding their areas of responsibility difficult to manage. The Technical Director, Kamil Chaya, was responsible for crop production, while the General Manager, Peter Khoury, was responsible for quality control and transport. Both farm managers were from Mr. Moukhtara's hometown in Lebanon. Following the Israeli occupation of southern Lebanon in the early 1980s, Mr. Moukhtara offered Peter and Kamil refuge in The Gambia. Peter's brother Eli was married to Mr. Moukhtara's sister.

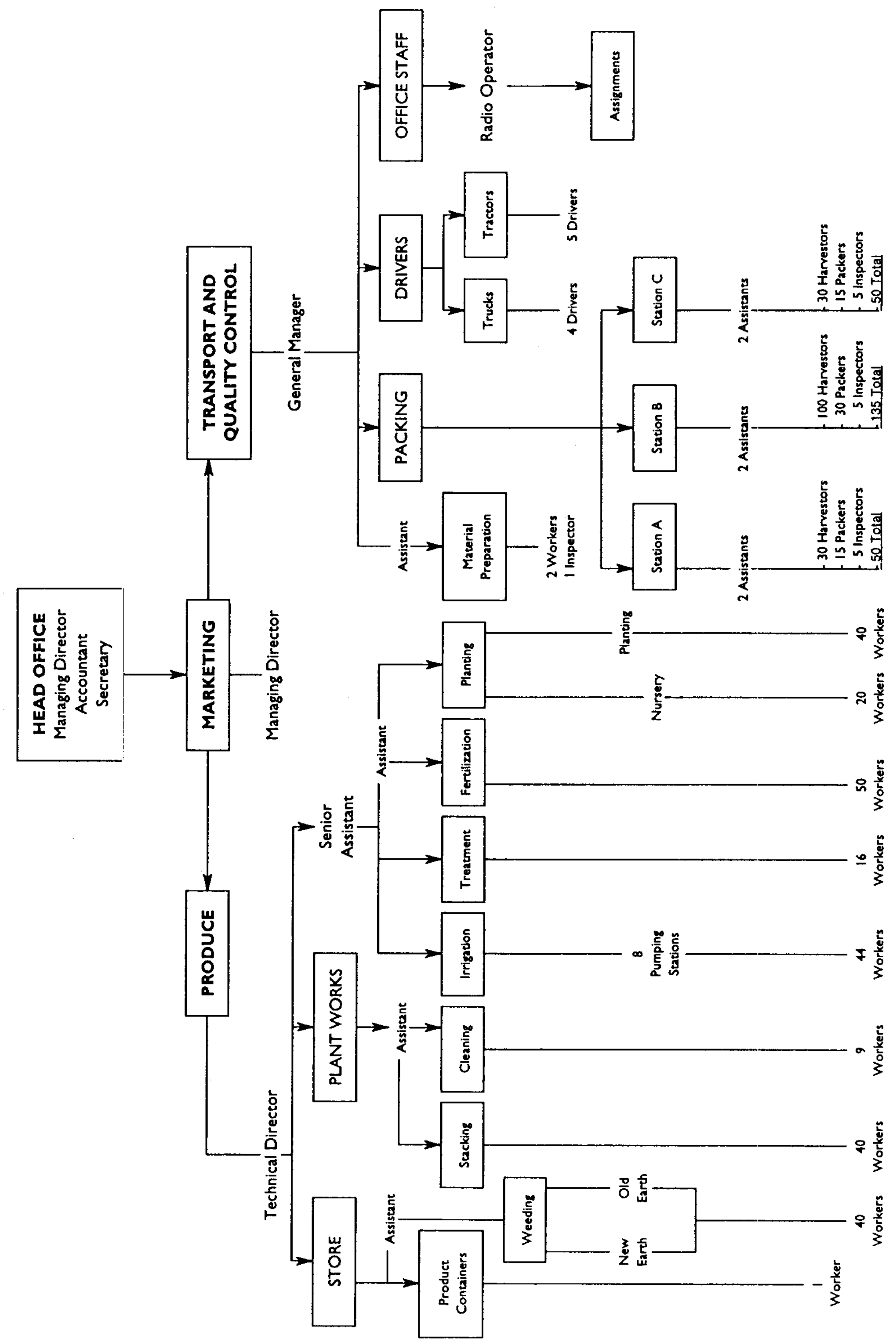
For the 1993 season, Bonto Farm had invested over US$400,000 dollars in machinery, fertilizer, seeds, and insecticides before the initial planting. All materials were imported. All final purchasing decisions were approved by Mr. Moukhtara. Fertilizer was purchased from Senegal, while seeds and insecticides were primarily imported from the United States, Israel, and Holland. In August 1992, a new Ford Country tractor was purchased from the United States. Although all inputs were imported duty free, the transport costs associated with the imports were very expensive. The small domestic demand from Gambian farmers prevented bulk purchasing. This denied them the economic benefits available in larger markets like Italy, where Italian farmers have the opportunity to purchase inexpensive fertilizers from Russia at quantity discount rates. Output could be quite variable; if disease, insects, or weather affected the crop, the harvest production could be only 50% or less of the planned harvest. Mr. Moukhtara joked, "My nine-year-old daughter's dream is to play the slot machines in Las Vegas. I tell her that if she wants to gamble, she can manage the farm."

QUALITY CONTROL

Quality control was a consistent problem in the 1992 season. With the expansion to 85 hectares in 1992 and a further expansion to 125 hectares for the 1993 season, the General Manager could not inspect every box intended for shipment. Thus, for the 1993 season, the company planned to assign inspectors into teams to check every box for quality before final shipment. To ensure accountability, each box would be marked with a sticker indicating the ID number of the responsible inspection team. Produce was classified into three categories: class A, class B, and class C. Premium quality produce, grade A, would be sold to the European Community countries, while grade C, poor quality produce, would be marketed locally. Grade B produce would

Exhibit 3

BONTO AGRICULTURAL FARM (GAMBIA) LIMITED ORGANIZATIONAL CHART



be sold primarily to the local hotels, though increasingly it was exported to less quality-conscious markets.

LABOR

While the two executive managers, Peter and Kamil, were Lebanese, the majority of field workers were native Gambians. Mr. Moukhtara attributed this to a need for separation between local village hierarchies and work. For example, a senior Jola villager would not take field instructions from a junior village member. Surprisingly, the ethnic division between management and field labor did not cause tension. This was not the case in urban centers like Banjul. Some Gambians on Bonto Farm were placed as field team managers, supervising groups of between 10 and 100 field workers. Field managers were always from a different ethnic tribe than the workers they supervised. (See Exhibit 8 for an overview of the tribes in the region.)

Seventy-five percent of the production labor force was composed of women. The majority of labor was supplied from the surrounding villages. An adequate supply of unskilled labor existed in the area, about 10,000 villagers. The villagers were primarily Wollof, Jola, and Mandinka. Over 70% of Bonto's labor force was composed of Jolas. Women were not appointed managers because traditional village practices prohibited such roles. An agricultural school was located in Brikama, a few kilometers from Bonto. The average salary per field worker was the equivalent of US$1.50 per day compared to the minimum wage requirement of US$1.00 per day.

The majority of Gambians were Mandinka. The Mandinka tribe held many political positions within The Gambia. The Wollof tribe was also politically active, but a minority within the Gambian population. Both tribes considered themselves nationalistic. In contrast, the Jola tribe originated from the Casamance region in Southern Senegal. Many Jolas were immigrants to The Gambia, fleeing political instability in the Casamance region. As rebel groups continued their offensive against the Senegalese Army, immigrants filed for relief at the National Red Cross Center in Kanifing. Many Jolas were relocated with established family members throughout the country, or adopted by the extended family system. Fighting intensified in 1992, sending thousands of fleeing Jolas to seek shelter, food, and employment in The Gambia.

Economic and Development Policy in The Gambia

GOVERNMENT POLICY

In 1986, The Government of Gambia (G.O.G.) identified the horticulture sector as a key area for national development. Laws were passed to exempt the horticulture industry from importation taxes on all inputs and investment equipment. This included free duty and no sales taxes. That same year, the G.O.G. passed laws exempting the horticulture industry from paying domestic income tax and taxes on its exports. By 1987, the G.O.G. was fully committed to market-based reforms. Foreign exchange controls, price controls, and ownership restrictions were lifted. The national currency, the Dalasi, was pegged to a basket of foreign currencies, weighted heavily to U.K. Sterling. The weighting of Gambian currency to the U.K. pound was linked to its colonial past. After an initial devaluation, the Dalasi remained fairly stable, fluctuating between eight to nine dalasi per U.S. dollar. President Jawara attributed the economic stability to the Economic Recovery Program (ERP) introduced under International Monetary Fund (IMF) policy in 1985.

In 1988, France introduced a new telecommunication system into The Gambia. Direct communication links to markets in the northern hemisphere became possible for Gambian businesses centered in Banjul. The U.S. Government also designated the Banjul International Airport as the emergency landing site for the NASA space shuttle. By 1990, an airport expansion program was under way. The Gambia began to shift away from only exporting groundnuts and to diversify its export base. The diversification included boosting the key sectors of tourism, fishing, and horticulture.

DONOR PROGRAMS IN THE HORTICULTURE SECTOR

Many donor agencies from the United States, Europe, and other developed countries supported G.O.G.'s efforts to improve the domestic economy. With respect to horticulture, many donor programs awarded grants and loans for educational programs. These educational programs were primarily geared towards teaching local producers some superior methods of production. The result was increased production by the local villages, and horticulture's growth was then constrained by limited demand, that is, insufficient markets. The major constraints were the small size of the domestic market and the lack of transportation to overseas markets.

The production glut caused some serious problems. In 1993, women farmers in Bakau protested because they could not sell their produce for a profit. At the Bakau Market, eggplants and watermelons sold for only $.05. The Bakau market was all individual retailers. There was no local wholesale market. This resulted in tons of produce rotting in the fields because local transport costs did not justify shipping it to market. Many traditional farmers discontinued operations. Donor agencies began to introduce new programs targeted to production of less perishable goods. In 1993, the United States Agency for International Development introduced a plan to produce sesame seed.

Bonto Farm Marketing

THE DOMESTIC MARKET

The domestic market accounted for only 8% of Bonto Farm's annual sales. The domestic market was saturated with local produce from village farms which did not have the capacity to export. Produce distribution to local village stores proved cumbersome. The Gambia is the smallest country in Africa with a domestic market that is negligible. In 1992, the average per capita income was only $270 per person with a total GDP of $195 million, one of the lowest in the world. Grade B and C Bonto Farm produce that remained unsold was donated to the local villagers to feed their cattle. Mr. Moukhtara also had a small herd of cattle on Bonto Farm. He fed the cattle B and C produce when the transport price to market was higher than the produce sale price. The Bonto Farm cattle were usually donated to the local village chiefs at weddings, naming ceremonies, or other ritualistic events.

The tourist industry offered some opportunities, but selling to hotels required discrete compensation to the hotel purchasing officer. The kickback to the purchasing officer, a common practice, eroded the producer's margins. Although formally illegal, many traders viewed kickbacks as an additional tax for conducting business. Finally, projections for the 1993 tourist season called for a 30% decline over the previous year. After accessing the domestic market, Mr. Moukhtara decided to focus more attention on Bonto Farm's export potential. Exports provided a greater opportunity for market growth, profitability, and foreign exchange.

THE EXPORT MARKET

As Bonto Farm production continued to increase, the marketing of horticulture produce was becoming more difficult. Bonto Farm distributed its exports through numerous independent wholesalers, primarily in the United Kingdom (see Exhibit 4). The U.K. market was the best developed due to the historical relationship between the United Kingdom and The Gambia. In modern times, this relationship revolved around the dominance of air cargo capacity serving the U.K. market. The farm also had independent distribution networks in Germany, Holland, Belgium, Switzerland, and Sweden. Sales to the European wholesalers were made on a fixed-term basis in the importer's currency. Bonto Farm used forward contracts to hedge its exchange rate exposure. Export opportunities also existed to enter the Central European markets of Poland, Czech Republic, and Hungary. Quality standards in these countries were below those required by the EC, thus providing a market for grade B produce. The cost of these European shipments was boosted by high landing fees at foreign airports.

Exports to nearby African countries in the Economic Community of West African States (ECOWAS) included grade B and grade C produce, but they required special payments to border police (gendarmes) for land transport across borders. The uncertain value of these nations' currency also threatened to disrupt all Gambian exports. Many traders and exporters in The Gambia feared that the Senegalese currency, the Franc CFA (F.CFA),[2] would be devalued or declared a regional currency. The F.CFA was maintained at an artificially high level by the French government, and that led to an active black market in cross-border trade with The Gambia. It was feared that a currency devaluation, prompted by the French government or the IMF, could trigger a capital flight to a more secure currency and cause the Senegalese government to close its borders to all trade with The Gambia. Gambia is surrounded on three sides by Senegal (see map on page 57).

Exhibit 4

BONTO FARM'S CUSTOMER LIST
TOTAL SALES AND LOSS TRACKING BY CUSTOMER
November 1991–March 1992

Customer	Country	Sales in Dalasis*	Loss Claim**	Loss/Sales
Konyn	UK	2,334,239	220,301	2.90
Paulines	UK	1,517,161	27,634	0.36
Ms. Fruits	UK	1,517,023	3,840	0.05
Bergander	Sweden	605,160	0	0.00
Goose	UK	497,377	63,177	0.83
Van Den Berg	Holland	396,138	40,771	0.54
THC	Switzerland	287,442	9,885	0.13
Singh	UK	142,214	0	0.00
Unifruit	UK	76,225	4,334	0.06
Bidwalla	UK	48,907	0	0.00
GHE	UK	30,306	0	0.00
Lovely	UK	29,421	0	0.00
Interfucht	Norway	26,763	9,293	0.12
Hage	Sweden	22,425	10,266	0.14
Goosens	Belgium	18,503	3,052	0.04
Cash	17,765	0	0.00	
Int. Fruchimport	FRG	16,820	0	0.00
Superfood	UK	10,105	0	0.00
Total		7,593,994	392,553	5.17%

*Excludes Mango Season June—August (Estimated Sales 5,153,006 Dalasis)
Exchange Rate 8.5 Dalasis per 1 U.S. Dollar
**Majority of loss claims are for rotten fruits or damaged fruits.
Damage usually results from shipping.

PAYMENT PROCEDURES FOR THE EXPORT MARKET

Because fruits and vegetables were perishable, desireable conventions such as payment of cash in advance of receipt, use of letters of credit, and availability of insurance against loss or damage were not the industry norms. Sales on consignment yielded too low a return and placed all the risk on the seller. Because wholesalers were reluctant to share the seller's risk, fixed prices were set by Bonto Farm below the current spot market price. Setting the fixed price proved difficult because Bonto Farm had no direct link to monitor spot prices in the European market. Following shipment, prompt payment depended upon the buyer's honesty. Expanding the distribution network through new and unknown buyers was proving extremely risky for Bonto Farm. Buyer claims for delayed shipments or deficient produce quality were difficult to track once the shipment arrived in Europe. Unfortunately, these claims were increasing, especially for the current season (see Exhibit 4).

Competition

RADON FARM

Bonto Farm's major competitor in The Gambia, Radon Farms, had an exclusive partnership with the U.K. wholesaler Weston. Weston paid the market price for Radon produce and guaranteed the purchase of Radon production. The only restriction was that Radon produce had to meet European Community quality standards. The owner of Radon Farm, Mr. Shah, was the brother-in-law of Weston's managing director, Mr. Patel, in the United Kingdom. The Patel family also had a farm in Kenya, supplying similar horticulture produce to the U.K. market. Sales and pricing between Radon Farms and Weston were made on a trust basis. The Shah family came to The Gambia in 1986 to establish Radon Farms as a satellite to Weston.

Like the Gambian Lebanese, the majority of Indians in The Gambia were engaged in business. The major soft drink bottling plant was owned by the Mathur family. Mr. Shah's brother owned the premier restaurant in The Gambia, The Clay Oven. However, the Indian community was small in contrast to the Lebanese community. Many Gambians viewed Lebanese and Indian communities as exploiting Gambian resources.

Initially Radon Farm subcontracted production for export to local farms, but Radon would not guarantee purchase of local production. In 1990, Radon discontinued its subcontracting policy. In contrast, Bonto Farm always had a strict policy not to subcontract production. Mr. Moukhtara cited quality control as the main factor. Nonetheless, since Bonto Farm's founding, Mr. Moukhtara established a cordial relationship with the smaller growers. He was one of the founders of GAMHOPE (Gambian Association of Horticulture Producers and Exporters), an organization representing the interests of the small- to medium-size export growers. These business and social ties to the small Gambian producers were critical for forging distribution ties with local Gambian retailers. Although Radon Farm was also an original founder of GAMHOPE, it left the organization in 1991.

COMPETITION IN EUROPE

The largest export market for Bonto Farm produce, the United Kingdom, was becoming very competitive. The competition centered in wholesale markets.[3] Wholesalers in the U.K. market were becoming irritated with Bonto Farm's policy of selling produce to their competitors in the same niche markets. When Bonto Farm requested marketing information from one of its leading wholesalers, their manager replied curtly, "You [Bonto Farm] must have a million eyes in the U.K. market. Why ask me?"

The variability in price was based on competition from other subtropical regions. In the case of melons, eggplants, mangos, and chilies, the primary competition came from Kenya, Israel, Brazil, and Spain. Kenya produced the same variety of produce as The Gambia, but air freight charges averaged $.30 more per kilo than shipping from The Gambia. Israel was the dominant exporter of Galia melons to the EC. Freight on Israeli horticulture was subsidized by 50%. The government subsidy priced Israeli melons 33% below the price of Gambian melons. However, Israeli melon production decreased in the months of December through March. Spain also had a competitive advantage in selling eggplants. The average cost for road transport from Spain was only $.20 per kilo. Produce shipped by air from The Gambia to the European markets had an average cost of about $1.00 per kilo. Spanish eggplant production usually began to decrease in mid-November. If the warm seasons in Spain and Israel were prolonged, European consumers would substitute Israeli and Spanish produce for Gambian products. Potential also existed for entry from other regions (e.g., South America). South American countries had developed new technologies to export mangos by sea freight to Europe, but they did not receive EC preferential tariff treatment.

The Gambia, like Kenya and other African countries, received European Community preferential tariff treatment. The Gambia paid zero duties on imports to the EC through the LOME 2 Convention. While assurances were given by the EC that LOME 2 would remain in place, Mr. Moukhtara was concerned that that advantage might be short lived. The EC was being pressured by the United States and the Organization of American States to eliminate all agricultural subsidies. Removing all tariffs risked domestic upheaval, as recent events in France clearly demonstrated, so Mr. Moukhtara felt the EC might find dropping LOME 2 an easier concession to the United States. Dropping preferential tariffs (e.g., making Gambian exporters pay some duty) would improve the price competitiveness of U.S. produce in Europe without shocking European farmers. Furthermore, many Spanish and Italian farmers would favor lifting LOME 2 to reduce the competition they face for their own produce from African agricultural products. Many of Mr. Moukhtara's European wholesalers informed him that strict regulations on pesticides and packaging would be passed by the EC in January, but they felt that LOME 2 would remain in place.

Exhibit 5

MONTHLY AVERAGE EXPORT PRICE PER KILO
October 1991–April 1992

Season 1991–92 Product Group	Prices in Dalasis* October	November	December	January	February	March	April	Shelf Life In Days
Galia Melon	11.17	10.11	10.93	8.9	10.24	9.53	7.78	5
Domus Melon	N./A	N./A	N./A	N./A	N./A	N./A	N./A	4
Water Melon	0	5.9	4.22	6.92	7.55	7.02	5.21	10
Eggplant Classic	4	4.71	5.84	8.01	8.11	4.7	5.72	4
Eggplant Beauty	5.67	4.3	6.85	6.37	6.33	5.2	4.72	4
Eggplant Ravaya	7.18	7.94	8.2	8.73	9.04	8.47	8	4
Chilie Cayenne	10.46	9.24	9.84	9.94	10.26	9.43	8.56	7
Chilie Gold Heat	7.84	9.55	9.53	9.95	9	7.09	6.43	7
Chilie Fresno	7.82	12.02	13.11	14.06	13.3	12.95	13.99	7
Chilie Red	0	0	18.34	16.46	14.89	12.87	14.14	7
Chilie Long	5.69	10.33	9.81	11.77	9.61	6.45	5.26	7
Luffa	5.64	7.44	9.44	9.71	9.71	8.67	8.06	5
Doodhee	N./A	N./A	N./A	N./A	N./A	N./A	N./A	5
Karella	6.16	7.56	7.34	6.88	0	8.36	6.4	3
Cherry Tomato	0	16.11	16.19	16.87	14.74	11.87	0	5
Beans	0	0	0	0	16.28	14.98	0	5

*Price Excludes Air Freight
Average Exchange Rate US$1.00 = 8.5 Dalasis

Transportation

Despite Mr. Moukhtara's reservations about LOME 2 protection, he believed that the potential for exporting produce from Bonto Farm to the Northern hemisphere was unlimited, and the proximity to the European market a competitive advantage. He defined his window of opportunity from November 15 to March 15. The 380 million inhabitants of the European Community consumed more than 58 million tons of fruits and vegetables in 1991. The average consumption per person was 153kg. The major constraint for Bonto Farm produce was the availability of cargo transportation to the northern markets.

CARGO SHIPS

The perishable nature of the fruits and vegetables prevented the use of cargo ships. Cargo ships departing from Europe for the port of Banjul continued south to the Ivory Coast before returning to Europe. Northbound cargo ships docked once a week in Dakar, Senegal, but the return trip to Europe took at least two weeks. No direct northbound shipping routes from Dakar to Europe were available. Transportation to the port of Senegal also proved difficult. Transportation to cross the Gambia River was by ferry, and this service proved unreliable. Finally, Senegal required transit fee taxes on all foreign goods entering the country. Although Bonto Farm had sufficient refrigerated land transport to Dakar, ship cargo proved too expensive due to the transit fee tax, ferry delays, and trucking.

Technical problems were also associated with cargo shipping. Produce that was picked from the plant, vine or tree at maturity spoiled by the time it reached the European market. Fruits harvested immature ripened on the inside, but remained green on the outside. Many chemical preservation techniques were prohibited by European Community standards.

AIR TRANSPORT

Bonto Farm transported its produce primarily by air. In 1986, Bonto Farm only exported two to three tons a week on the passenger flight supplied by British Airways. The majority of produce at the time was marketed to the Gambian tourist industry, domestic wholesalers, and retailers. In 1990, British Airways decided to cancel the London to Banjul route because terrorist threats were being heard throughout the Muslim world following the Gulf War. This opened the market to numerous charter flights and regularly scheduled passenger flights. These flights served primarily the Gambian tourist industry. Sabena, Swiss Air, Air Gambia, and Gambia Airways entered the market. The additional passenger service increased the number of tourists from less than 50,000 in 1989 to over 100,000 in 1992. Air freight space also increased but remained in high demand. By 1992, Bonto Farm was exporting 92% of its total harvest to Europe by air freight.

PASSENGER SERVICE

Passenger flights were on Boeing 707s, Airbus 320s or Tristars with cargo capacities of 4, 10, and 15 tons, respectively. Sabena had two weekly scheduled flights to Brussels, while Swiss Air had one weekly flight to Zurich. Both of these flights were on Airbus 320s. Air Gambia started serving the U.K. market in 1990 with a leased Boeing 707. Gambia Airways had scheduled flights to surrounding countries Senegal, Guinea Bissau, Sierra Leone, and Ghana. Chartered flights to the U.K. were primarily on narrow bodied aircraft with maximum cargo capacities ranging from 1 to 5 tons. Chartered flights ranged from 5 to 10 weekly stops to The Gambia, depending on tourist demand. The tourist industry serving The Gambia was moving away from Tristar aircraft to narrow bodied Boeing 757 passenger planes. The Boeing 757s proved more fuel efficient. By 1993, it was estimated that only one Tristar flight per week would be departing from Banjul. The Boeing 757s had a maximum cargo capacity of 5 tons. The majority of chartered flights refused cargo.

Because passenger flights stopped in other countries for connecting flights, Gambian exporters were required to share the available cargo space with exporters from surrounding African countries. For example, Sabena could receive a higher air freight charge from exporters in Mali, a land-locked country. Bonto Farm was able to secure one quarter to one third of the total weekly cargo space from Africa via The Gambia. On average, Bonto Farm shipped between 15 to 20 tons of cargo from The Gambia per week by chartered and nonchartered passenger flights (see Exhibit 6).

Exhibit 6

BONTO FARM AIR FREIGHT SHIPMENTS

	North-bound $Cost/Kilo	Weekly Tonnage	Schedule
Passenger Flights			
Britannia	—	0	Nov 2–Apr 26
Air Tours	—	0	Nov 2–Apr 26
Condor	1.05	6	Annual
Fin Air	—	0	Nov 3–Apr 30
Air Gambia	0.90	5	Annual
Sabena	1.15	21	Annual
Air 2000	1.05	5	Nov 12–Apr 29
Scanair	1.10	2	Nov 29–Apr 15
Swiss Air	1.15	2	Annual
Chartered Flights*			
Red Coat	1.00	35	Nov 15–Mar 15
Trans-Atlantic	0.95	35	Nov 15–Mar 15
Cargo Ships**			
JB Freight Lines	0.80	80	Annual

*Northbound charter flights are dependent upon southbound cargo loads to Nigeria. Estimated cost per kilo southbound is $4.00.

**Cargo ship travels south through Banjul Port. Estimated time to dock in Europe is a minimum of 14 days.

AIR CARGO CARRIERS

In 1992, the British cargo carrier, Redcoat, entered the market, providing a direct cargo link to the United Kingdom. Bonto Farm's major competitor, Radon Farms, had the necessary weekly tonnage to lure Redcoat into The Gambia. Bonto also expanded production capacity to 85 hectares, but Bonto's production was too small to attract the attention of additional transport. By reserving air cargo space, Bonto's competitor was able to charter Redcoat for its private use. The unused cargo capacity was originally allocated on a first-come-first-serve basis, but as the 1992 season progressed, relations between Radon, Bonto Farm, and the small village producers deteriorated. Radon lobbied Redcoat into selling all the empty cargo capacity directly to itself, thus preventing any space allocation to competitors, including Bonto.

Although demand from European wholesalers for Bonto Farm produce remained high, Bonto lost 40%

of its exportable produce in 1992 due to insufficient transport space for shipment. At the end of the 1992 season, Mr. Moukhtara made the decision to expand by an additional 40 hectares for the 1993 season. The expansion would justify reserving chartered cargo flights for Bonto produce. With the expansion to 125 hectares, Bonto would average 127 harvested tons per week in the peak season. (See Exhibit 7 for targeted monthly harvest per product.) In early October 1992, Mr. Moukhtara prebooked two cargo planes based on this anticipated increased production. The planes were contracted through Redcoat and Trans-Atlantic Airlines. The Redcoat and Trans-Atlantic Airlines planes were Boeing 707s and DC-8s with cargo capacities of 35 tons and 38 tons, respectively.

The two flights were scheduled on a weekly basis. Both carriers required a nonreimbursable deposit covering the first flight, US$49,000 to Trans-Atlantic Airlines (TAA) and £2,000 Sterling to Redcoat. Eighty percent of the cargo space was contracted for Bonto Farm exclusively; the remaining 20% was optional. In the event that Bonto could not fill the remaining space, the small village producers had the first right to fill it through separate contract agreements with Redcoat and TAA. Because Bonto Farm was liable for any unused space, Mr. Moukhtara believed that it was too risky for Bonto Farm to gamble by reserving additional aircraft beyond the two weekly chartered planes. He estimated that 92% of the 1993 harvest would be for export, but the yield was too difficult to calculate.

NORTHBOUND CARGO

Airplanes used to export Gambian products were leased through charter operators. The northbound cargo flights originating from The Gambia were actually the return leg of southbound flights flying from Europe to Lagos, Nigeria. The Gambian domestic market was too small for profitable direct southbound cargo flights, and imported dry goods arrived by ship rather than plane. The southbound air route was four times more expensive than the northbound route, averaging $4.00 per kilo compared to the northbound $1.00 per kilo. Air cargo operators used the southbound leg to subsidize the northbound route. Exporters signed contracts with charter operators to fly the less expensive northbound leg. Capacity could be limited, however. The return flights often made several stops, picking up cargo at various locations, and they flew erratically. Cargo space could be guaranteed by contracting a flight, but then the company was liable for payment for unused

Exhibit 7

MONTHLY OPTIMAL EXPORT HARVEST IN METRIC TONS

Season 1992–93 Optimal Harvest	Total Metric Tonnage (kg)	October	November	December	January	February	March	April	% Area
Galia Melon	600	0	90	285	150	0	0	75	19.60%
Domus Melon	225	0	0	0	54	90	81	0	7.98
Water Melon	120	0	20	30	15	25	30	0	6.12
Eggplant Classic	663	0	60	129	168	158	128	20	29.26
Eggplant Beauty	252	0	14	28	42	84	70	14	11.74
Eggplant Ravaya	100	6	12	16	28	26	12	0	5.26
Chillie Mixed	230	0	20	40	40	40	40	50	10.80
Luffa	72	0	12	12	12	12	12	12	4.07
Doodhee	24	0	4	4	4	4	4	4	1.02
Karella	24	0	4	4	4	4	4	4	2.02
Cherry Tomato	12	0	0	3	6	3	0	0	0.51
Beans	24	0	4	12	8	0	0	0	2.02
Grand Total*	2,346	6	240	563	531	446	381	179	100.40%

*Optimal Projected Harvest in 000s Kilograms.

Exhibit 8
CULTURAL PROFILE OF THE GAMBIA

Demographics

Ninety-five percent of the Gambian population is Muslim. During the month of February, Muslims usually observe the holiday Ramadan by fasting from sunrise to sunset.

The average life expectancy for Gambian males is 41 years of age, while for Gambian women it is 44 years of age. The per capita income is about US$270 and the Gross Domestic Product is approximately US$200 million. Estimated population for 1993 is approximately 900,000 people. Sixty percent of the population is under the age of 25.

Mandinka Tribe

The Mandinkas descend from the Mali Empire of the 13th century. Today, they are primarily engaged in business and farming. Farming consists primarily of groundnut production. Many prominent political leaders in The Gambia are Mandinka, the largest tribe in The Gambia.

Wollof

The Wollof tribe immigrated from southern Mauritania to avoid drought and famine. The Wollof tribe is heavily concentrated in the capital and port city of Banjul. They are primarily engaged in trading, fishing, and shipbuilding. Today, the Wollof tribe is also prominent in the business and civil service sectors.

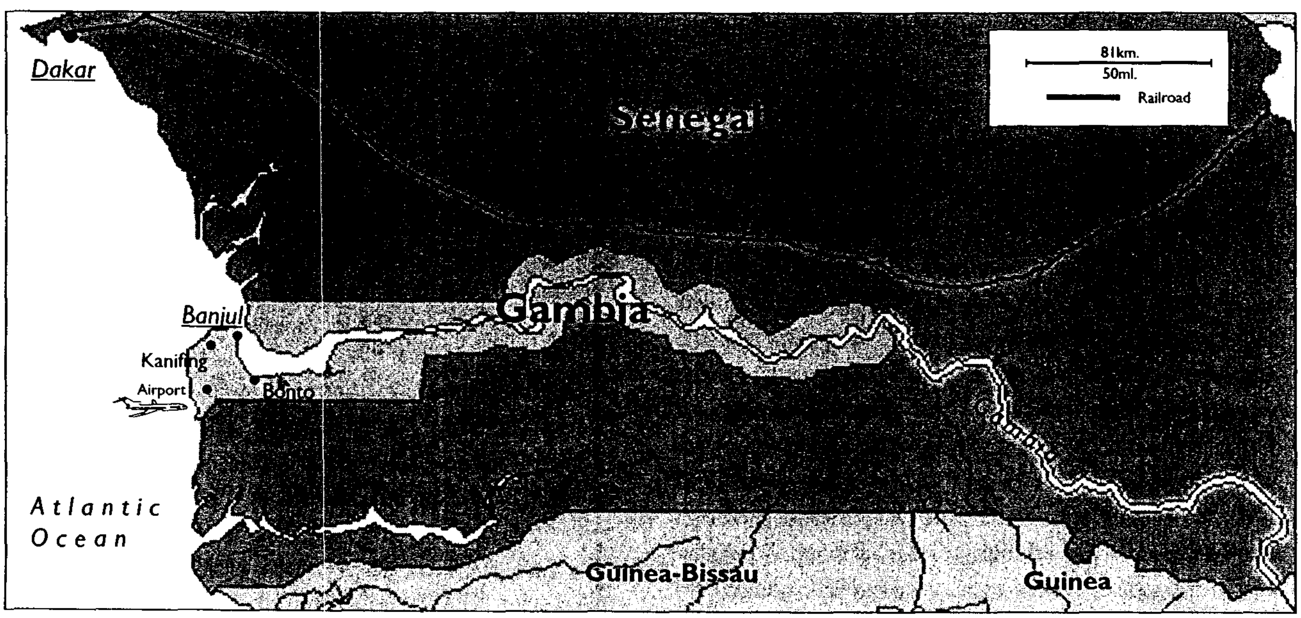
Jolas

The Jolas are primarily from the Casamance region in southern Senegal and from the north in Guinea-Bissau. They are engaged primarily in trades and farming. Today, they have retained many of their traditional trades and farming techniques. Mass immigration from the Casamance region was experienced in 1992 and expected to increase in 1993.

Fulas

The Fula tribe is primarily from the east, where they continue to settle. Many Fula raise cattle and migrate with their herds. Few Fulas live in the villages near Brikama.

MAP OF THE GAMBIA



southbound cargo capacity. With very low southbound demand, Trans-Atlantic Airlines only contracted an airplane for the northbound route, while depending on another charter operator to lease the aircraft for the southbound leg. Redcoat leased both the north and southbound legs, but to different customers. Redcoat flights to The Gambia were erratic due to delays in Nigeria of up to three days and to periodic weekly cancellations of the southbound leg stemming from insufficient consumer demand in the United Kingdom.

AIRPORT SECURITY AND SAFETY STANDARDS

Airport security remained a problem at the Banjul International Airport. In 1992, the U.S. Federal Aviation Authority (FAA) sighted airport security as the primary reason for refusing Air Gambia's request for a direct route to New York. Passenger luggage was searched manually by airport security. No x-ray machines were provided for assistance. Air cargo was not inspected. Although The Gambia was historically peaceful, many passenger airliners refused handling air cargo because of international terrorism.

All cargo handling was performed by Gambia Airways, the government owned airline. The airport weighing station was nonoperational, violating international safety standards. Only one hydraulic lift, used for loading produce, was functional. The other two machines were left in disrepair. In October 1992, The G.O.G. approved Redcoat's plans to construct a cargo handling facility. The new facility would be used exclusively for air cargo and managed privately by Redcoat.

Long-term strategies to increase produce export and to develop new markets in North America were dependent upon the government's action to improve the airport facilities. Without structural adjustments to the airport, the North American markets would remain closed to Gambian growers, and air cargo transport to Europe would remain limited on passenger flights.

Management Issues

On Saturday morning, Mr. Moukhtara entered his office at 8:00 am. He reviewed his marketing projections on his lap-top computer and realized that serious barriers to a successful season remained. He turned to his black 1960-style dial telephone and called on his friend David, the owner of Konyn, a produce wholesaler in the United Kingdom:

> David, you know we (Bonto Farm) face a double edged sword this year. On the one hand, we must reserve cargo space for our produce. This is a commitment that we must pay for in advance, and pay even in the event that we do not ship. On the other extreme, if we do not reserve cargo space and demand is high in Europe, then our produce rots in the field. In addition, I have to fight against government subsidies on Israeli melons, and sell to a European market that is in recession. Please be frank with me outside the constraints of your office. David, what course of action should I pursue?

On the black and white screen, Mr. Moukhtara outlined the problems. With many variables outside his control, he decided that the success of the coming season would determine any long-term plan to stay in the horticulture business. Without a secure market and dependable transport, he wondered if this season or any other future season could be planned before the winter selling opportunities got underway. Mr. Moukhtara realized the importance of developing an immediate action plan for the coming horticulture season. His crops were beginning to mature and he had an uneasy feeling that he did not plan properly for the transport of his produce to the European market. Mr. Moukhtara felt that long-term planning was necessary to ensure future success in horticulture export. He wondered if the distribution constraints could be overcome. He pondered whether or not to reduce the total hectares next season, or simply exit the horticulture business altogether.

Note

[1]This case was prepared by Jonathan J. Bhushan of Columbia Business School. The case is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. The author expresses appreciation to Sayed Moukhtara of Sifoe Agricultural Farm (Gambia) Limited.

[2]Franc Communauté Financière Africaine, or F.CFA, was used by as many as 14 West African nations that were former colonies of France. It is pegged to the French franc at 50 F.CFA to 1 FF.

[3]Bonto Farm did not export directly to supermarkets. Supermarkets required a consistent supply of produce, enforced through contractual agreement. Such a commitment was not possible due to erratic air freight transport from The Gambia to Europe.