DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

EBS/82/17

CONFIDENTIAL

January 26, 1982

To: Members of the Executive Board

From: The Secretary

Subject: The Gambia - Request for Stand-By Arrangement and Approval of Multiple Currency Practice

Attached for consideration by the Executive Directors is a paper on a request from The Gambia for a stand-by arrangement equivalent to SDR 16.9 million. A draft decision appears on page 30.

This subject has been tentatively scheduled for discussion on Monday, February 22, 1982.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

THE GAMBIA

Use of Fund Resources - Request for Stand-By Arrangement and Approval of Multiple Currency Practice

Prepared by the African, Exchange and Trade Relations, and Fiscal Affairs Departments 1/

(In consultation with the Legal Department and the Treasurer's Department)

Approved by J.B. Zulu and W.A. Beveridge

January 25, 1982

I. Introduction

In the attached letter dated January 14, 1982, the Government of The Gambia requests from the Fund a stand-by arrangement for a period of one year, in an amount of SDR 16.9 million, equivalent to 125 per cent of The Gambia's quota of SDR 13.5 million. Of this amount, SDR 8.88 million (65.8 per cent of quota) would be from the enlarged access resources. 2/ A waiver of the limitation in Article V, Section 3(b)(iii) of the Articles of Agreement is required.

As of November 30, 1981, Fund holdings of the Gambian currency amounted to 210.0 per cent of quota (or 110.1 per cent of quota excluding purchases under special facilities). 3/ Of the total amount requested under the proposed arrangement, an initial purchase of SDR 5.58 million would be available upon approval of this arrangement; subsequent purchases could be made, at quarterly intervals, subject to The Gambia satisfying the performance criteria as specified in the stand-by arrangement. Should The Gambia draw the full amount available under the arrangement, the Fund's holdings of The Gambia's currency (after taking into account scheduled repurchases) would rise to 318.4 per cent of quota by the end of the arrangement, or to 238.4 per cent of quota excluding purchases under special facilities. Expected purchases and repurchases by The Gambia during the period of the stand-by arrangement are shown in Table 1.

1/ Discussions that provided the basis for the proposed stand-by arrangement were held in Banjul during October 21-November 5, 1981. The staff team comprised Messrs. Enweze (head-AFR), Vaez-Zadeh (AFR), Kibuka (FAD), and Abrams (ETR) and Mrs. John (secretary-ADM).

2/ Portions of this may be financed from SFF resources.

3/ Summaries of The Gambia's relations with the Fund and the World Bank Group are contained in Annexes A and B, respectively.

Table 1. The Gambia: Proposed Purchases and Repurchases During the Stand-By Arrangement, February 1982-February 1983

(In millions of SDRs; during period)

	Feb. 1982-Mar. 1982	April-June 1982	July-Sept. 1982	Oct. 1982-Feb. 1983	Total
Proposed purchases					
Stand-by arrangement	5.58	2.54	4.39	4.39	16.90
Ordinary resources	2.87	1.15	2.00	2.00	8.02
Enlarged access resources 1/	2.71	1.39	2.39	2.39	8.88
Repurchases	0.58	0.56	0.56	0.57	2.27
Net purchases	5.00	1.98	3.83	3.82	14.63
Total Fund holdings (cumulative, end of period)	33.36	35.34	39.17	42.99	42.99
			(In per cent of quota)		
Total holdings	247.33	261.78	290.15	318.44	318.44
Holdings excluding CFF	151.48	170.30	202.81	238.44	238.44

Sources: Data provided by the Treasurer's Department; and Annex C.

1/ Portions of this may be financed from SFF resources.

A multiple currency practice was introduced by the Government of The Gambia on November 5, 1981, for which the Government seeks Fund approval on a temporary basis. A decision to approve the practice is proposed in this paper.

The proposed stand-by arrangement would reinforce measures under a medium-term program which the authorities had negotiated with the staff in June 1981. The authorities had started to implement these measures, but the program was not sent to the Executive Board for consideration because of the additional problems caused by an attempted coup d'état in July 1981. Recent economic developments and performance under the 1979/80 (July-June) first credit tranche stand-by program are summarized in Section II. The assumptions, targets, and principal components of the stabilization program for which the authorities have requested a stand-by arrangement are described in Section III. The performance criteria under the proposed stand-by arrangement are detailed in Section IV, while the staff appraisal and the decisions proposed for consideration by the Executive Board are contained in Section V.

II. Recent Economic Developments and Performance Under the 1979/80 Stand-By Arrangement

Economic and financial developments through mid-1981 have been reviewed in detail in the staff report on the 1981 Article IV consultation discussions (SM/81/113) and in the report on recent economic developments (SM/81/124); these developments are briefly summarized and updated here.

The economic and financial situation of The Gambia has deteriorated markedly in the past few years, mainly as a result of a substantial decline in groundnut production (which accounts for about 20 per cent of GDP and over 90 per cent of exports) as a result of successive, weather-induced crop failures. At the same time, expansionary monetary and fiscal policies contributed to a rapid increase in imports. Although as a result of a substantial disparity in the tariff levels between The Gambia and neighboring countries and the relatively liberal trade and payments system of The Gambia, some of the increased demand for imports has been for re-export (largely unrecorded) to neighboring countries. Gross official reserves have continued to decline.

The Gambia adopted a financial program in November 1979 for the fiscal year 1979/80 (July-June), which was supported by Fund resources for the balance of the first credit tranche, SDR 1.6 million (EBS/79/580), and by a loan of SDR 3.9 million from the Trust Fund in respect of the second period (TR/79/42). The Gambian authorities implemented the measures envisaged under the program: the required minimum liquidity ratio for the commercial banks was increased from 20 per cent to 30 per cent; interest rates were increased as recommended by a technical assistance mission which the authorities requested from the Fund; and, while not part of the program measures, the required reserve ratios of the commercial banks were increased from 3 per cent to 6 per cent for demand deposits and from 2 per cent to 4 per cent for time deposits. The Government also observed its other policy intentions under the program: although no general wage and salary awards had been made for the preceding five years, wage restraint was maintained. Similarly, as required under the program, the producer prices for groundnuts were not increased in 1979/80; however, increases of 7.8 per cent and 9.2 per cent for handpicked selected (HPS) and unshelled groundnuts, respectively, were implemented in the 1980/81 season. The authorities avoided inappropriate external borrowing policies, in line with the program.

Despite these measures, factors directly related to successive crop failures led to an increase in total domestic credit, as defined in the program, of 29 per cent compared with the 16 per cent envisaged under the program; (however, the recorded increase represented a substantial deceleration from the 79 per cent increase represented in the previous year). First, the Gambia Produce Marketing Board's (GPMB's) resources were virtually depleted because of past crop failures, prompting it to borrow heavily from the banking system. Second, certain public enterprises, which in the past had recourse to nonbank borrowing from the GPMB, were compelled to turn to the banking system. As a result of these developments, bank credit to official entitites at the end of 1979/80 was more than twice the level at the end of the previous fiscal year. By contrast, the rate of increase in private sector credit fell from 34 per cent in 1978/79 to 25 per cent in 1979/80. Similarly, the rate of increase in net credit to Government declined from 60 per cent in 1978/79 to 5 per cent in 1979/80; this decline was facilitated by the reimbursement of aid in 1979/80. In addition, the overall budgetary deficit of D 33.8 million was D 10.0 million lower than programed; more important, the bulk of the deficit was financed by concessionary foreign borrowing, and domestic bank financing declined by D 10.5 million, or more than programed, to D 1.5 million, equivalent to 0.4 per cent of GDP. The net foreign assets of the banking system declined by more than the program targets, and money supply, broadly defined, which was projected to increase by 17 per cent, contracted slightly. Largely on account of a lower increase in export earnings (5.4 per cent compared with a programed increase of 27.2 per cent) and a substantially higher increase in import payments (31.4 per cent compared with a programed increase of 23.8 per cent), the overall balance of payments deficit rose to SDR 16.6 million compared with a program projection of SDR 1.6 million. The deficit was financed by a drawdown of reserves and an accumulation of external arrears.

Since 1979/80 the rate of credit expansion has slowed down further, but the balance of payments has remained under pressure: external arrears increased to an estimated D 46.6 million (SDR 21 million) in June 1981, causing a delay of up to 6-7 months in some payments for imports. In June 1981 The Gambia made a purchase under the compensatory financing facility (EBS/81/117) amounting to D 20.2 million (SDR 9 million, equivalent to 66.7

per cent of quota). Largely as a result of this purchase, gross official reserves stood at D 26.0 million at the end of October 1981, equivalent to 1.1 months of estimated 1981/82 imports.

The Gambia's external debt has been contracted almost entirely on concessionary terms, and the debt service ratio has remained consistently below 1.0 per cent of export earnings. The dalasi is pegged to the pound sterling, and its real trade-weighted exchange rate, which appreciated by 3.8 per cent in 1980, has depreciated by about 5.9 per cent in the first ten months of 1981.

The aborted coup d'état in late July 1981 has created new problems: extensive looting and arson during the disturbances resulted in substantial damage to private (mainly commercial) and public property; tax revenues in 1981/82 are now estimated to decline by about 10 per cent from budgeted levels, while the damages will lead to some unforeseen expenditures; the disturbances highlighted the inadequacy of the present minimal security arrangements (The Gambia had in the past refused to establish a regular army), creating a pressing need to reorganize and strengthen them; prospects are for an estimated decline of 20-25 per cent in tourist earnings this season. On the positive side, barring unseasonal rains, indications are that groundnut deliveries to the Gambia Produce Marketing Board (GPMB) will reach an estimated 100,000 tons this crop season, compared with about 45,000 tons in the previous year. In addition, the receipt of grants (both in cash and in kind) from friendly governments (including about D 21 million from Saudi Arabia) has helped to relieve some of the more pressing budgetary problems. Nevertheless, the economic and financial prospects for the economy would worsen considerably in the absence of continued vigor in implementing corrective measures.

III. Principal Components of the Financial Program for 1981/82

1. Background to the financial program

The preparation of the 1981/82 financial program began in March 1981 when, in the context of the Article IV consultation, preliminary discussions for possible use of Fund resources were held with the authorities. Subsequently, a staff mission visited Banjul in June 1981 and negotiated, ad referendum, a medium-term program which could be supported under the extended arrangement; an IBRD mission which was also in the field favorably evaluated The Gambia's Second Five-Year Development Plan (SFYDP). Although the authorities' letter requesting an extended arrangement and the supporting Memorandum on Economic and Financial Policies of The Gambia were processed by the staff, further action on that request was pre-empted by the abortive coup d'état of July 30, 1981. However, by early August the situation had returned to normal, and, at the request of the authorities, a fact-finding staff team visited Banjul during August/September 1981 to assess the additional difficulties created in the wake of the attempted coup d'état. During a staff meeting with the President at the time of this fact-finding mission, he stated that the confederation, which was envisaged between Senegal and The Gambia, would encompass primarily matters like defense and certain common (mainly external) services, such as telecommunications, that both countries would retain their sovereignty and independence, and that the confederation would eventually include a monetary and economic union. These views were subsequently reiterated in a formal letter dated November 30, 1981 from the President of The Gambia to the Managing Director. In addition, the letter specifically reiterated the Government's decision "to proceed with the one-year stand-by arrangement, as negotiated." In the letter, the President also went on to say that "Nothing in the Senegambian Confederation shall prevent my Government from discharging its international obligations as a sovereign state, or indeed, its obligations as a fully fledged member of the International Monetary Fund."

Meanwhile, as a result of the negotiations in June, the authorities implemented several measures, including the following:

(i) the SFYDP was substantially scaled down to reflect only firm foreign financing;

(ii) an originally envisaged D 15 million housing project was scaled down by over 66 per cent;

(iii) producer prices for groundnuts and rice were increased by 8.7 per cent and 10 per cent, respectively, for the 1981/82 crop season;

(iv) a decision was made to transfer 25 per cent and 15 per cent of future STABEX receipts to the GPMB and the Gambia Cooperative Union (GCU), respectively, in order to strengthen these agricultural institutions;

(v) revenue measures amounting to an estimated 3.6 per cent of GDP were introduced with the 1981/82 budget;

(vi) guidelines were issued to commercial banks regarding the priority ordering for reducing external arrears; and

(vii) revised and stricter guidelines governing external loan guarantees were put into effect.

However, because of the additional problems created by the disturbances in July, the authorities have accorded the highest priority to a program aimed at stabilizing the economic and financial situation. Such a program would be explicitly envisaged as a bridging operation, pending a medium-term program in the period ahead. In the circumstances, the Government has reinforced those policies which were introduced in mid-1981 and has delineated new ones; together, these policies constitute the financial program described in the attached Memorandum on Economic and

Financial Policies of The Gambia, in support of which the authorities are seeking the proposed stand-by arrangement.

2. Principal components of the program

The stabilization program covers the calendar year 1982, which spans parts of two fiscal years. However, detailed targets and policies have been formulated for the first half of the program period, i.e., up to June 1982; the Government will reach understandings with the Fund on a detailed financial program for 1982/83 at the time of the mid-term review of the program (which is a performance criterion) in June 1982. Meanwhile, certain minimal targets and policies for 1982/83 which, on the basis of present indicators, are considered essential for the overall consistency of the financial program have been incorporated in formulating the program.

a. Underlying assumptions and targets

Nominal gross domestic product (GDP) is projected to increase by 25.6 per cent and 18.4 per cent in 1981/82 and 1982/83, respectively (Table 2); this estimate is based on the assumption of a normal level and distribution of rainfall during these years. Reflecting this assumption, groundnut output is expected to recover sharply from 62,000 tons in 1980/81 to 120,000 tons in both 1981/82 and 1982/83; deliveries to the GPMB are projected to increase from 45,000 tons in 1980/81 to 100,000 tons in both 1981/82 and 1982/83. The program also assumes that the terms of trade, which improved by 12.5 per cent in 1980/81, will deteriorate by 22.8 per cent in 1981/82 and will remain largely unchanged in 1982/83. The domestic inflation rate is expected to increase to an estimated 11.0 per cent in 1981/82 and be around 10.0 per cent in 1982/83.

Some indicators of adjustments under the program are presented in Table 3 and are summarized here. The external current account deficit is projected to be reduced by an average of 14 percentage points of GDP, from 41.1 per cent of GDP in 1980/81 to 30.3 per cent and 23.6 per cent in 1981/82 and 1982/83, respectively; the overall balance of payments deficit, which stood at 4.1 per cent of GDP in 1980/81, is projected to be reduced to about 1.2 per cent of GDP in both 1981/82 and 1982/83 (Chart 1A). The ratio of gross domestic expenditures to GDP will decline steadily from 136.2 per cent of GDP in 1980/81 to 124.7 per cent and 118.4 per cent in 1981/82 and 1982/83, respectively (Chart 1B). This decline would comprise reductions in the share of both public and private consumption expenditures in GDP; the former would decline from 22.6 per cent in 1980/81 to 21.9 per cent and 18.9 per cent in 1981/82 and 1982/83, respectively, while the latter would decline from 82.9 per cent in 1980/81 to 79.8 per cent and 79.0 per cent in 1981/82 and 1982/83, respectively. The ratio of gross domestic savings to GDP, which was -5.5 per cent in 1980/81 will improve gradually to -1.7 per cent in 1981/82 and 2.1 per cent in 1982/83.

Table 2. The Gambia: Supply and Use of Resources, 1978/79-1982/83

(In millions of dalasis, at current prices)

	1978/79	1979/80	1980/81	1981/82	1982/83
Gross domestic product	403.6	397.0	410.0	515.0	609.7
Minus: Exports of goods and services 1/	-161.8	-168.7	-130.7	-166.0	-203.2
Plus: Imports of goods and services 1/ 2/	238.2	307.8	279.1	293.0	315.1
Gross domestic expenditures	480.0	536.1	558.4	642.0	721.6
Consumption 2/	387.0	407.9	432.5	523.6	596.8
Private	318.5	320.2	340.0	411.1	481.8
Public	68.5	87.7	92.5	112.5	115.0
Investment	81.5	108.7	84.6	121.6	118.5
Private	20.0	20.0	25.0	40.4	34.3
Official entities	9.2	34.6	8.3	5.5	6.0
Government	52.3	54.1	51.3	75.7	78.2
Change in stocks	11.5	19.5	41.3	-3.2	6.3
Resource gap	-76.4	-139.1	-148.4	-127.0	-111.9
Domestic savings	16.6	-10.9	-22.5	-8.6	12.0
			(In per cent)		
Memorandum items:					
Ratio of:					
Investment to GDP	20.2	27.4	20.6	23.6	19.4
Domestic savings to GDP	4.1	-2.7	-5.5	-1.7	2.1
Private consumption to GDP	78.9	80.7	82.9	79.8	79.0

Sources: Data provided by the Gambian authorities; and staff estimates.

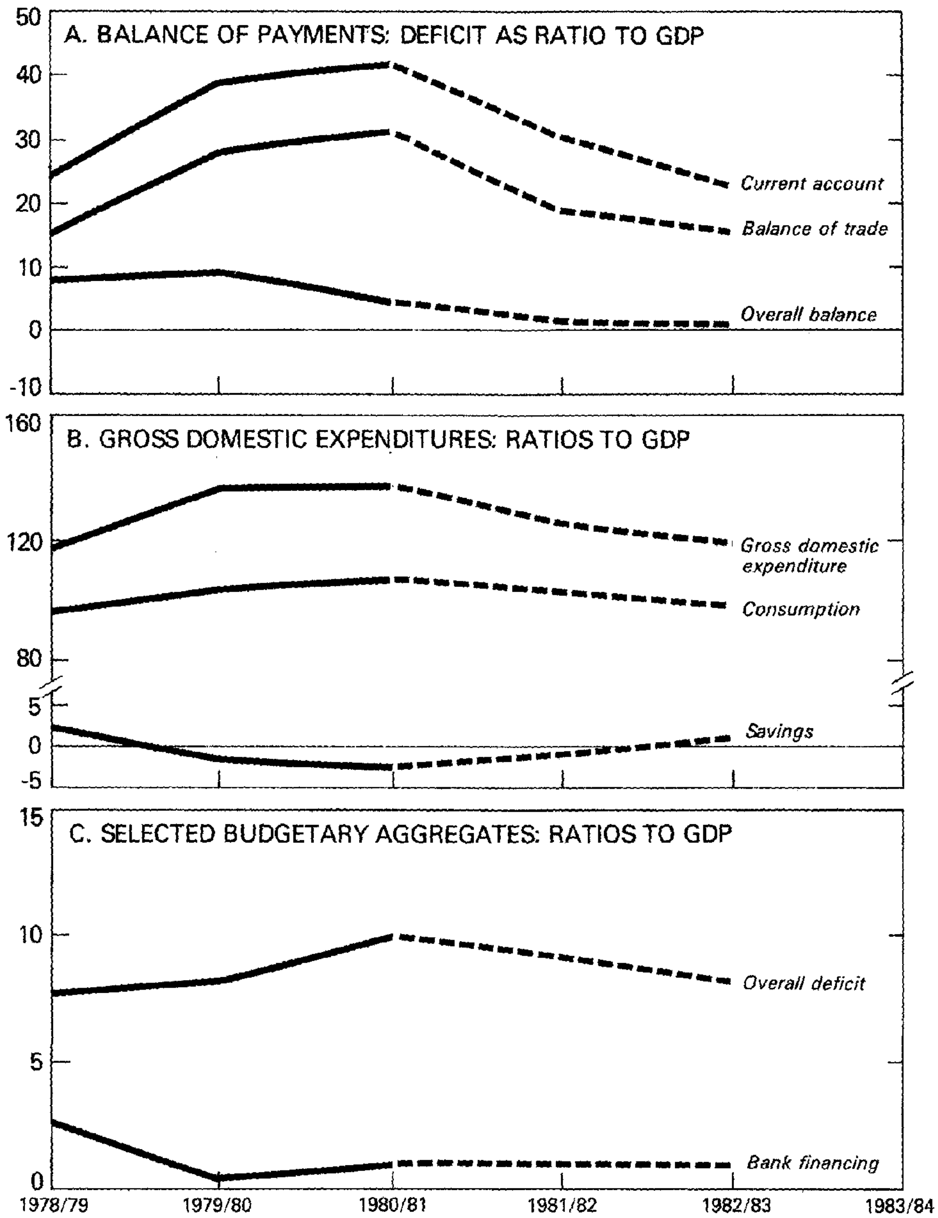
1/ Exports defined here to include exports in the balance of payments. plus travel credits in the balance of payments. Imports defined here to include imports, c.i.f., plus other services and private transfers in the balance of payments.

2/ Excludes technical assistance.

CHART I

THE GAMBIA

SELECTED MACROECONOMIC INDICATORS



Source: Table 3.

Table 3. The Gambia: Selected Economic and Financial Indicators, 1978-83

(In per cent)

	1978	1979	1980	1981 1/	1982	1983
	June				Program proj.	
Trends in income and expenditure						
Growth rate in nominal terms						
Total GDP	1.5	12.3	-1.6	3.3	25.6	18.4
Gross domestic expenditures/GDP	129.7	118.9	135.0	136.2	124.7	118.4
Consumption/GDP	99.4	95.9	102.7	105.5	101.7	97.9
Private/GDP	77.3	78.9	80.7	82.9	79.8	79.0
Public/GDP	22.1	17.0	22.1	22.6	21.8	18.9
Savings/GDP	0.6	4.1	-2.7	-5.5	-1.7	2.1
Prices						
Growth rate						
Consumer price index	10.2	7.6	5.0	10.0	11.0	10.0
Trends in central government finance						
Central government deficit/GDP	9.9	7.2	8.5	10.0	9.2	8.2
Foreign financing/Overall central government deficit	76.7	69.9	88.2	99.5	87.3	83.6
Bank financing/GDP	1.7	2.6	0.4	0.8	1.0	0.9
Trends in selected monetary aggregates						
Growth rates						
Net domestic credit	56.6	51.9	39.2	16.8	14.8	11.0
Credit to Government	55.4	60.3	5.0	10.9	15.4	15.2
Credit to private sector (including public enterprises)	57.3	49.4	48.9	18.0	14.7	10.2
Money and quasi-money	17.2	-2.0	-0.2	18.4	22.2	18.0
Money and quasi-money/GDP	20.7	18.1	18.3	21.0	20.5	20.4
Percentage change in velocity	-14.3	22.9	-6.7	-12.7	2.1	--
Trends in external sector						
Annual changes in the terms of trade	-8.4	-4.5	-19.8	12.5	-22.8	1.0
Exports/GDP	32.2	31.9	34.1	23.3	26.8	25.7
Imports (c.i.f.)/GDP	57.7	54.9	73.1	64.1	54.1	49.5
Oil imports/Total imports	9.3	9.4	9.0	10.3	11.5	10.6
Current account deficit/GDP	26.7	23.8	38.7	41.1	30.3	23.6
External debt/GDP	22.4	17.8	29.4	44.1	59.1	64.2
Gross official reserves in number of months of imports of goods and services	2.6	1.1	0.6	2.3	2.3	1.8

Sources: Data provided by the Gambian authorities; and staff estimates.

1/ Estimates.

The bulk of the projected 14 percentage points reduction in the ratio of the current account deficit to GDP during the program period is expected to result from increased public sector savings and reduced inventory demand. The public sector's contribution to the improved current account deficit will result from a projected increase in public savings from 2.5 per cent of GDP in 1980/81 to an average of 5.1 per cent of GDP during the program period. The ratio of private dissavings to GDP is projected to decline from 8.0 per cent in 1980/81 to an average of 7.0 per cent during the program period. Inventory demand, on the other hand, is projected to decline as a ratio of GDP from 9.9 per cent in 1980/81 to an average of 0.2 per cent during the program period; this decline is largely attributable to a reduction of excessive inventories, partly as a result of uncertainties following the looting involved in the events of July/August 1981. In addition, higher import costs and increased interest rates are also expected to dampen demand.

Several policies being implemented by the authorities should facilitate the realization of these targets. These policies include a reduced budgetary deficit and its associated small amount of bank financing (Chart 1C), the restricted growth in private sector credit (including parastatals), higher interest rates, and improvement in resource allocation through the price mechanism, with special emphasis on economic pricing in the parastatal sector, including public utilities. Indeed, some increase in the expected inflation rate in 1981/82 is directly attributable to the program's emphasis on bringing about some of the needed adjustments and the improvements in resource allocation through the price mechanism. The main policies in the program are described in detail in the following paragraphs; the performance criteria under the program are described in the next main section.

b. Principal components of the program

The policy elements of the program are discussed under the following main headings: agricultural production and pricing policies; fiscal policies (including wage policies and policies related to the nonfinancial public enterprises); monetary policies; and external sector policies (including policies related to external borrowing, external loan guarantees, and the restrictive system). A summary of the financial program is provided in Table 4.

(1) Agricultural production and pricing policies

The SFYDP (1981/82-1985/86) provides the framework for the Government's development strategy; the plan was substantially scaled down in line with resource availability during the negotiations in June 1981. The main objective of the plan is to reduce the economy's heavy dependence on groundnut production through diversifying the agricultural base with a view to attaining self-sufficiency in the production of cereals and other foodstuffs. Consequently, higher priority has been given to investments in directly productive sectors, particularly agriculture.

Table 4. The Gambia: Summary of Financial Program

Main assumptions:	1981/82	1982/83
Groundnut deliveries	100,000 tons	100,000 tons
Export value of groundnuts	D 70.1 million	D 86.9 million
Terms of trade	-22.8 per cent	1.0 per cent
Real GDP growth	13.2 per cent	7.6 million
Targets		
Inflation (per cent)	11.0	10.0
Balance of payments		
- Current account deficit	D 156.2 million (30.3 per cent of GDP)	D 144.1 million (23.6 per cent of GDP)
- Overall deficit	D 6.7 million (1.2 per cent of GDP)	D 6.9 million (1.2 per cent of GDP)

Principle elements of the program

1. Producer prices:

   Groundnuts - increase of 8.7 per cent in 1981/82; increase for 1982/83 to levels which will be determined in June 1982.
   Rice - increase of 10.0 per cent in 1981/82.

2. Retail pricing policies:

   Rice - increase retail price of imported and domestic rice by 29.6 per cent and 20.5 per cent, respectively, in 1981/82; further increases for 1982/83 to be determined in June 1982.
   Fertilizer - increase fertilizer prices by at least 19 per cent in 1981/82; further increase for 1982/83 to be determined in June 1982.
   Public transportation - taxi fares increased by 33.3 per cent; increase of 25 per cent in bus fares under active consideration.
   Energy - continue full pass-through pricing policy for petroleum products;

   - petroleum taxes increased by 54-200 per cent.
   - electricity tariffs increased by 15 per cent in 1981/82; further increase for 1982/83 to be agreed between authorities and the IBRD.

3. Budget:

   Overall deficit to be reduced to 9.2 per cent of GDP in 1981/82.

   - Discretionary revenue effort equivalent to 3.7 per cent of GDP in 1981/82;
   - Bank financing at 1 per cent of GDP in 1981/82;
   - Policies for 1982/83 to be reviewed in June 1982; target to raise at least another 1.4 per cent of GDP in new revenue effort, based largely on recommendations of recent tax mission;
   - Reduce overall deficit to 8.2 per cent of GDP in 1982/83;
   - Keep bank financing in 1982/83 at 0.9 per cent of GDP;
   - Monitorable system of government expenditure allocation now in place.

4. Nonfinancial public enterprises:

   Proposals for monitoring these entities and improving their financial performance slated to go into effect by February 1982.

5. Money and credit:

   Reduce total credit expansion in 1981/82 to 14.8 per cent and limit monetary expansion to 22.2 per cent, with appropriate quarterly ceilings as performance criteria.

   - deposit interest rates increased by 1-3 percentage points; many of these rates now positive in real terms;
   - lending rates also increased; crop production credit favored;
   - ceiling on lending for trade purposes eliminated, subject to minimum rate of 15 per cent;
   - liquidity ratios of banks;
     - neutralize potential liquidity impact of external arrears;
     - compel banks to increase actual ratios by restraining credit.

6. External medium-term borrowing:

   Commitments limited to a possible D 15 million, through December 31, 1982.

7. External arrears:

   Priority ordering issued to the commercial banks for retiring external arrears.

   - Reduce arrears by 18.5 per cent in 1981/82; further reduction for 1982/83 to be negotiated in June 1982.

The IBRD staff has reviewed the Government's investment program and has indicated broad agreement with both its dimensions and its sectoral priorities. The Bank will be the major contributor to the Agricultural Development Program (ADP II) under the SFYDP, which is a continuation of the Rural Development Program (RDP I) under the first plan. The IBRD is currently planning an appraisal of ADP II by mid-1982.

The Government's development strategy for 1981/82 emphasizes the completion of projects carried over from the first plan. A small number of projects which are scheduled to start during the year are aimed at expanding the productive capacity of the economy and at providing the necessary infrastructure for the large-scale agricultural projects which will be undertaken in the latter years of the SFYDP. In line with the overall emphasis of the SFYDP on the productive sectors of the economy, two major projects will be initiated during the year: the first is the modernization of the GPMB's oil mills; the second is the development of the Jakhaly and Pacharr swamps for irrigated rice cultivation.

In line with the Government's policies, the program includes various measures to improve productivity and price relationships in the agricultural sector; the pricing policies in particular are aimed both at preserving the attractiveness of producer prices and at ameliorating the financial problems of the GPMB through a reduction in subsidies. In addition to the producer price increases which were announced for groundnuts in June for the 1981/82 crop season, further increases in producer prices for the 1982/83 crop season will be made, also prior to the planting season; these price increases will be determined at the time of the mid-term review of the program. In the case of rice, the increase in the producer price of 10 per cent in 1981/82 will be accompanied by retail price increases. In the past, the GPMB's profits on the marketing of imported rice had been sufficient to compensate for subsidies to consumers on the local rice. However, the retail prices of both varieties of rice have been kept unchanged since 1978, while the cost of imported rice has been rising; consequently, the GPMB's rice import operations are no longer profitable. The financial program thus calls for price increases for both varieties of rice before the end of the current fiscal year. In addition, in order to encourage a shift of demand from imported rice to the locally produced variety, price increases to be announced for the latter (20.5 per cent) will be smaller than those for the imported rice (29.6 per cent). These increases will represent the first steps in the authorities' efforts to eliminate rice subsidies by the end of 1983/84. In addition, in order to reduce the cost of subsidies for agricultural inputs, the price of fertilizer sold to the farmers will be raised by an average of at least 19 per cent during 1981/82, also as a first step in substantially reducing these subsidies within the next three years. Furthermore, the increases in rice and fertilizer prices will mark a significant beginning in the Government's efforts to rectify the distortions arising from its previous policies in the agricultural sector.

Several other direct measures are being taken to assist institutions in the agricultural sector. Thus, because of the central role of the GPMB in the economy, the Government has decided to assist the GPMB directly to recover from its present financial difficulties; to this end, the old wing of the Atlantic Hotel complex and another government-owned building, with an estimated combined value of some D 6.2 million, have been transferred to the GPMB in discharge of a government debt obligation to the GPMB. As noted earlier, the sharing arrangements of the receipts from STABEX have already been revised in favor of the two major institutions in the agricultural sector, GPMB and GCU, which will now receive 25 per cent and 15 per cent, respectively, of STABEX receipts, compared to 18 per cent and 9 per cent, respectively, in 1980/81. On its part, the GPMB has made a commitment under the program to reduce its operating costs further by at least 5 per cent during 1981/82; the targeted reduction is being sought in the areas of handling, storage, administrative and personnel costs, and the milling cost of the GPMB's local rice marketing operations.

(2) Fiscal policies

During the program period there will be three main areas of focus for fiscal policy. First, stabilization measures have been introduced to contain aggregate demand through a reduction in the size of the overall deficit and a limitation of the Government's net recourse to bank financing to about 1 per cent of GDP, or the equivalent of an annual average of 5.6 per cent of money stock. Thus the size of the budgetary deficit, which reached 10 per cent of GDP in 1980/81, is projected to be gradually reduced to 9.2 per cent in 1981/82 and 8.2 per cent in 1982/83. Second, several tax measures were introduced to reduce the gap in the tariff levels between The Gambia and neighboring countries and to promote energy conservation. Third, the program envisages some reforms in the tax system, while providing for a consolidation of the improvements already attained in budgetary processes and expenditures controls.

The 1981/82 budget as presented in Parliament in early July envisaged a deficit of D 34 million on the basis of revenues and grants of D 122 million and total expenditures of D 156 million (Table 5). On the revenue side, as noted earlier, the budget introduced new tax measures amounting to D 18.2 million, the details of which are provided in Attachment I of the Memorandum on Economic and Financial Policies of The Gambia. The petroleum taxes in the budget amounted to some D 7.3 million, reflecting mainly increased taxes on gasoline, diesel fuel, and kerosene. The tax increases on each product amounted to D 0.4 per liter 1/ and range from 54 per cent to 200 per cent. Various taxes on a number of re-export items like tea, soap, tobacco, and textiles were estimated to generate an additional D 8 million; additional import taxes estimated to yield D 0.2 million

1/ About US$0.20 per liter.

Table 5. The Gambia: Central Government Budgetary Operations, 1979/80-1982/83

(In millions of dalasis)

	1979/80	1980/81	1981/82 Budget	1981/82 Adjusted budget	1981/82 Program	1982/83 Proj.
Revenue and grants	109.0	102.6	122.1	118.5	140.9	143.1
Revenue	98.2	81.0	98.5	100.0	88.6 1/	107.1
Grants	10.8	21.6	23.6	18.5	52.3 2/	27.3
Of which: STABEX	(9.1)	(12.5)	(12.0)	(14.4)	(14.3) 3/	(5.0)
Additional revenue target	--	--	--	--	--	8.7
Expenditures	142.8	143.8	156.1	167.4	188.2	193.2
Current expenditures	87.7	92.5	86.2	93.6 4/	112.5 5/	115.0
Of which: contingency 6/	(--)	(--)	(--)	(--)	(5.5)	(3.0)
Development expenditure	55.1 7/	51.3	69.9	73.8	75.7	78.2
Overall surplus/deficit (-)	-33.8	-41.2	-34.0	-48.9	-47.3	-50.1
Total financing (net)	33.8	41.2	34.0	48.9	47.3	50.1
Foreign financing (net)	29.8	41.0	...	36.7	41.3	41.9
Domestic financing (net)	4.0	0.2	...	12.2	6.0	8.2
Bank financing	(1.5)	(3.2)	(...)	(6.4)	(5.0)	(5.7)
Other	(2.5)	(-3.0)	(...)	(5.8)	(1.0)	(2.5)
Memorandum items:						
			(As a percentage of GDP)			
Revenues	24.7	19.8	19.1	19.4	17.2	19.0
Grants	2.7	5.3	4.6	3.6	10.2	4.5
Total expenditure	36.0	35.1	30.3	32.5	36.5	31.7
Surplus/deficit	8.5	10.0	6.6	9.5	9.2	8.2
Bank financing	0.4	0.8	...	1.2	1.0	0.9

Sources: Government estimates of revenues and expenditures; and staff estimates.

1/ Reflects a shortfall of D 5 million in income tax receipts and D 7.5 million in customs receipts (D 6 million compared to the budget estimates) a D 0.9 million increase in groundnut export taxes, and an estimated D 0.2 million in new tax measures.
2/ Includes D 22.2 million in grants from Saudi Arabia, Ivory Coast, the People's Republic of China, and local donations.
3/ Cash grants including STABEX receipts and grants from Kuwait, Qatar, and Abu Dhabi.
4/ Includes D 2.9 million for general increase in public sector salaries and D 5.4 million additional provisions for goods and services in view of underestimation in the budget.
5/ Includes D 0.5 million for security forces salary review and D 12 million in special grants and reconstruction expenditures resulting from the disturbances in July 1981.
6/ In respect of security arrangements.
7/ Includes D 2 million in net lending.

were introduced in January 1982. The authorities expect that, as these measures take effect, imports, which constitute an important revenue base, are likely to be adversely affected. In anticipation of such a development and to counter expected gradual reductions in STABEX grants, the authorities intend to identify additional sources of revenue in the medium term. Accordingly, they have requested technical assistance from the Fund. The tax mission's report is currently under preparation, and the authorities expect to incorporate some of its recommendations in the 1982/83 budget.

On the expenditure side, the original budgetary estimates included current expenditures of D 86.2 million and development expenditures of D 69.9 million. However, the current expenditure estimates reflected significant underprovisions in several important areas. Consequently, the budget was adjusted in the context of the discussions with the staff in June 1981, largely to reflect more realistic levels of expenditures. On the basis of these changes, the adjusted budget resulted in an overall deficit of about D 49 million, equivalent to 9.5 per cent of GDP, and its associated bank financing was estimated at 1.2 per cent of GDP.

Following the attempted coup d'êtat in July 1981, revisions in the adjusted budgetary estimates became inevitable; it is on the basis of these new revisions that the stabilization program has been formulated. Largely as a result of the recent disturbances, the estimated budgetary outcome under the program is predicated on an estimated revenue outturn of D 89.3 million, reflecting mainly D 10 million in net shortfall in income tax and customs recipts. For the same reason grants are estimated to be D 33.1 million higher, thanks to emergency grants from several countries (including D 21 million from Saudi Arabia); this increase is expected to occur despite a possible shortfall in STABEX cash grants. Current expenditures are estimated at about D 113 million, or D 19 million above the level of the adjusted budget; the additional amount includes D 0.5 million in respect of a review of the salary structure of security forces, D 12.0 million in reconstruction-related expenditures and grants, and D 5.5 million for security-related expenditures. The current expenditure estimates also include a nonretroactive salary increase averaging 13 per cent, which the authorities granted in January 1982. The revised estimate for development expenditures of D 75.7 million is based on an 80 per cent rate of project implementation and includes D 16 million in domestic cost component. Total expenditures are thus estimated to total D 188.3 million. The overall deficit is estimated at D 47.3 million; domestic financing of the budget deficit will amount to a total of D 6 million, of which D 5 million, or 1 per cent of GDP, will be recourse to the banking sector.

In order to enhance budgetary expenditure controls, the authorities have embarked on a number of measures. Starting with 1981/82 the authorities introduced a system of quarterly expenditure allotments (including regular monitoring of disbursements) and the preauditing of all payments. Details of the quarterly allotments for 1981/82 are provided in the table included in Attachment III of the Memorandum on Economic and Financial

Policies of The Gambia. Available information for the first quarter (July 1-September 30) indicates that both current and development expenditures were within the prescribed allotments; overall preliminary actual expenditures were D 32.37 million, compared to an allotment of D 40.43 million. Other measures include a freeze on certain categories of recruitment, except in emergencies, and a strengthening of the existing system of precommitment authorization of all orders exceeding D 5,000. In addition, the authorities have launched a study to review procedures relating to the placement of orders, supply of stores, and payments by the Government. Furthermore, in order to execute the budget more efficiently, the authorities have initiated measures to improve the monthly monitoring of revenue data, as well as continuous central bank monitoring of government recourse to bank financing.

A deficit of about D 50 million, or 8.2 per cent of GDP, is projected for 1982/83, with estimated recourse to bank financing of D 5.7 million, about 0.9 per cent of GDP. This estimate is based on the assumptions that the authorities will implement new revenue measures amounting to D 8.7 million, that there will be some recovery in existing revenue sources, and that grants will return to the trend level of about D 27 million. In addition, current expenditures are estimated at about D 115 million, or about 2 per cent higher than the level in 1981/82, on the assumption that about D 10 million in nonrecurrent reconstruction and emergency appropriations in 1981/82 will not be carried into the next fiscal year. Development expenditures are projected at about D 78 million, with overall expenditures at about D 193 million.

With regard to nonfinancial public enterprises (NPEs), the authorities are concerned that the indebtedness of the NPEs to the banking system has been a major source of credit expansion in recent years. Consequently, in addition to the measures to assist major agricultural institutions discussed earlier, the program includes several other measures which the authorities intend to implement by February 1982 to improve the performance and the monitoring of the NPE sector. Under the proposed measures, the powers of the National Investment Board (NIB), which oversees NPEs in The Gambia, will be enlarged along the lines indicated in paragraph 12 of the authorities' Memorandum on Economic and Financial Policies of The Gambia. Among other things, the proposals (which were approved by the Board of Directors of the NIB in late November 1981) require that the NPEs formulate financial and procurement regulations, adhere strictly to their budgetary provisions, and submit monthly or quarterly budgetary performance reports to the NIB; in addition, bank borrowing by any NPE would need to be justified, and then be limited to a specified percentage of the budgeted revenue of that entity.

In the energy sector, in addition to the tax measures described earlier, the Government intends that, as in the past, all increases in import prices of petroleum products will be fully passed on to consumers. In line with this policy, gasoline prices have been raised in two stages by a total of 58 per cent since June 1981. Subsequently, taxi fares were raised by 33.3 per cent, and a proposal by The Gambia's Public Transport Corporation to raise bus fares by 25 per cent is under active consideration. The Government has also embarked on the implementation of a Recovery Plan for The Gambia Utilities Corporation (GUC), which was agreed with the IBRD under an Energy Sector loan of SDR 1.5 million. Accordingly, the authorities implemented a tariff increase of 15 per cent, as was agreed with the IBRD, on October 15, 1981. The level of tariff increases required in 1982/83 will be reviewed by the authorities, in collaboration with the IBRD, in the light of GUC's fuel costs, including probable savings resulting from conversion to heavy fuel.

(3) Monetary policies

The authorities intend to follow monetary and credit policies which will assist in moderating demand and inflationary pressures in the economy, while ensuring that the legitimate credit needs of the productive sectors are adequately met. To this end, both quantitative credit guidelines and discretionary policies, including a more active interest rate policy, have been deployed. In addition, the rate of expansion in total domestic credit is being reduced from 16.8 per cent in 1980/81 to 14.8 per cent and 11.0 per cent in 1981/82 and 1982/83, respectively; consequently, total domestic credit, which stood at D 205.7 million in June 1981, will amount to D 236.1 million and D 262.1 million in June 1982 and June 1983, respectively. As noted earlier, budgetary policies have been formulated to restrain the bank financing needs of the Government. Specifically, the increase in net credit to Government will be limited to 15.4 per cent in 1981/82, increasing from D 32.5 million at the end of June 1981 to D 37.5 million at the end of June 1982; for 1982/83 net bank credit to the Government is projected to increase by 15.2 per cent to D 43.2 million at the end of June 1983 (Table 6).

Assuming that the Government will fully utilize its allowance for bank credit under the program, the above increases imply a maximum increase in credit to the private sector of 14.7 per cent in 1981/82 and 10.2 per cent in 1982/83; these increases imply a deceleration in the rate of increase in private sector credit from the 18.0 per cent registered in 1980/81. These trends, coupled with projected movements in the net foreign assets of the banking system, would result in an increase in money supply (broadly defined) of 22.2 per cent and 18.0 per cent in 1981/82 and 1982/83, respectively, or less than the increases of 25.6 per cent and 18.4 per cent in nominal GDP in the corresponding years. These increases compare with increases of 18.4 per cent and 3.3 per cent in money supply and GDP, respectively, in 1980/81 when velocity temporarily declined. However, consistent with the restrictive credit policies being implemented by the authorities, the program envisages an increase in velocity of 2.1 per cent in 1981/82; velocity is projected to remain constant thereafter.

Table 6. The Gambia: Monetary Survey, March 1980-September 1981 and Projections, December 1981-June 1983

(In millions of dalasis; end of period)

	1980				1981				1982		1983
	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June	June
								Proj.	Program		
Foreign assets (net)	-32.8	-51.0	-50.6	-51.7	-76.6	-66.9	-77.5	-87.2	-87.2	-78.3	-85.1
Domestic credit	170.1	176.1	176.4	192.6	210.2	205.7	196.1	243.0	250.3	236.1	262.1
Government (net)	29.6	29.3	31.5	22.1	33.2	32.5	14.1	23.0	35.0	37.5	43.2
Private sector and official entities	140.5	146.8	144.9	170.5	177.0	173.2	182.0	220.0	215.3	198.6	218.9
Money and quasi-money	79.3	72.8	79.9	90.1	86.1	86.2	84.1	105.0	115.6	105.4	124.4
Other items	58.0	52.3	45.9	50.8	47.5	52.6	34.5	50.8	47.5	52.4	52.6

Sources: Central Bank of The Gambia; and staff projections.

Quarterly ceilings, which would constitute performance criteria, have been set on net domestic credit and on net credit to Government for the first half of the stand-by program (see Section IV below). In setting these ceilings, account has been taken of the seasonality of credit demand in The Gambia, the need to provide a modest amount for the rehabilitation of private commercial entities which suffered damages during the abortive coup d'état of July 1981, and trends in the Government's credit requirements, including the probable timing of STABEX receipts. In addition, specific assumptions have been made regarding the probable volume and timing of groundnut deliveries and exports.

In line with the quarterly ceilings, the Central Bank of The Gambia has instructed the commercial banks to limit the expansion in credit to the private sector to predetermined quarterly amounts, while making provision for crop credits. However, measures are being put in place to improve the monitoring of seasonal credits and to prevent their diversion to other (usually commercial) purposes. Specifically, crop financing credits will be limited to the marketing agents' cash requirements over a two-week period, and the provision of additional credit will be based on the volume of the crop actually delivered to the GPMB for which a warehouse warrant or a letter of hypothecation has been obtained; the repayment period for crop financing credit has also been shortened from 90 days to 45-60 days.

Measures affecting the liquidity ratios of the commercial banks have also been implemented. As a result of the directives issued by the Central Bank of The Gambia, requesting the commercial banks to place all their local currency counterpart deposits of external arrears in a blocked interest-bearing account with the Central Bank, the required liquidity ratios of all the banks (which hitherto included these deposits in computing their liquid assets) have fallen below the required 30 per cent minimum. The banks have been given until April 1982 to restore their liquidity ratios to the required levels; in any case, consonant with the provisions of the Financial Institutions Act, penalties are being imposed on each bank for as long as its actual liquidity ratio falls short of the prescribed 30 per cent. The authorities expect that these measures should encourage a more cautious lending policy, increase the recall rate on outstanding loans or reduce the roll-over rate on outstanding indebtedness, or a combination of these actions.

In addition to the measures described above, the Central Bank of The Gambia has implemented a new structure of interest rates (see Attachment II of the Memorandum on Economic and Financial Policies of The Gambia), effective November 5, 1981; these increases were over and above the interest rate measures introduced in 1980, along the lines recommended by a technical assistance mission from the Fund. Under the new directive, bank deposit rates have been increased by about 1-3 percentage points, depending on their maturity structure; in most cases the new rates now exceed the estimated inflation rate of about 10 per cent. The Central

Bank's discount rate on credit for crop production was not raised, but that on advances for crop marketing have been increased. Lending rates of the commercial banks have been increased by an average of 1-2 percentage points. More important, the officially determined maximum interest rate on credit for trading purposes has been freed, subject to a floor rate of 15 per cent; the authorities expect that this should help to dampen the demand for credit for imports.

Other measures of a more qualitative nature, but which should also dampen potential credit expansion, include the Government's resolve not to provide any guarantees on credit to commercial entities or to pressure the country's only national bank into lending to parastatal entities.

(4) External sector policies

The Gambia's balance of payments is projected to improve markedly in 1981/82. The deficit on current account is estimated to decrease from D 168.4 million (41.1 per cent of GDP) in 1980/81 to D 156.2 million (30.3 per cent of GDP) in 1981/82, while the deficit on the overall balance is expected to decline from D 16.5 million (4.1 per cent of GDP) in 1980/81 to D 6.7 million (1.2 per cent of GDP) in the current fiscal year (Table 7). On the export side, these projections incorporate a forecast of 100,000 tons of groundnut deliveries in this fiscal year, which implies a return to normal production following two successive poor harvests. The export projections also reflect a decline in groundnut prices, as well as a temporary cessation of groundnut cake imports by two of The Gambia's largest customers. Total tourism receipts are expected to decline by 21 per cent, as a result of adverse publicity from the events of July and August 1981.

In 1981/82 imports are projected to increase by D 14.1 million (6.2 per cent) to D 239.1 million, implying a decline in real terms of 14.4 per cent (Table 8). The projected decline in volume is largely attributable to five factors. First, recent tariff increases enacted to reduce both domestic demand and the re-export trade appear to be achieving the desired results. Second, the low levels of export earnings in recent years, coupled with increased import costs (as a result of external payments arrears and the decline in The Gambia's import-weighted exchange rate (Chart 2)), appear to be constraining import demand. Third, the uncertainties following the looting involved in the July incident appear to have decreased the demand for inventories; this decline constitutes a significant reversal from the large increases in inventories in recent years. Fourth, as a result of high domestic food stocks, especially rice, the volume of food imports is expected to be 13 per cent below its 1980/81 level. Fifth, the restrictive monetary measures are expected to curtail import demand in the private sector, while budgetary restraint, especially the scaled-down development program, should help to restrain import demand in the public sector. As a result of these factors, the trade deficit in 1981/82 is expected to be D 101.2 million (about 22 per cent below last year's level), while the current account deficit is projected to decline by over 7 per cent to D 156.7 million.

Table 7. The Gambia: Balance of Payments, 1978/79-1982/83 1/

(In millions of dalasis)

	1978/79	1979/80	1980/81	1981/82 2/	1982/83 2/
A. Merchandise trade, f.o.b.	-60.77	-113.32	-129.70	-101.23	-102.28
Exports	128.64	135.55	95.35	137.87	156.85
Imports	-189.41	-248.87	-225.05	-239.10	-259.13
B. Services and private transfers	-35.38	-40.23	-38.65	-54.94	-41.81
Freight and insurance	-32.25	-41.53	-37.66	-39.42	-42.87
Travel (credit only)	33.15	32.20	35.35	28.12	46.35
Other services	-34.51	-37.40	-42.57	-50.37	-52.56
Private transfers	-1.77	6.50	6.23	6.73	7.27
C. Current account (A+B)	-96.15	-153.55	-168.35	-156.17	-144.09
D. Capital account (E+F)	67.94	114.83	151.84	149.50	137.12
E. Official capital (net)	51.11	107.49	153.28	149.43	133.75
Official transfers	53.63	68.98	100.39	105.49	88.23
Official loans	-2.52	38.51	52.89	43.94	45.52
F. Private capital (net)	16.83	7.34	-1.44	0.07	3.37
Long-term	20.07	-2.76	4.00	17.50	8.10
Short-term, errors and omissions	-3.60	20.43	-7.06	-15.93	-4.73
Commercial banks	2.51	-2.95	-7.41	3.00	--
GPMB	-2.15	-7.38	9.03	-4.50	--
G. Overall balance (C+D)	-28.21	-38.72	-16.51	-6.67	-6.97
H. Reserves and related items (- increase)	28.21	38.72	16.51	6.67	6.97
SDRs	1.36	-0.88	1.94	--	--
IMF reserve position	--	--	--	--	--
Use of IMF resources	1.23	2.97	19.53 3/	16.82 4/	15.74 4/
Foreign exchange and other items	25.62	15.73	-30.68	-1.53	6.77
Arrears	--	20.90	25.72	-8.62 5/	-15.54 5/

Sources: Central Bank of The Gambia; and staff projections.

1/ Actual exchange rates were D 1 = SDR 0.399 in 1978/79; D 1 = SDR 0.429 in 1979/80; and D 1 = SDR 0.450 in 1980/81; the projected exchange rate for 1981/82 is D 1 = SDR 0.403, and for 1982/83 it is D 1 = SDR 0.406.

2/ Projection.

3/ CFF drawing of D 19.53 million (SDR 9 million) used initially to augment official reserves.

4/ Net of repurchase obligations of SDR 3.39 million (D 8.17 million). Stand-by drawings over the program period amount to D 40.73 million (125 per cent of quota), of which D 19.57 million are to be drawn in 1981/82 and D 21.16 million are to be drawn in 1982/83.

5/ Phased reduction of arrears in 1981/82, projected reduction in 1982/83.

Table 8. The Gambia: Principal Assumptions of Balance of Payments Projections, 1978/79-1982/83

		1978/79	1979/80	1980/81	1981/82	1982/83
Exports, f.o.b. 1/		128.6	135.5	93.4	137.9	156.9
Percentage change:	Volume	5.5	6.8	-42.4	55.3	1.2
	Unit value	5.4	-1.3	20.0	-6.9	12.4
Groundnut products 1/		62.8	55.3	26.9	58.5	68.9
Percentage change:	Volume	-3.6	24.7	-63.9	158.0	--
	Unit value 2/	3.1	-29.4	34.9	-15.7	17.7
Fish and fish products 1/		3.7	6.6	6.4	7.6	13.4
Percentage change:	Volume	-18.0	-8.5	-2.2	6.6	40.4
	Unit value 3/	57.5	97.8	-1.5	12.5	25.0
Imports, c.i.f. 1/		221.7	290.4	262.7	274.4	302.0
Percentage change:	Volume	-3.2	6.6	-16.6	-14.4	1.1
	Unit value	10.4	22.9	8.5	22.0	8.9
Food 1/		48.8	63.9	63.8	66.0	69.0
Percentage change:	Volume	-10.7	13.7	6.6	-13.1	-2.4
	Unit value	16.0	15.2	-6.3	19.0	7.1
Tourism expenditures (credit only) 1/		33.2	32.2	35.4	28.1	46.4
Percentage change						
Number of guests		53.4	-7.8	-13.7	-21.7	45.7
Average expenditure		21.7	4.4	27.2	1.6	13.1

Sources: Central Bank of The Gambia; and staff projections.

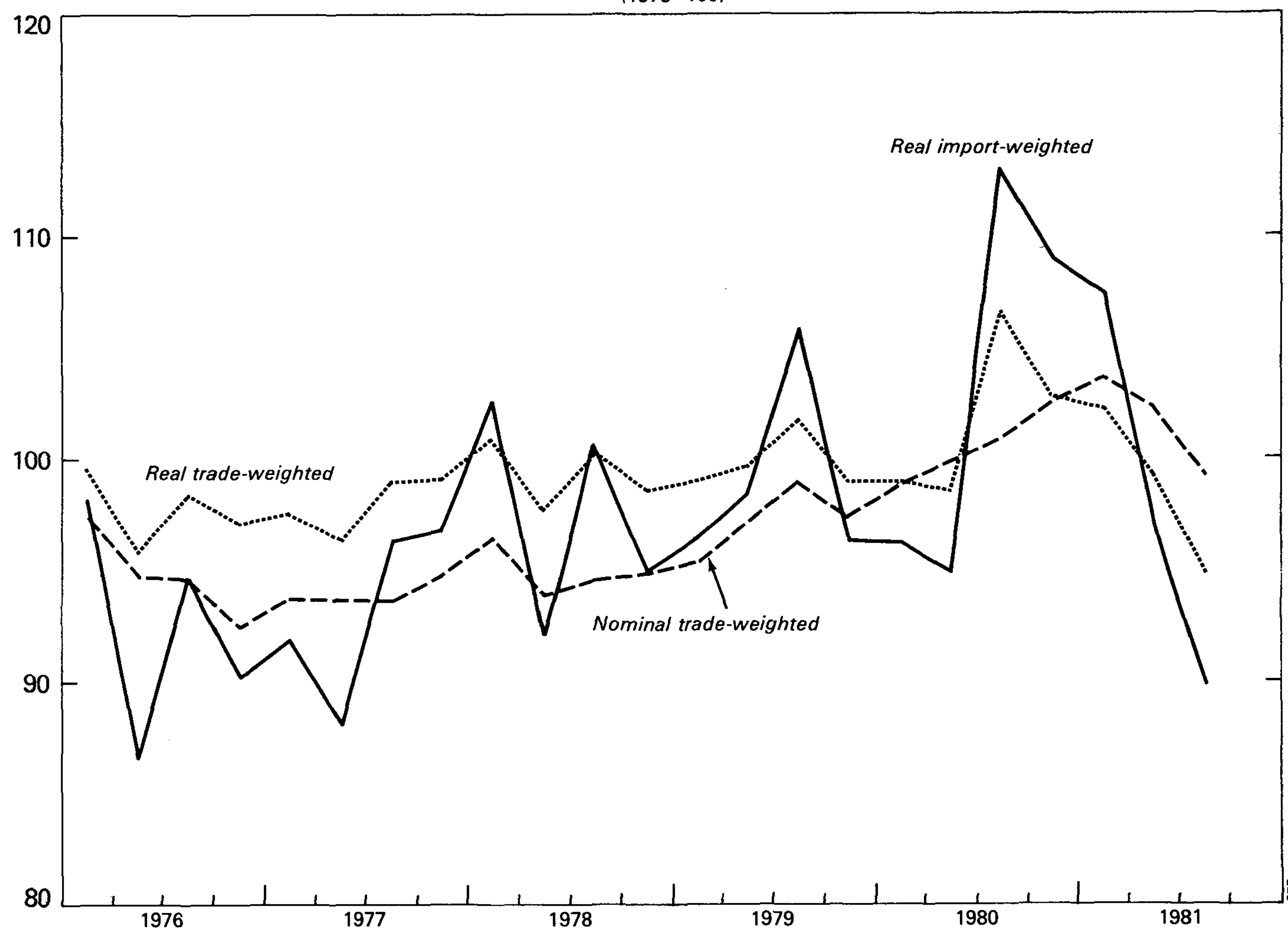
1/ In millions of dalasis.
2/ Changes in unit value also reflect shifts in production mix.
3/ Unit value prices of fish heavily reflect export valuation changes.

CHART 2

THE GAMBIA

INDICES OF EFFECTIVE EXCHANGE RATES

(1975 = 100)



Source: Data provided by the Gambian authorities and staff estimates.

The Gambia's current account deficit will be largely financed by official capital inflows. During 1981/82 The Gambia is projected to have a net inflow of official foreign capital of D 149.4 million, of which 71 per cent will be grants. These estimates are based on the authorities' scaled-down development plan, which includes only projects for which firm funding commitments in the form of grants or concessionary loans have been secured. Private capital inflows are expected to be small, with the net private capital account in balance. Given these estimates, the deficit in the overall balance of payments is also projected to improve, from a deficit of D 16.5 million in 1980/81 to a deficit of D 6.7 million in 1981/82.

During 1981/82 the Government intends to reduce external payments arrears by at least D 8.6 million (18.5 per cent), from D 46.6 million at the end of June 1981 to D 38.0 million at the end of June 1982. However, if quarterly groundnut export earnings significantly exceed projections, the Government intends to accelerate the reduction in external payments arrears. To facilitate the orderly retirement of arrears, the Central Bank has issued guidelines to the commercial banks giving priority in the allocation of foreign exchange to public debt service and other government payments and payments for food and fuel; other foreign obligations are being settled on a first-in-first-out basis.

In order to monitor outstanding external payments arrears and to neutralize their potential domestic monetary impact, the Government of The Gambia has required that the domestic counterpart of arrears be deposited in a blocked account at the Central Bank of The Gambia effective November 5, 1981; the interest rate paid on these deposits is 2 per cent per annum. Given that the average waiting period for the retirement of arrears on nonpriority items is approximately six months, and that the lending rate is currently about 15 per cent per annum, the implicit cost to importers is approximately 6 per cent. These arrangements therefore give rise to a multiple currency practice, requiring approval under Article VIII, Section 3.

During the program period the Government will attempt to increase the proportion of export proceeds surrendered to the domestic banking system, especially from fish products, re-exports, and tourism. At present, only a small proportion of foreign exchange revenues from the re-export trade return to the domestic banking system, and the dominant fishing company returns only limited quantities of its foreign exchange earnings; in addition, the hotel industry retains some of its foreign exchange receipts. The measures envisaged by the authorities will involve mainly the strengthening of the existing administrative procedures for enforcing surrender requirements.

The Gambia's external public debt has been contracted almost exclusively on concessionary terms. During the first five-year plan the ratio of external debt to GDP increased from 9.6 per cent in 1975/76 to 29.4 per cent in 1979/80 and an estimated 39.4 per cent in 1980/81; however, the loans contracted during this period were of a concessionary nature, and the ratio of debt service payments to export earnings has remained under 1 per cent. It is the authorities' intention to preserve The Gambia's favorable debt service profile and to continue to exercise vigilance with respect to the maturity structure of its indebtedness. Consequently, with the possible exception of one project (see Attachment V of the Memorandum on Economic and Financial Policies of The Gambia), the authorities do not intend to undertake any government or government-guaranteed nonconcessionary external borrowing in the 1-10 year maturity range. External loans with maturities of greater than 10 years may receive government guarantees only when they are to be used to finance activities consistent with the priorities of the country's Development Plan.

At present, The Gambia's exports remain internationally competitive; however, The Gambia's exchange rate policy will be re-examined during the mid-year review, in the light of prevailing circumstances and prospects.

Export proceeds are expected to increase by 13.8 per cent in 1982/83, largely as a result of higher fish and groundnut prices, a more profitable groundnut export mix, and an expanding fisheries sector. The trade balance, however, will be effectively unchanged from 1981/82 because of a marginal increase in imports and higher import prices. Sharply higher travel receipts resulting from a recovery of the tourism sector are expected to contribute to a contraction of the current account deficit by over 9 per cent to D 144.1 million, equivalent to 23.6 per cent of GDP. The overall balance, on the other hand, is expected to be effectively unchanged as a result of a projected 10 per cent reduction in net official capital inflows.

The Gambia maintains a liberal exchange and trade system, and the Government has successfully contained recent pressures for the imposition of import quotas and exchange restrictions. It is the Government's intention not to introduce any new or to intensify existing restrictions on current international transactions for balance of payments purposes.

IV. Performance Criteria and the June Review

(a) Total domestic credit from the banking system and net bank credit to the Government will be limited on March 31, 1982 and June 30, 1982 to the ceilings and subceilings, respectively, indicated in Table 9.

(b) As an absolute minimum, external payments arrears will be reduced by 18.5 per cent from D 46.6 million in June 1981 to D 38.0 million in June 1982; the ceiling for March 1982 is D 40.0 million (Table 9).

(c) The cumulative amount of newly contracted government or government-guaranteed external borrowing in the 1-10 year category will not exceed D 15 million during the period from November 5, 1981 through December 31, 1982.

Table 9. The Gambia: Quarterly Quantitative Performance Criteria for the Period Through June 30, 1982

(In millions of dalasis; end of period)

	1981			1982	
	June Actual	Sept. Actual	Dec. 1/ Projection	March Ceilings	June Ceilings
Net credit to Government 2/	32.5	14.1	23.0	35.0	37.5
Total domestic credit 3/	205.7	196.1 4/	243.0	250.3	236.1
External payments arrears 5/	46.6	33.0	42.0	40.0	38.0
New external borrowing (cumulative) 1-10 years maturity 6/	--	--	15.0	15.0	15.0

Source: Memorandum on Economic and Financial Policies of The Gambia.

1/ Not performance criteria.

2/ Defined as the sum of the banking system's claims on the Government, less government deposits, plus any use by the Government of the local currency counterpart of SDR allocations, plus any use by the Government of the local counterpart of purchases from the Fund.

3/ Defined as the sum of net credit to the Government plus claims on the private sector (including official entities).

4/ Provisional estimate.

5/ Defined as the sum of arrears in respect of official debt service payments and in respect of commercial payments.

6/ Starting from November 5, 1981 through December 31, 1982.

(d) During the program period the Government does not intend to impose restrictions on payments and transfers for current international transactions or to conclude bilateral payments agreements with Fund member countries. The Government does not intend to impose new or intensify existing import restrictions for balance of payments reasons.

(e) The authorities and the Fund staff will undertake a review of the program by mid-June 1982, and understandings will be reached with the Fund on the following areas:

(i) Ceilings on total domestic credit from the banking system and subceilings on net credit to the Government as of September 30, 1982 and December 31, 1982;

(ii) ceilings on external payments arrears as of September 30, 1982 and December 31, 1982; and

(iii) a detailed financial program for 1982/83, including understandings on exchange rate policy.

The first purchase, equivalent to 33.0 per cent of the total arrangement, could be made upon approval of the stand-by arrangement by the Fund. The second purchase, equivalent to 15.0 per cent of the total arrangement, could be made, subject to the satisfaction of the performance criteria as of March 31, 1982. The third and fourth purchases, each equivalent to 26.0 per cent of the total arrangement, could be made, subject to reaching understandings with the Fund as indicated in (e) above, and subject to the satisfaction of the relevant performance criteria for June 30, 1982 and September 30, 1982.

V. Staff Appraisal and Proposed Decision

The Gambia's recent economic and financial difficulties arose in large part from the poor performance of the groundnut sector, following a series of weather-related problems; the terms of trade have also been generally deteriorating, mainly as a result of rapid increases in import prices, including oil. However, these problems have been compounded by expansionary credit policies, resulting in an unsustainably high pace of import demand, the depletion of the country's limited foreign reserves, and the emergence of external payments arrears.

By mid-1981 the Gambian authorities began to address these problems in a substantive manner, within the framework of a medium-term program which was aimed at diversifying and restructuring the economy and reducing internal and external imbalances. In this connection, an appropriate level of investment is being redirected into the productive sectors of the economy, in an effort to arrest the declining trend in real income and to increase domestic food production. In addition, several pricing, monetary, and fiscal measures are being implemented to curtail import demand, to limit the current account and the cumulative overall balance of payments deficits to sustainable levels, and to substantially reduce external payments arrears. Following the disturbances of late July/early August 1981, the Gambian authorities appropriately reoriented their priorities toward stabilizing the economic and financial situation, while retaining the focus and the momentum of their efforts to diversify and restructure the economy. Accordingly, they are continuing to implement policies aimed at bringing about major adjustments in the economy. Thus, despite the adverse budgetary implications of recent developments, the ratio of the overall budget deficit to GDP will be reduced, while keeping the ratio of bank financing of the budget deficit to GDP at only 1 per cent. Similarly, despite the unfavorable prospects for tourism this fiscal year, the ratio of the current account deficit to GDP will be substantially reduced (by some 11 percentage points) within the framework of the existing relatively liberal trade and payments system; as a result, the overall balance of payments deficit will decline by some SDR 4.8 million to SDR 2.7 million (about 1.2 per cent of GDP), thus providing scope for a substantial reduction in external payments arrears. Although the evolution of these program targets also depends to an important extent on weather conditions, the authorities have, for their part, embarked on the implementation of several specific policy measures designed to attain these objectives.

The authorities' stabilization efforts are being pursued within the framework of a development plan which limits investment expenditures to only firm commitments of external financing; more important, the Government's intention to redirect investments into the productive sectors of the economy (including tourism) is reflected under the plan in the increased share of investment in the agricultural and public utility sectors. The IBRD and the Fund staffs are satisfied that the plan is realistic, in terms of both its size and financing, and that the sectoral priorities reflect the need to channel investments into the productive sectors of the economy, particularly agriculture. In addition, within the framework of the plan, energy policies are aimed at conservation and at encouraging investments in alternative, non-oil, indigeneous energy sources, such as groundnut shell briquettes. The credibility of the Government's conservation efforts in the energy sector has been enhanced by the sharp escalation of petroleum taxes by 54-200 per cent in the 1981/82 budget. Agreement has also been reached with the IBRD for an energy sector loan under which electricity tariffs were increased in October 1981; the modalities of further tariff increases for 1982/83 will be reviewed by the authorities in collaboration with the IBRD.

In the agricultural sector, increases in the producer prices for groundnuts and rice were implemented as negotiated with the staff in June 1981; indeed, the authorities report a very favorable farmer response to the groundnut producer price increase which was announced, for the first time, prior to the start of the planting season. These increases notwithstanding, the authorities will increase producer prices further for the next crop season to levels which will be determined during the mid-term review of the program. Measures to attain cost-effectiveness in the operations of the Produce Marketing Board are also being implemented. In addition, several government actions which hitherto compromised the effectiveness of the Produce Marketing Board have been reappraised and are now being rectified: an increased share of STABEX resources will be transferred to the Marketing Board, and the Government's large outstanding indebtedness to it has been discharged. The subsidies on rice and fertilizers which have entailed losses for the Marketing Board will be substantially reduced through increases in the retail prices of these items; these increases are still intended, as under the earlier-negotiated EFF program, to represent the first steps in the authorities' proposals to eliminate rice subsidies and substantially reduce fertilizer subsidies by the end of 1983/84.

Where fiscal policies are concerned, the authorities have already implemented exceptionally strong revenue measures in connection with the 1981/82 budget; in addition to petroleum tax increases, the bulk of the new tax measures related to imported items, including items which feature prominently in the unrecorded re-export trade. Although the existing expenditure control mechanism has led to a marked deceleration in the rate of growth of expenditures, the authorities' determination to reduce the growth of expenditures further has been given tangible expression in the form of additional new initiatives: significant savings on personal emoluments have been targeted; an expanded system of pre-commitment approval and a system of preauditing of payments are now in force; and an intensive mechanism for the quarterly allotment of expenditures and for the monitoring of trends in the Government's fiscal position is also in place. Furthermore, the report of the Fund tax mission, which is currently under preparation, and the results of the studies which the authorities have initiated on the expenditure side in the areas of personnel recruitment, staff redeployment, and the management of stores should be available for consideration at the time of the mid-term review of the program, with a view to further improvements in the overall fiscal position.

In the nonfinancial public enterprises (NPE) sector, the implementation of the authorities' proposals for improving the financial performance of NPEs is imminent. It will be reinforced by the continued rectification of price distortions in the NPE sector, through the adoption of pricing policies in line with the underlying cost structure of production and by the Government's commitment to refrain from pressuring the national bank to lend to parastatal entities.

Several monetary and credit policies have been launched by the authorities in 1981/82. The new measures to neutralize the potential liquidity impact of the local currency counterpart of external arrears will effectively reduce the liquidity ratios of the banks, exerting a restraining effect on credit expansion. Similarly, to reinforce the interest rate increase of 1980, further substantive increases in interest rates have again been implemented under the program; these increases should help to restrain domestic demand and increase financial savings. The Government has also given a strong commitment to refrain from providing guarantees for borrowing by commercial entities. These measures are being reinforced by the quantitative credit guidelines which have been issued to each of the commercial banks. At the same time, care is being exercised to ensure that the genuine crop financing credit needs of the economy will not be compromised, and that crop credits are not diverted to nonseasonal (usually commercial) uses.

Notwithstanding the increased requirements for imports in connection with the development plan, the program calls for a substantial reduction in the current account deficit/GDP ratio. This reduction is predicated partly on the expected recovery in groundnut exports but also on the effects of the adjustment policies being implemented by the authorities, including the various import tax measures undertaken to narrow the substantial differentials in tariff levels between The Gambia and Senegal. In the past the tariff differentials, and the relatively liberal trade system of The Gambia, have contributed to an unsustainably high rate of growth of nonessential imports and illicit re-exports, which deplete the country's official foreign exchange reserves. Furthermore, the implementation of the authorities' commitment to reduce external arrears substantially should assist in eliminating the mark-up of imports to cover risk of nonpayment or delayed payment, and in increasing confidence in the economy. At the same time, the authorities are determined to safeguard the favorable debt profile of the country which has resulted in The Gambia's present low ratio of debt service payments to exports (less than 1 per cent); they intend to eschew nonconcessionary government or government-guaranteeed external borrowing in the 1-10 year maturity range, and to enforce rigorously the new guidelines for government-guaranteed external loans, which, among other things, limit guarantees only to projects in the plan.

Barring major adverse exogenous developments, such as those related to the weather, the staff expects that the continued implementation of the measures proposed by the authorities should substantially improve the underlying budgetary and balance of payments positions, while at the same time attenuating inflationary tendencies in the economy. Although the program incorporates reasonable assumptions about the likely course of relatively uncertain exogenous factors, the Gambian authorities are cognizant of the need to monitor the program carefully and to implement appropriate measures, without delay, should the assumptions underlying the program not be realized. Continuing vigilance will also need to be exercised by the authorities to avoid slippages in the implementation of measures under the program; in this context, the monitorable system of government expenditure controls now in operation already appears to be containing expenditures within the targeted amounts.

The staff notes the intention of the Gambian authorities to channel more export proceeds through the domestic banking system and to reduce and eventually eliminate all outstanding payments arrears and the associated multiple currency practice. It is therefore proposed that the Executive Board grant approval to The Gambia for the maintenance of the multiple currency practice arising from the costs associated with the blocked counterpart deposits with the Central Bank of The Gambia until December 31, 1982 or the completion of the next Article IV consultation, whichever is earlier.

The staff notes the intentions of the Gambian authorities, as stated in the President's letter to the Managing Director, and in subsequent communication to the staff; on this basis, the staff is satisfied that The Gambia will meet its obligations as a separate member of the Fund during the period of the stand-by arrangement.

On the basis of the measures already in place and those envisaged for the first half of the program year, the staff believes that the program for which the Gambian authorities have requested Fund assistance in the form of a stand-by arrangement is deserving of Fund support. The authorities have also indicated that they are prepared to review the program periodically and adopt additional measures, when necessary, to ensure that the objectives of the program are achieved.

Accordingly, the following draft decision is proposed for adoption by the Executive Board:

1. The Government of The Gambia has requested a stand-by arrangement for the period February , 1982-February , 1983 for an amount equivalent to SDR 16.9 million.

2. The Fund approves the stand-by arrangement attached to EBS/82/17 and waives the limitation in Article V, Section 3(b)(iii).

3. The Fund grants approval for the maintenance by The Gambia of the multiple currency practice arising from the counterpart deposit requirement for external payments arrears, as described in EBS/82/17, until December 31, 1982 or the completion of the next Article IV consultation, whichever is earlier.

Relations with the Fund
(As of November 30, 1981)

IMF data

Date of membership	September 21, 1967
Quota	SDR 13.5 million
Intervention currency and the rate	Pound sterling; £1 = D 4
SDR/Local currency equivalent	SDR 1 = D 2.3974
Fund holdings of dalasis as per cent of quota	210.0
Of which: CFF	100.00
Holdings of SDRs	SDR 0.3 million (0.93 per cent of net cumulative allocation of SDR 5.1 million)
Trust Fund loan disbursement (first period)	SDR 2.9 million
Trust Fund loan disbursement (second period)	SDR 3.9 million
Direct distribution of profits from gold sales	US$1,113,705
Gold distribution	5,819.577 fine ounces

Staff visits

Staff visits	November/December 1981 August/September 1981 July 1981
Use of Fund resources	October/November 1981 June 1981
Last Article IV consultation and preliminary discussions on use of Fund resources	March 1981

The Gambia: IBRD Lending Operations
(As of November 30, 1981)

(In millions of U.S. dollars)

	Amount	
	Disbursed	Undisbursed
Purpose		
Port of Banjul project	2.1	--
Agricultural project	1.3	--
Improvement of Port of Banjul	4.5	--
Infrastructure and tourism development	3.6	0.4
Rural development project	3.6	0.5
Education project	3.3	2.2
Rural and urban enterprises project	1.6	1.4
Highway maintenance	1.4	3.6
Energy project	--	1.5
Total 1/	21.5	9.6

Source: IBRD.

1/ In addition, advance disbursements amounting to US$0.125 million have been made on the Banjul second port project.

The Gambia--Stand-by Arrangement

Attached hereto is a letter, with annexed Memorandum on Economic and Financial Policies, dated January 14, 1982 from the Minister of Finance of The Gambia requesting a stand-by arrangement and setting forth:

(a) the objectives and policies that the Government of The Gambia intends to pursue for the period of this stand-by arrangement;

(b) the policies and measures that the Government of The Gambia intends to pursue for the first six months of this stand-by arrangement; and

(c) understandings of The Gambia with the Fund regarding a review that will be made of progress in realizing the objectives of the program and of the policies and measures that the Government of The Gambia will pursue for the remaining period of this stand-by arrangement.

To support these objectives and policies the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For a period of one year from February , 1982 to February , 1983 The Gambia will have the right to make purchases from the Fund in an amount equivalent to SDR 16.9 million, subject to paragraphs 2, 3, 4, and 5, below, without further review by the Fund.

2. a. Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 8.12 million until April 30, 1982, SDR 12.51 million until July 31, 1982, and SDR 16.90 million until October 31, 1982.

b. None of these limits shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of The Gambia's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of supplementary financing or borrowed resources beyond 12.5 per cent of quota.

3. Purchases under this arrangement shall be made from borrowed resources or supplementary financing until purchases under this stand-by arrangement reach the equivalent of SDR 0.68 million, from ordinary and borrowed resources or supplementary financing in the ratio of 2 to 1 until purchases under this arrangement reach the equivalent of SDR 3.70 million, then from ordinary and borrowed resources or supplementary financing in the ratio of 1 to 1.2, provided that any modification by the Fund of the proportions of ordinary and borrowed resources or supplementary financing shall apply to amounts that may be purchased after the date of modification.

4. The Gambia will not make purchases under this stand-by arrangement that would increase the Fund's holdings of The Gambia's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of supplementary financing or borrowed resources beyond 12.5 per cent of quota:

(a) during any period in which the data at the end of the preceding period indicate that

(i) the limit on total domestic credit described in paragraph 23 of the attached memorandum, or

(ii) the limit on net credit to the Government described in paragraph 23 of the attached memorandum, or

(iii) the targets in paragraph 24 for the reduction of external arrears, or

(iv) the limits on contracting of government and government-guaranteed external debt described in paragraph 25 of the attached memorandum and Attachment V thereto

are not observed, or

(b) during the last six months of this stand-by arrangement until understandings have been reached with the Fund pursuant to paragraph 6 of the attached letter, and paragraph 27 of the annexed memorandum, and until suitable performance criteria have been established in consultation with the Fund as contemplated by paragraph 6 of the attached letter, and paragraph 27 of the annexed memorandum, or, after such performance criteria have been established, while they are not being observed; or

(c) throughout the duration of the arrangement, if The Gambia

(i) imposes or intensifies restrictions on payments and transfers for current international transactions, or

(ii) introduces or modifies multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons, or if The Gambia is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and The Gambia and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. The Gambia's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of The Gambia. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and The Gambia and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of The Gambia, the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this stand-by arrangement involving borrowed resources will be normally either the 15th day or the last day of the month, or the next business day if the selected day is not a business day. The Gambia will consult the Fund on the timing of purchases involving borrowed resources.

8. The Gambia shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

9. (a) The Gambia shall repurchase the outstanding amount of its currency that results from a purchase under this arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as The Gambia's balance of payments and reserve position improves.

(b) Any reductions in The Gambia's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

10. During the period of the arrangement The Gambia shall remain in close consultation with the Fund. These consultations, including those pursuant to the provisions of paragraph 6 of the attached letter, may include correspondence and visits of officials of the Fund to The Gambia or of representatives of The Gambia to the Fund. The Gambia shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of The Gambia in achieving the objectives and policies set forth in the attached letter and annexed memorandum.

11. In accordance with paragraph 5 of the attached letter, The Gambia will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while The Gambia has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning The Gambia's balance of payments policies.

January 14, 1982

Mr. Jacques de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Larosière:

1. The Gambia's economic and financial situation has deteriorated markedly in the past few years, owing mainly to a substantial decline in groundnut production (which accounts for about 20 per cent of gross domestic product and over 90 per cent of exports), as a result of successive weather-induced crop failures; consequently, real income has declined steadily. At the same time, expansionary monetary and fiscal policies contributed to a rapid increase in imports; albeit, some of the imports were destined for re-exports (largely unrecorded) to neighboring countries, contributing to the decline of official reserves and the accumulation of external payments arrears. In addition, the Sahelian droughts have, on occasion, necessitated increased imports of rice to compensate for the resulting shortfalls in domestic production.

2. Under these circumstances, it became increasingly clear that our hitherto limited efforts to diversify the economy and promote growth need to be broadened, streamlined, and expedited. Consequently, in June 1981, negotiations were held with the Fund staff for an extended arrangement covering the three-year period 1981/82-1983/84 (July-June). Following the completion of the negotiations, the Government of The Gambia submitted to you a letter requesting an extended arrangement of SDR 54 million (400 per cent of quota) and a supporting Memorandum of Economic and Financial Policies of The Gambia. Furthermore, the government expenditure policies contained in that memorandum were further articulated in a Memorandum of Understanding which was prepared with the Fund staff in the context of a subsequent staff visit in July 1981. In the intervening period following the negotiations for the extended arrangement, we had proceeded to implement several of the measures which were negotiated with the Fund staff, preparatory to possible Executive Board discussion of our program. The processing of our request was interrupted by an attempted coup d'état on July 30, 1981; for the same reason our progress in the implementation of the measures slowed down somewhat.

3. By Monday, August 10, 1981 the situation had returned to normal and government offices reopened. Unfortunately, the aborted coup d'état has left significant new problems in its wake: the looting and arson which characterized the rebellion has resulted in substantial damage to public and private property: tax revenues are now estimated to decline by over 10 per cent from the budgeted levels, while the damages will lead to a certain amount of unforeseen expenditures; the disturbances also highlighted the inadequacy of our existing minimal security arrangements (which do not presently include a regular army), and the pressing need to reorganize and strengthen these somewhat; the prospects for tourism this season

have also been made significantly less favorable. On the positive side, there are reasonably good indications that, barring unseasonal rains, our groundnut crop should recover substantially from the low levels of the recent past, thanks to an adequate and even distribution of rainfall so far. The receipt of grants (both in cash and in kind), from friendly governments, has helped to relieve some of the more pressing budgetary problems. These factors notwithstanding, and given the direct and indirect effects of the aftermath of the disturbances, the economic and financial prospects for the economy would worsen considerably, in the absence of renewed vigor in implementing corrective measures.

4. Cognizant of the continued need for adjustment, we remain firmly committed to the implementation of the measures which we have envisaged under the medium-term program. However, within the context of the exceptional financial circumstances now prevailing, the Government believes that the highest priority should be accorded to a program aimed at stabilizing the economic and financial situation. Accordingly, the Government intends to implement a one-year stand-by arrangement for calendar year 1982; this arrangement would be explicitly envisaged as a bridging operation, pending an extended arrangement in the period ahead. The details of the adjustment program adopted by the Government of The Gambia are contained in the attached Memorandum of Economic and Financial Policies of The Gambia; this memorandum is being submitted to you in support of our request for a stand-by arrangement of SDR 16.9 million (125 per cent of quota).

5. The Government of The Gambia believes that the policies set forth in the attached memorandum are adequate to achieve the objectives of its program, but will take any further measures that may become appropriate for this purpose. In accordance with the Fund's policies on consultation, the Gambian authorities will remain in close consultation with you regarding the implementation of the program, and will provide the Fund staff with all relevant information in connection with the progress made in achieving the program's objectives.

6. The Government of The Gambia will review the program with the Fund no later than mid-June 1982. During this review, the authorities will reach understandings with the Fund on a detailed financial program for 1982/83 and on the performance criteria referred to in paragraphs 23 to 28 of the attached memorandum, for the balance of the period of the stand-by arrangement.

Very truly yours,

/s/

Hon. Saihou S. Sabally
Minister of Finance and Trade

Attachments

Memorandum on the Economic and Financial Policies of The Gambia

1. The economic and financial policies of the Government had been described in an earlier memorandum which was submitted to the Fund's Management following the completion of negotiations for an EFF arrangement in June 1981. As in the case of that policy memorandum, the Government remains keenly aware of the need to continue its efforts to restructure the economy and to provide adequate incentives to sectors of the economy which contribute to sustained, long-term economic growth while, at the same time, increasing or conserving our foreign exchange resources through increased exports and import substitution, respectively. For these reasons, the broad objectives of the Government during the program period, January-December 1982, are to continue its efforts toward diversifying the economy, while at the same time reducing internal and external imbalances. The Government will give effect to these objectives partly by redirecting an appropriately scaled-down volume of investment into the productive sectors of the economy, particularly agriculture; improving productivity in the groundnut sector; reducing reliance on imported rice through increased domestic production; and consolidating the gains from the tourism sector. In addition, the Government intends to limit the cumulative current account and overall balance of payments deficits to sustainable levels, and to substantially reduce external arrears by the end of calender year 1982. For this purpose, import demand, including re-exports, which have resulted in a net drain of official reserves, and the accumulation of external arrears, will be contained; at the same time, efforts will be intensified to increase export earnings, through a carefully designed system of incentives.

2. An important element of the Government's strategy in the period ahead is the improvement of resource allocation in the economy through the price mechanism. Consequently, the inflation rate, which is currently estimated at around 10 per cent for 1981, would tend to accelerate in the next year or so; however, this tendency should be attenuated by the restrictive monetary and fiscal policies which will complement the Government's allocative strategy.

I. Production and Investment Policies Under the Second Five-Year Development Plan (SFYDP), 1981/82-1985/86

3. The SFYDP was originally scheduled to be launched in August 1981; however, owing to the developments of late July-early August, the plan will now be formally launched in December 1981. The IBRD is satisfied that the plan is realistic, both in terms of its size and financing, and that its sectoral priorities reflect the need to channel investments into the productive sectors of the economy, particularly agriculture. As formulated, the SFYDP provides for total public sector investments amounting to D 431.3 million at constant 1980/81 prices (compared with D 488.5 million under the first plan), of which approximately D 422.8 million

represents investments in the Government's development budget; about 81.6 per cent of the Government's planned expenditure will be foreign-financed. The Government's intention to redirect investments into the productive sectors of the economy is reflected in the following sectoral shares (comparable first plan shares in brackets); agriculture, 30.4 per cent (13.6 per cent); industry, 7.6 per cent (10.2 per cent); public utilities, 13.6 per cent (10.2 per cent). By contrast, the share of expenditures in transport and communications will decline from 43.1 per cent during the first plan period to 32.1 per cent under the SFYDP. For 1981/82, the development strategy will concentrate mainly on the completion of projects carried over from the first plan. A small number of new projects, such as the development of the Jakhaly and Pacharr swamps for rice cultivation, and the modernization of the oil mills of the GPMB (Gambia Produce Marketing Board), which are scheduled to start during the year, are aimed at the expansion of the productive capacity of the economy; a few other new projects are aimed at providing the necessary infrastructural framework for the large-scale agricultural projects which the Government intends to embark upon in the latter years of the plan. Financing for the first year of the plan has been fully assured. Out of a total expenditure of D 75.7 million for 1981/82, D 59.7 million (78.9 per cent) will be financed from foreign grants and largely concessional loans, while D 16.0 million will be financed from domestic resources; these estimates, however, do not include a small amount of prospective expenditures which have become inevitable in the aftermath of the recent disturbances. More importantly, the Government will also continue to provide incentives for private investment in the productive sectors of the economy as provided for in the Development Act of 1973; this Act is currently being reviewed with a view to improving it.

4. Energy policies under the SFYDP will be directed at economizing on the use of imported petroleum products, while investing in alternative energy sources. The taxation and pricing policies affecting the energy sector, which are described elsewhere in this memorandum, will contribute to the conservation objective. Other non-oil sources of energy such as groundnut shell briquettes are now being utilized as an alternative to charcoal. The comprehensive Integrated Energy Survey and Master Plan, which is being undertaken with the assistance of consultants, is expected to be completed by December 1981. The IBRD is the executing agency for this project, which is being financed and supervised by the United Nations Sudano-Sahelian Office (UNSO) and the Government of The Gambia, respectively.

II. Pricing Policies

5. During 1981/82, certain important measures are being undertaken to improve the structure of agricultural producer prices and reduce production subsidies; these measures are designed, in part, to maintain producers' income at remunerative levels and to offer adequate price incentives to expand production while at the same time improving the financial positions

and efficiency of important institutions in the agricultural sector. In this context, the following measures are being implemented:

(a) The producer price for groundnuts was raised by 8.7 per cent from D 460 per ton to D 500 per ton for the 1981/82 season; this increase was preannounced in June 1981 as envisaged under the earlier medium-term program.

(b) Similarly, as envisaged under the earlier medium-term program, the producer price for rice was increased by 10.2 per cent from D 463 per ton to D 510 per ton, in order to preserve the historical margin between groundnut and rice producer prices.

(c) These increases notwithstanding, it is intended for the 1982/83 crop season to increase producer prices for major agricultural crops further. Meanwhile, however, to prevent possible smuggling, the prevailing producer prices will be kept under close review and may be revised should producer prices in neighboring countries be raised from their present levels.

(d) In order to reduce the cost of subsidies for agricultural inputs, the price of fertilizers sold to farmers will be raised in May 1982, by an average of at least 19 per cent; this increase was already envisaged under the earlier medium-term program.

(e) Similarly, as envisaged earlier, price increases for both imported and local varieties of rice will be announced before the end of this fiscal year; in addition, to encourage a shift in demand from imported to locally produced rice, price increases to be announced for the latter will be relatively smaller.

(f) Following its commitment under the earlier medium-term program, the GPMB has already started to implement measures slated to lead to a reduction of about 5.0 per cent in its overhead costs in 1981/82.

(g) In view of the central role of the GPMB in the economy and the need to strengthen the agricultural sector, the Government had decided in the context of its medium-term strategy to assist the GPMB directly to recover from its present financing difficulties. In this connection, effective November 30, 1981 part of the Atlantic Hotel complex and another government-owned building have been transferred to the GPMB, in discharge of a loan obligation due from the Government to the GPMB.

(h) Similarly, the utilization of the receipts from Stabex has also been revised in favor of the two major institutions in the agricultural sector, GPMB and the Gambia Cooperative Union (GCU), which will, from this fiscal year onward, receive 25 and 15 per cent, respectively, of Stabex receipts; the balance of the Stabex resources will continue to be used for budgetary support.

(i) In the energy sector, the Government will continue, as envisaged under the earlier medium-term program, to economize on the use of imported oil through such tax policies as are described elsewhere in this paper; it will also continue to pass on the full amount of increases in the cost of oil imports to the consumer. Reflecting this policy, gasoline prices were raised, in two stages, by a total of 58 per cent since June 1981; taxi fares were also raised by 33.3 per cent and a proposal to increase bus fares by 25 per cent is under active consideration.

(j) In addition, the Government also approved a financial Recovery Plan for the Gambia Utilities Corporation (GUC) which involved an average increase of 15 per cent in electricity tariffs effective October 15, 1981. This increase was agreed between the authorities and the IBRD in June 1981 in connection with negotiations on an energy sector credit of SDR 1.3 million. It was also agreed that the level of tariff increase required in FY 1982/83 will be reviewed in the light of GUC's fuel costs, including probable savings resulting from conversion to heavy fuel.

(k) It has also been decided that the GUC will continue its present collection campaign on arrears owed to the Corporation.

III. Fiscal Policy

6. Efforts are being made to raise additional budgetary revenues while at the same time containing the demand for imports, especially for items which feature prominently in the re-export trade. Additional efforts are also being made in the area of expenditure policies and in domestic resource mobilization. Decisions already made, implemented, or imminent in the fiscal sector may be summarized as follows:

(a) In the context of the earlier medium-term program, the Government in its 1981/82 budget introduced several tax measures, with effect from July 1, 1981. These measures are detailed in Attachment I. The estimated yield (D 18.2 million) from the entire package of tax masures was equivalent to about 3.6 per cent of projected 1981/82 GDP; this does not include the expected revenue effects of two sensitive measures which were slated to be gazetted in early August, but which were pre-empted by the disturbances. Additional tax measures slated to yield at least D 0.2 million are being introduced in January 1982.

(b) Effective December 1, 1981, except where the donor expressly states otherwise, all foreign rice grants received in The Gambia will be sold at a price equivalent to at least 50 per cent of the prevailing retail price of rice; such sales are deemed necessary partly for reasons connected with mobilizing budgetary resources, but also in order to forestall possible smuggling of rice to neighboring countries.

(c) All grants, including those which were obtained following recent events, will be integrated with the central government budget, in order to enhance budgetary management and control.

(d) These measures notwithstanding, there is a compelling need to explore, identify, and institute new tax measures. The need for such a comprehensive tax review is underscored by the temporary nature of Stabex receipts, and by the prospective stabilization of import duty receipts as a result of the measures to curtail the drain on foreign exchange reserves. Consequently, the authorities requested a tax mission from the Fund in late November 1981. This mission was envisaged as part of the Government's medium-term strategy to mobilize additional domestic resources, and the Government intends that its findings and recommendations will be considered in the context of the 1982/83 budget.

7. The Government is also determined that expenditure policies will continue to be very cautious. Regarding recurrent expenditures, the authorities intend to continue to enforce and strengthen the following expenditure control measures--most of which were introduced in recent years:

(a) The Budget Unit of the Ministry of Finance has already been strengthened and a rigorous system of budget formulation, execution, and control established with technical assistance from the Fund; the Ministry of Economic Planning and Industrial Development is also in the process of instituting a system of regular reporting which is expected to lead to improved monitoring of plan implementation and execution.

(b) The officials of the Budget Unit of the Ministry of Finance have been assisting, and will continue to assist, budget officers in various ministries in formulating their budgets and in scrutinizing ministerial budgetary requests prior to actual allocations.

(c) The budgetary formats of both recurrent and development expenditures have been revised to conform to readily identifiable heads and subheads in line with the recommendations of the Fund. The restructuring of the budget which has enhanced the verification of appropriations and disbursements and has facilitated monthly financial reporting of budgetary outturns by the appropriate ministries and revenue collecting departments, will be maintained.

(d) A high level Financial Management Committee, with representatives from the tax collecting departments and spending ministries, has been in operation for over a year now, under the chairmanship of the Permanent Secretary of the Ministry of Finance. The committee, which meets monthly to review financial reports and to decide on appropriate corrective measures, will continue to do so, during the program period.

(e) The Government has also decided that, except for an amount of D 0.84 million which may be set aside for reconstruction assistance to commercial entities affected by recent disturbances, the payments of D 2 million already made to the families of Senegalese troops who were victims during the aborted coup, and D 1 million which was used for emergency purchases of oil, all grants, including those received in connection with recent disturbances, will be used for budgetary support.

(f) The Ministry of Finance is in the process of strengthening the procedures for the control of ministerial stores; it has also issued a circular dated July 1, 1981 under which officers involved in unauthorized or excess spending will be surcharged against their future salaries.

8. Despite the unfavorable effects of recent disturbances, and an increase in development expenditures of 47.6 per cent in 1981/82 over the preceding year, the projected overall deficit in 1981/82, as a ratio to GDP, will be lower than in 1980/81; similarly, at the projected 1981/82 level, the ratio of net bank financing of the deficit to GDP remains under 1 per cent.

9. These estimates also include an average salary increase of 13 per cent, which the Government has awarded effective January 1982, but which has not been made retroactive. They also reflect the Government's decision to reduce the scope and size of expenditures related to the GANOC housing scheme from an earlier estimate of D 15.0 million to D 4.7 million, including amounts obtained from foreign sources; this figure excludes some D 1.0 million which was made as a down payment in 1980/81.

10. The projected levels of the overall deficit and bank financing are, however, contingent largely upon the realization and the timing of Stabex receipts that are expected to be received during 1981/82.

11. The expenditure policies underlying the 1981/82 budget have been further articulated, in greater detail, in a separate Memorandum of Understanding (See Attachment III) which describes, among other things, policies with respect to economies on wages and salaries, the prior authorization of commitments, the new system of preaudit of expenditures, and the monitoring of government expenditures on a quarterly basis.

12. Furthermore, the imminent introduction of a system of regular plan implementation reports is expected to lead to improvements in the monitoring and control of plan execution, beginning in 1981/82. In addition, the implementation of measures to improve the monitoring of the nonfinancial public enterprises (NPEs) is expected to take place by February 1982. These measures include:

(a) The formulation by each NPE of its long-term investment within the framework of the SFYDP;

(b) The preparation of an annual budget by each NPE, and its discussion by the National Investment Board (NIB), prior to its approval by the respective Board of Directors of each of the NPEs.

(c) For each NPE, the formulation of financial and supply procurement regulations, strict adherence to budetary provisions, and the submission of monthly or quarterly performance reports to NIB;

(d) The justification by each NPE of its borrowing from the banking system within a specified percentage of its budgeted revenue, the preparation of its debt profile and of obligations for debt servicing and the adherence to a prudent equity/debt ratio in its capital structure. The ultimate objective of these measures is to improve the operating profits of NPEs, reduce their reliance on the banking system, and enable them to meet their normal obligations to the Government regarding payment of dividends, taxes, interest, and repayments on borrowing.

IV. Monetary and Credit Policies

13. Monetary and credit policies are being closely aligned to the supply-oriented policies and balance of payments targets over the program period. To this end, the authorities are utilizing the various instruments of credit control at their disposal as follows:

(a) Although the obligatory minimum liquidity ratio of the commercial banks is 30 per cent, at present, most banks record a higher ratio as a result of their practice of including the local currency counterpart of arrears in the computation of their liquid assets ratio. However, as a result of directives issued by the Central Bank on November 5, 1981 requesting the commercial banks to place all their local currency counterpart of external arrears in a blocked, interest-bearing account with the Central Bank, with immediate effect, the liquidity ratios of all the banks will fall below the present 30 per cent limit; the temporary refinancing provided to the country's only national bank (See Attachment IV) is designed to ensure its full compliance with this directive. Furthermore, the commercial banks have been given until April 1982 to restore their liquidity ratios to the required levels; this should contribute to a deceleration in the rate of domestic credit expansion. In addition, this deceleration will be reinforced by the imposition of daily penalties, prescribed under the Financial Institutions Act of 1974, on any bank whose liquidity ratio falls short of the required minimum. In the context of the mid-term review of the program, the appropriateness of the required liquidity ratio will be re-examined in the light of developments under the program.

(b) The authorities also intend to pursue an active interest rate policy in order to make the return on financial savings competitive vis-à-vis that on real estate, increase the cost of borrowing particularly for foreign exchange using sectors such as the trading sector, and eliminate the incentive to transfer funds abroad. Accordingly, several increases in interest rates have taken effect from November 5, 1981; these increases are detailed in Attachment II. It is expected that the new minimum rate of 15 per cent on credit for trading purposes will help to dampen the demand for credit for imports. The Central Bank's rediscount rates (excluding those for crop advances) have been increased by an average of 1.8 percentage points. Reflecting the Government's objective to encourage agricultural production, the discount rate on credit for crop production will remain at 6 per cent; in contrast, the discount rate on crop advances for marketing purposes has been increased from 6 per cent to 8 per cent. The deposit rates of the commercial banks have also been increased with a view to mobilizing financial savings.

(c) These selective credit measures have been complemented by quantitative quarterly ceilings on credit expansion by the individual commercial banks in order to ensure that overall credit developments are in line with the authorities' balance of payments and other objectives during the program period.

(d) Efforts will continue to be made to provide for the genuine crop financing needs of the economy; however, a number of proposals for the improved monitoring of seasonal credits will be implemented, in order to ensure that they are not diverted for nonseasonal (usually commercial) purposes.

(e) The authorities have also established a new Agricultural Development Bank which is expected to commence operations by the middle of 1982.

(f) In the past, there has been inappropriate use of government guarantees to support the domestic borrowing requirements of certain commercial entities; the Government intends that no such guarantees will be given during the program period. Similarly, no governmental pressure will be exerted on the national bank to lend to parastatal entities.

14. As a result of the wide-ranging measures to contain the rate of credit expansion to the various sectors of the economy, total domestic credit which is provisionally estimated at D 196.1 million in September 1981 and is projected at D 243.0 million for December 1981 will not exceed D 236.1 million by the end of June 1982. The projected increases in domestic credit for 1981/82 and 1982/83, combined with the projected balance of payments development for the two years, will imply an annual average expansion in the money supply (broadly defined) of 20.1 per cent over the 1981/82 to 1982/83 period or less than the annual average increase in nominal GDP of 22.0 per cent during the same period. Thus, it should provide for a significant abatement of inflationary pressures.

V. External Sector Policies

15. In the external sector, the program aims at reducing the current account deficit to a sustainable level. On the basis of the expected

recovery in groundnut production (with deliveries projected at 100,000 tons each in 1981/82 and 1982/83), and the adjustment policies described earlier, the current account deficit/GDP ratio is projected to decline from an estimated annual average of 39.9 per cent in the two fiscal years ending June 1981 to a projected average ratio of about 27.0 per cent during 1981/82-1982/83. The overall balance of payments deficit which averaged D 27.6 million or 6.8 per cent of GDP in the preceding two years will be reduced to an average of about D 6.8 million or 1.2 per cent of GDP during 1981/82-1982/83.

16. As part of the implementation of the earlier medium-term program, the Government has already substantially reduced the outstanding stock of external payments arrears from D 46.6 million at the end of June 1981 to D 36 million on October 22, 1981. In view of the adverse consequences of external arrears for confidence and for import costs, the Government attaches very high priority to a further substantial reduction in external arrears during the program period. Total external arrears (defined to include arrears in respect of official debt service payments and arrears in respect of commercial payments) will be reduced as described in paragraph 24 of this Memorandum.

17. To facilitate the orderly retirement of arrears and to ensure adequate supplies of food and essential items from abroad, the Government has issued the relevant guidelines to the commercial banks defining the items which should be given priority in providing foreign exchange financing. These items include debt service on government external debt, food, and fuel; non-priority items will be settled on a strict first-in-first-out basis.

18. As a result of a substantial disparity between tariff levels in The Gambia and neighboring countries, considerable unofficial exports have taken place which are not recorded in the trade statistics leading to an artificial enlargement of the current account deficit, and to some extent, a loss of official reserves. To counteract this development, and also to contain import demand generally, the Government has already substantially increased the import tariffs on certain items such as textiles, green tea, tomato paste, unmanufactured tobacco, soap, batteries, and corrugated iron sheets.

19. In order to improve the country's foreign exchange situation, the Government is taking measures to increase the surrender of export proceeds to the banking system, especially from the export of fish products, re-exports, and tourism. These measures involve mainly the strengthening of the existing administrative procedures for enforcing surrender requirements.

20. To safeguard the favorable debt profile of the country, the Government has adopted guidelines on government guarantees of external private debt. To qualify for government guarantees, the external loans must be used for financing economic activities consistent with the development

priorities of the country, as reflected in the Development Plan; those external loans must also be of minimum maturity of 10 years. Subject to the limited and specific understandings set out in Attachment V, no government or government-guaranteed external borrowing in the 1-10 year maturity range will be undertaken.

21. The official exchange rate of the dalasi will be maintained at its present level, since The Gambia's exports are still competitive and since the continuing vigorous implementation of the demand management policies under the program, including the removal of distortions inherent in the existing pricing regimes of certain major public enterprises, should help to moderate import demand and ease the pressures on The Gambia's balance of payments; they should also assist in tackling the problem of re-exports. Nevertheless, exchange rate policy will remain under constant review in the light of changing circumstances.

22. The Gambia maintains a relatively liberal system of trade. It is the Government's intention not to introduce new or to intensify existing restrictions on current international transactions for balance of payments purposes.

VI. Quarterly Quantitative Targets for End-March 1982 and End-June 1982

23. For purposes of monitoring the above program, quantitative limits will be placed on the expansion of total domestic bank credit and on net credit to the Government. Accordingly, total domestic credit defined as the sum of the banking system's net claims on the Government, plus claims on the private sector (including official entities), which amounted to an estimated D 196.1 million at end-September 1981, and is expected to reach D 243.0 million at the end of December 1981 will not exceed D 250.3 million at the end of March 1982 and D 236.1 million at the end of June 1982. These global ceilings are based on projected groundnut deliveries of 100,000 tons in 1981/82. Within these global ceilings, and consistent with the fiscal policy objectives described above, net credit to the Government (defined as the sum of the banking system's claims on the Government, less government deposits, plus any use by the Government of the local currency counterpart of purchases from the Fund), which amounted to D 14.1 million at the end of September 1981, and is expected to reach D 23.0 million at the end of December 1981, will not exceed D 35.0 million at the end of March 1982 and D 37.5 million at the end of June 1982.

24. A system for the orderly reduction of external arrears, which requires, among other things, that exchange applications be fully backed by counterpart deposits in domestic curency, is already in place. The level of external arrears (defined as the sum of arrears in respect of official debt service payments and arrears in respect of commercial payments), which amounted to D 36.05 million on October 22, 1981 and which is projected at D 42.0 million at the end of December 1981, will not exceed D 40.0 million at the

end of March 1982 and D 38.0 million at the end of June 1982. These ceilings are also based on estimated quarterly values of groundnut exports of D 35.1 million and D 23.4 million at the end of March and June 1982, respectively. The authorities expect to accelerate the quarterly reduction of external arrears, in the event of a significantly better-than-projected quarterly export performance.

25. From November 5, 1981 until December 31, 1982 the Government will not undertake new foreign borrowing with a maturity of 1 to 10 years, subject to the limited and specific understandings set out in Attachment V.

26. During the program period, the Government does not intend to impose restrictions on payments and transfers for current international transactions or to conclude bilateral payments agreements with Fund member countries. Moreover, the Government does not intend to impose or intensify import restrictions for balance of payments reasons.

27. In the course of the review referred to in paragraph 6 of the Letter of Intent, ceilings will be established on total domestic credit, net credit to Government, and on external arrears for September 1982 and December 1982. During that review, a detailed financial program for 1982/83 will also be formulated, including understandings on exchange rate policy.

28. The last two phases of purchases under the stand-by arrangement will be contingent on reaching understandings with the Fund on paragraph 27 above.

The Gambia: New Revenue Measures Relating to the 1981/82 Budget

	Rate Change	Estimated Yield (In millions of dalasis)
Airport fees	From D 5 to D 15 per passenger 1/	0.600
Parking fees	From D 5 to D 10 per car and van and from D 1 to D 2 on buses and lorries 1/	0.020
Postal charges	Various	0.200
Payroll tax	From D 2,000 to D 3,000 p.a.	0.500
Excise tax on beer	From D 77 to D 82 per hectoliter	0.125
Import tax	From 1 1/2 per cent to 2 per cent	0.800
Import duties		
Gasoline products	Increase by D 0.40 per liter	7.200
Aviation fuel	From D 1 to D 2.50 per hectoliter	0.090
Industrial gas	From zero to 30 per cent 1/	0.036
Essential oils	From 25 to 40 per cent	0.056
Cement	From 10 to 25 per cent	0.250
Paints, varnishes, etc.	From 10 to 20 per cent 1/	0.160
Welding machines, etc.	Zero to 30 per cent 2/	0.020
Corrugated iron sheets	From 10 to 15 per cent 2/	0.150
Motor cars:		
up to 1,500 cc	From 30 per cent to 40 per cent 2/	)
1,500-1,750 cc	From 45 per cent to 45 per cent	)
1,750-2,000 cc	From 50 per cent to 45 per cent	) 0.100
2,000-2,750 cc	From 50 per cent to 60 per cent	)
2,750-3,000 cc	From 55 per cent to 60 per cent	)
over 3,000 cc	From 60 per cent to 60 per cent	)
Re-export items		
Green tea	From 17.5 per cent to 40 per cent 1/	)
Other tea	From 17.5 per cent to 20 per cent 2/	) 1.000
Soap		
Toilet	From 25 per cent to 30 per cent	)
Laundry	From D 3.30/50 kg to 30 per cent	) 0.800
Unmanufactured tobacco	From D 1.10 per 500 grams to 1.37 per 500 grams	0.486
Batteries		
Torch	From 25 per cent to 30 per cent	)
Motor car	From 35 per cent to 45 per cent 1/	) 0.280
Tomato paste	From 17.5 per cent to 25 per cent	0.300
Textiles	From 20 per cent to 35 per cent	5.000
Total estimated revenue yield		18.173

1/ Rates of duty on these items as announced in the budget were higher than those included in the earlier negotiated medium-term program.

2/ Duty increases on these items were not a part of the earlier negotiated program.

3/ On account of 1/ and 2/ above, total estimated revenue yield will be D 0.216 million higher than projected in the earlier negotiated medium-term program, i.e., inclusive of anticipated measures on two items not listed above.

The Gambia: New Interest Rate Structure Effective November 5, 1981

(In per cent per annum)

	Previous Rates	New Rates
Commercial banks		
Lending rates	7.0-15.0	8.5 1/-15.0
Of which: trading	...	Min. 15.0
Deposit rates		
Short-term deposit account	5.5	7.5
Savings bank account	6.0-6.5	8.5
Time deposits		
Three months	7.0	8.5
Six months	6.5-7.5	10.5
Nine months	7.0-8.0	11.0
Twelve months	8.0-9.0	12.0
Postal Savings Bank	6.0	8.0
Treasury bills	6.0	8.0
Central Bank		
Discount rate on commercial paper	8.0	9.5
Crop advances		
(i) Production advances	6.0	6.0
(ii) Marketing advances	6.0	8.0
Nonseasonal advances	8.0	10.0
Discount rate on Treasury bills	6.0	8.0

1/ Applies to lending by the GCDB to the GCU for on-lending to cooperatives.

Memorandum of Understanding Between the Government of The Gambia and the International Monetary Fund

Purpose

The purpose of this memorandum is to articulate in greater detail the expenditure policies for 1981/82 contained in the Memorandum on the Economic and Financial Policies of The Gambia, which supports The Gambia's request for a one-year bridging stand-by arrangement. This memorandum also establishes a reporting schedule for monitoring government expenditures in FY 1981/82.

1. Prior to consideration by the Fund's Executive Board of The Gambia's request for a one-year bridging stand-by arrangement, the Gambian authorities will notify the staff that the relevant executive orders for the implementation of the following measures have been issued.

(a) In recognition of the difficult financial situation, the authorities have undertaken to achieve a saving of at least D 1.5 million on the budgeted wage and salary bill of D 48.9 million. In order to give effect to these savings, circulars will be issued to the effect that (i) except for pressing emergencies, vacant posts will not be filled during the balance of 1981/82; (ii) the existing provisions disallowing temporary appointments without advance approval will be tightened and then rigorously enforced; (iii) appropriate redeployment of existing personnel will be undertaken. On these bases, the sum of the quarterly allotments of wages and salaries as set out in the attached table amounts to a cumulative total of D 48.9 million.

(b) The authorities have also instituted a system of quarterly allotments under which funds, including Gambia local funds (GLF), or any temporary use of local resources in respect of development expenditure, will be made available for each quarter to the various vote controllers, in the light of detailed reviews of their quarterly requirements, commitments made, status of arrears in payments, and the flow of revenues and other receipts (see the attached table). It is intended that the actual quarterly allocations to the vote controllers for the third and subsequent quarters will be updated at the beginning of each quarter, such that the aggregate of allocations at the end of any quarter does not exceed the cumulative total given in the attached table. The quarterly allotments will be regularly monitored by both the Finance Division of the Ministry of Finance and by the Central Bank to ensure that no excess expenditures are incurred.

(c) To facilitate the smooth functioning of the quarterly allotment system, the Finance Ministry has also issued instructions to all the Accounting Officers to the effect that prior approval of the Ministry of Finance should be obtained before making any major commitments individually in excess of D 5,000 in regard to all purchases in Banjul and D 10,000 for overseas missions.

(d) The Government has also issued instructions to strengthen the payment procedures to the effect that, starting from August 1, 1981, all payments made in Banjul other than for salaries, pensions, and gratuities, interest payments and repayments, will be subject to a preaudit by the Internal Audit wing of the Ministry of Finance, and, in the case of the Ministry of Works and Communications, by the Principal Accountant of that Ministry.

(e) During previous years, some excesses have occurred in expenditures on procurement of stores which are initially obtained on a centralized basis from foreign and domestic sources and are then supplied to user departments. With a view to avoiding the occurrence of similar excesses in the future, the Government intends to supplement the measures detailed in paragraph 7 of the Memorandum on Economic and Financial Policies of The Gambia by initiating an immediate review of the procedures relating to the placement of orders, supply of stores to departments, and payments by the Government. Results of the review and the proposed measures for streamlining the procedures will be discussed with the staff of the International Monetary Fund no later than mid-June 1982. Meanwhile, departments have been advised that all major purchases will be governed by the new commitment procedures.

(f) The Budget Unit in the Ministry of Finance has completed an initial review of token vote provisions made in the budget for 1981/82 with a view to ascertaining their full potential impact under unchanged policies; this exercise has highlighted the need for economies in this area. Consequently, if as stipulated in paragraph 7 of the Memorandum on Economic and Financial Policies of The Gambia, savings are unlikely to become available for virement to finance the token votes, necessary adjustments will be made in other votes, in order to ensure that the overall expenditure does not exceed the budgeted levels.

2. In order to improve the monitoring of trends in government finances, the Central Bank of The Gambia will collect data on government borrowing (net) from the banking system on a daily basis, with immediate effect. Such data for each week will be reported to the Ministry of Finance at the beginning of the following week.

3. Data on actual total cash disbursements and on expenditure on wages and salaries will be reported to the Fund on a quarterly basis, as soon as possible after the figures become available. The Gambian authorities will consult with the Fund, if, in the course of monitoring such expenditures, total cash disbursements or expenditures on wages and salaries are deemed likely to exceed the specified allotments (as set out in the attached table), in order to agree on additional policy measures (revenue or expenditure) including those agreed with the staff of the Fund, required to

enable the Government to meet its overall fiscal objectives. In any event, progress in the implementation of the above program of expenditure control will be reviewed by representatives of the Government of The Gambia, and of the International Monetary Fund before mid-June 1982 in the context of the mid-term review of the one-year stand-by program.

The Gambia: Budgetary Expenditures 1/

(In millions of dalasis)

1981/82	Gambian Format					IMF Format				
	Current	Wages and Salaries 2/	GLF 3/	Development	Budget	Current	Wages and Salaries 2/	GLF 3/	Development	Budget
	1	2	3	4	5	1	2	3	4	5
Q I	28.32	11.37	2.56	12.11	40.43	28.05	11.37	2.56	12.11	40.16
Q II	28.87	11.62	5.28	24.98	53.85	28.63	11.62	5.28	24.98	53.61
Q III	28.03	12.95	5.44	25.74	53.77	27.16	12.95	5.44	25.74	52.90
Q IV	31.27	12.96	2.72	12.84	44.11	28.85	12.96	2.72	12.84	41.69
Total	116.49	48.90	16.00	75.70	192.16	112.69	48.90	16.0	75.70	188.36

Sources: Estimates of Revenues and Expenditures, the Gambian authorities; and staff estimates.

1/ Total may not add up to figures in tables on budgetary operations due to rounding.

2/ Wages and Salaries (Code 000) minus D 1.5 million in savings as per the Memorandum of Understanding plus D 2.9 million for a general salary increase, D 0.5 million for a review in security forces salary structure and D 0.9 million additional provision for wages. These figures are all part of current expenditure.

3/ Gambia Local Fund is the domestic counterpart expenditure for development projects. The fund is fed from receipts from cash grants, the consolidated revenue fund, and some domestic bank financing.

Memorandum of Understanding on Measures to Facilitate GCDB's Compliance with Paragraph 13(a) of the Policy Memorandum

As stated in paragraph 13(a) of the Memorandum on the Economic and Financial Policies of The Gambia, the Central Bank of The Gambia (CBG) has issued a directive, dated November 5, 1981, to commercial banks requiring them to place all the local currency counterpart of their external arrears in a blocked, interest-bearing account with the Central Bank, with effect from November 5, 1981. However, the Gambia Commercial and Development Bank (GCDB) is experiencing an unusually tight liquidity position, and lacks adequate resources to conform immediately to the requirements of this directive.

In order to assist the GCDB to conform to the CBG directive, so that the provision will apply uniformly to all the commercial banks, the CBG will invoke Section 34 of the Central Bank Act of 1971 (as amended in 1978) and advance the required resources to the GCDB, subject to the terms and conditions specified under that section. These resources will not exceed the total amount of the counterpart of GCDB's external arrears which stood at D 11.5 million on October 22, 1981, and will be deposited immediately in a blocked interest-bearing account in the CBG in favor of GCDB. Drawings on this account will only be authorized in connection with foreign currency purchases by GCDB, from the CBG, in respect of the external arrears for which the blocked account is being opened.

Memorandum of Understanding on Borrowing
in the 1 to 10 Year Maturity Range

As stated in paragraphs 20 and 27 of the Memorandum on the Economic and Financial Policies of The Gambia, from November 5, 1981 through December 31, 1982, the Government of The Gambia will not undertake or guarantee external borrowing in the 1-10 year maturity range, with the following possible exceptions:

First, as a result of the events of late July and early August of 1981, the Government now believes that some improvement in its national security arrangements is necessary. To meet this need, the Government intends to build military barracks for a total cost not exceeding D 15 million; this figure includes both the foreign and local cost components of the stated facility. In the event that neither concessional nor long-term funding is available for this project, the Government may finance this project at a market-determined rate of interest, with a maturity in the 1-10 year range.

Second, as agreed with the IMF mission, the Government may accept concessionary loans with maturities in the 1-10 year range if they are offered to finance productive projects, as reflected in the SFYDP. For this purpose, the definition of what constitutes concessionary terms has been agreed with the IMF staff. Thus, the Government will not regard a loan as concessionary if, given the maturity and grace period of the loan, its interest rate exceeds the associated interest rate in the attached table, provided by the Fund staff.

Maximum Interest Rate Compatible with Concessional Loans 1/

(In per cent)

Years of maturity	Grace Period 1	2	3	4	5	6	7	8	9	10
1	...									
2	...	...								
3	...	...	...							
4	...	0.56	1.64	2.06						
5	0.45	1.58	2.41	3.06	3.32					
6	1.46	2.35	3.02	3.55	3.98	4.16				
7	2.23	2.95	3.51	3.95	4.31	4.62	4.75			
8	2.83	3.43	3.90	4.28	4.60	4.86	5.09	5.19		
9	3.32	3.83	4.23	4.56	4.84	5.07	5.27	5.45	5.52	
10	3.72	4.16	4.51	4.80	5.05	5.26	5.44	5.59	5.73	5.79

1/ According to the DAC, which defines as concessional those loans with a grant element in excess of 25 per cent on the basis of a 10 per cent rate of discount.

For the purpose of this table, loans are assumed to be repaid in equal semiannual installments of principal. Grace period is defined as the interval to first repayment, minus one payment period.

This table shows the maximum rate a loan can have and still meet the DAC criterion for concessional loans. For example, a ten-year loan with five years of grace would be concessional if the interest rate is less or equal to 5.05 per cent, but would fail the criterion at higher rates.