EBS/82/17
Supplement 1

CONFIDENTIAL

February 24, 1982

To: Members of the Executive Board

From: The Secretary

Subject: The Gambia - Stand-By Arrangement

Attached for the records of the Executive Directors is the text of the stand-by arrangement for The Gambia agreed at Executive Board Meeting 82/22, February 22, 1982.

Att: (1)

<u>The Gambia--Stand-by Arrangement</u>

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 22, 1982 to February 21, 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 5.58 million until April 30, 1982, SDR 8.12 million until July 31, 1982, and SDR 12.51 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 stand-by arrangement shall be made from borrowed resources until purchases under this arrangement reach the equivalent of SDR 679,027, then from ordinary and borrowed resources in the ratio of 2 to 1 until purchases under this arrangement reach the equivalent of SDR 3,704,447, and then from ordinary and borrowed resources in the ratio of 1 to 1.2 provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification; and provided further that amounts of supplementary financing may be substituted for borrowed resources as determined by the Managing Director at the time of a request by The Gambia for a purchase.

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/	Develop-ment	Budget	Current	Wages and Salaries 2/	GLF 3/	Develop-ment	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.