

EBD/09/12

February 5, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **The Gambia—Poverty Reduction Strategy Paper—Annual Progress Report—Joint Staff Advisory Note**

Attached for the **information** of Executive Directors is the advisory note, prepared jointly by the staffs of the Fund and the International Development Association, on The Gambia's poverty reduction strategy paper annual progress report (EBD/09/11, 2/5/09). At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of The Gambia indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Tsikata (ext. 39601), Mr. Dwight (ext. 39518), and Mr. Reinke (ext. 36493) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Friday, February 13, 2009; and to the African Development Bank, the Economic Community of West African States, the European Commission, the Food and Agriculture Organization, the Islamic Development Bank, and the United Nations Development Programme.

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THE GAMBIA

**JOINT STAFF ADVISORY NOTE ON THE  
POVERTY REDUCTION STRATEGY PAPER ANNUAL PROGRESS REPORT**

Prepared by the Staffs of the International Monetary Fund  
and the International Development Association

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February 3, 2009

**I. OVERVIEW**

1. **The Gambian authorities completed the 2007 PRSP Annual Progress Report (APR) in October 2008.** This is the first APR for the country's second Poverty Reduction Strategy Paper (PRSP), which covers the years 2007 to 2011.<sup>1</sup> The overall strategic priorities of the PRSP are: (i) macroeconomic stability and effective public resource management; (ii) promotion of pro-poor growth and employment through private sector development; (iii) improved basic social services; (iv) strengthened local communities and civil society organizations (CSOs); and (v) mainstreamed multisectoral programs on gender, environment, nutrition, and population. The PRSP incorporates programs focused on the Millennium Development Goals (MDGs). The APR is complemented by a 2008 report on progress towards the MDGs and a report which analyzes poverty related public expenditures in 2007. The APR analyzes key elements of the PRSP, including macroeconomic performance, public sector reform, real sector performance such as agriculture and tourism, the social sectors and cross-cutting issues such as HIV/AIDS and gender.

2. **The 2007 APR was prepared in a participatory and consultative manner.** The National Planning Commission (NPC) was created to strengthen the government's capacity to plan and coordinate government policies, consolidate limited government resources and implement the Paris Declaration on Aid Effectiveness. In particular, the NPC has assumed overall responsibility for the PRSP process and coordinated the preparation of the APR. Consultative workshops and focus group discussions were held on the PRSP APR with representatives of the public and private sectors and civil society.

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<sup>1</sup> The PRSP was presented to the Boards of the International Development Association and the International Monetary Fund in July 2007.

The NPC is a relatively new organization and therefore would benefit from further strengthening of its capacity. The staffs recommend continued institutionalization of multisectoral and participatory monitoring arrangements.

3. **The country's poverty rates are high and the poor remain highly vulnerable to exogenous shocks.** Fifty eight percent of the households are poor, according to the 2003 household expenditure survey which is the latest information available. The authorities are currently preparing to conduct a small scale survey to update the poverty profile. The poor are often rural households with larger families, headed by females and working in the agriculture and fishing industries. Although the economy has enjoyed robust growth in the past few years, there are concerns that this growth was concentrated in sectors such as telecommunication and tourism which could have had limited impact on the poor. The issue will be further analyzed through an ongoing Poverty Assessment exercise.

## II. STRATEGIC PRIORITIES, RISKS AND CHALLENGES

4. **The APR correctly points out that macroeconomic performance has been strong in the recent past, exemplified by robust growth and relatively low inflation.** However, the current global economic slowdown is likely to adversely affect growth in The Gambia and widen the external current account deficit by slowing down tourism and remittances. In addition to the impact of the global economic slowdown, re-export trade appears to be contracting as the country's regional comparative advantages deteriorate and foreign direct investment is projected to level off after rising sharply in recent years. As a result, real GDP growth is projected to decline to 4.6 percent in 2009 from 5.9 percent in 2008. Given the expected slowdown in economic activity and indications of weakening government revenues, staffs encourage the government to continue prudent macroeconomic policies and provide a growth-friendly environment. The staffs support the government's policy of limiting domestic borrowing in order to reduce the large domestic public debt.

5. **The staffs recommend that future APRs pay more attention to external debt sustainability issues.** The authorities need to focus on improving the management of external debt in light of the recent Debt Sustainability Analysis (DSA) which indicates continued high risk of debt distress. Export diversification and finding new sources of growth will be critical given the decline of the country's traditional strengths as a regional trading hub.

6. **The staffs support government efforts to increase budgetary resources to poverty reducing expenditures.** Preliminary budget outturn data indicate that PRSP related expenditures as a share of total Government Local Funds (excluding interest payments) declined from 2002 to 2005, in particular due to sharply increasing debt service payments. Recognizing this to be an important fiscal challenge, the authorities reduced domestic borrowing and received substantial external debt relief when the country reached HIPC completion point in December 2007. As a result, preliminary data indicate that the share of PRSP related expenditures in the budget outturn have been

gradually increasing. Moreover, the share of PRSP expenditures in budget allocations have increased in 2009 compared to 2008. It will be critical that the budget outturns reflect the increased budgetary allocations.

7. **After having had some success with public expenditure management reforms, ensuring their sustainability is the next critical challenge.** There have been steady improvements of the budgeting process, including by revising the budget classification, integrating the recurrent and development expenditures, developing sectoral policies and expenditure reviews and reducing the backlog in public accounts. APR notes the impact that the introduction of the Integrated Financial Management Information System (IFMIS) has had on improving public expenditure management and monitoring of PRSP related expenditures. IFMIS currently processes all central government transactions and produces public accounts and fiscal reports in a relatively timely manner. In order to ensure its sustainability, the staffs recommend that the authorities adequately fund the recurrent costs of the system, identified in the government's IFMIS Sustainability Plan, and build local capacity by carrying out recruitment and training of Treasury staffs within a government-wide manpower plan.

8. **Strengthening human resource management will be critical to the success of the ongoing civil service reforms.** The ongoing civil service reforms are critical to building public sector capacity. The APR highlights the need to increase civil service compensation in order to improve recruitment and retention of qualified personnel. While addressing low salaries will be important, it will not by itself necessarily result in improved performance and public service delivery. Thus, staffs recommend that the authorities also focus on complementary reforms to strengthen staff assessment, performance management and overall manpower planning. The latter is critical given that there is evidence that the civil service significantly expanded in recent years and its rate of expansion was not immediately apparent due to shortcomings in centralized management and monitoring. Sustained political commitment for the implementation of the civil service reform program will be essential to the success of the reforms.

9. **The APR highlights the importance of the agricultural sector but the analysis is hampered by a lack of specificity in the sector strategy and priority policies.** The agriculture sector, where most of the poor are engaged, has been performing relatively poorly in recent years, although crop productions rebounded in 2008 due to comparatively good rainfalls. A major constraint has been the lack of policy clarity, continuity and predictability. Therefore, the staffs recommend refining the policies and programs in the agriculture sector through the development of a comprehensive and cohesive agriculture sector strategy which identifies priority interventions and emphasizes export diversification and private sector development. Staffs also recommend that the impact of existing investment projects be comprehensively assessed in order to provide a basis for determining priority interventions and that the sector's institutional environment be stabilized as frequent changes of policies, personnel and institutions have undermined performance. Improved performance will likely require greater allocation of resources for recurrent expenditures.

10. **Implementation of the government's groundnut sector reform Roadmap will be a priority pro-poor agenda.** The APR does not provide a comprehensive analysis of the status of implementation of this critical sector which has traditionally accounted for over 70 percent of domestically produced exports. Groundnut farmers are the largest group among the poor. However, the groundnut sector has been undermined by a dysfunctional marketing arrangement in recent years. Unlike the agriculture sector as a whole, the groundnut sector benefits from having a sector reform strategy, the Roadmap prepared in 2007. The Roadmap emphasizes open competition based on a minimum producer price, divesting the Government-owned Gambia Groundnut Corporation (GGC) which is the main formal marketing and processing channel, improving access to agricultural production inputs and establishing a quality control system. Timely implementation of the Roadmap is expected to significantly contribute to alleviating poverty among the groundnut farmers by revitalizing the sector and providing a reliable and timely market for groundnuts. It will be critical to promote private investments in the sector, in particular by providing a level playing field in which no investor is given preferential treatment. The staffs recommend that implementation of the Roadmap be accelerated and be further developed with respect to improving access to inputs and extension services and strengthening institutional capacity of key public and private stakeholders, including producer associations. Any adverse social distributional impact of the reforms should be monitored and adequately addressed.

11. **The staffs believe that stronger efforts are needed to ensure a greater focus on improving economic governance so as to promote private sector-led growth.** Reforms of economic governance would enhance the country's competitiveness, help attract foreign investments and make the country more resilient to external shocks such as the current global economic slowdown. In this context, of particular importance are: (i) greater protection of contractual rights and respect for legal due process; (ii) the use of open and competitive bidding process for divestiture of public enterprises and sale of major licenses, such as for telecommunication; and (iii) strengthening of the Public Utilities Regulatory Authority (PURA) through the provision of adequate resources and enhancement of its independence and mandate. Building on improved economic governance, the authorities could address the poor availability and high cost of finance, lack of access to land and the multiplicity of taxes and government fees which aggregate to a significant burden. Finally, the staffs recommend consolidating the investment laws and overhauling the discretionary duty exemption system.

12. **Although the MDG goal of halving poverty is unlikely to be met, the APR notes the relatively good progress made in indicators on universal primary education and gender parity.** Major government initiatives have benefited from support from donors and the EFA-FTI. With relative improvements in access, the next key challenges are to improve the quality of school instructions and educational outcomes given the high failure rates in standardized tests. For the health sector, the staffs recommend that public resources be focused on primary services and preventive care. Improving health outcomes will depend on the ability of the government to provide adequate recurrent resources to the health facilities, particularly health professionals and drugs. For both the health and education sectors, the use of mandatory rotations as well as

the current incentive programs could be considered for rural placement of staffs. The staffs also recommend that the expansion of school and health facilities be on a sustainable basis by taking into account the capacity of the government to provide for the recurrent costs.

13. **The APR highlights the importance of addressing HIV/AIDS, malaria and tuberculosis.** Malaria remains the leading cause of morbidity and mortality and is particularly a problem for pregnant women and children under five years. The staffs recommend a comprehensive assessment of malaria as well as tuberculosis and strengthening of disease surveillance and response capacity at all levels. The latest sero-surveillance data indicate that HIV-1 prevalence doubled from 1.4 percent in 2002 to 2.8 percent in 2006. The prevalence of HIV among young women and men aged 15-24 has tripled from 0.8 percent to 2.4 percent during the same period, and only 8.8 percent of people with advanced HIV infection and 14.1 percent of HIV positive pregnant women receive antiretroviral therapy. Therefore, it will be critical to use the recently approved Global Fund to expand the availability of HIV/AIDS programs, including educational outreach to reduce further infections.. The government could also consider reestablishing the posts of divisional coordinators of the National HIV/AIDS Secretariat (NAS) in order to strengthen its regional presence.

14. **The main risks to achieving PRSP objectives include the impact of external shocks, insufficient prioritization and weak capacity.** The global economic slowdown is expected to reduce the country's economic growth and government revenues. Declining government revenues could put pressure on resources allocated to PRSP related expenditures. Given reduced overall resources, it will be critical to reallocate funds to PRSP priority activities, prioritize within PRSP priority activities as necessary, and ensure that these funds are used efficiently and effectively. In this context, the impact of existing and planned projects could be comprehensively assessed. Continued public sector capacity building reforms, particularly the civil service reforms, are critical to mitigating the risks of low capacity. A credible, transparent and predictable policy environment which supports private investments will be critical to building the country's capacity to withstand external shocks.

### III. KEY IMPLEMENTATION ISSUES

15. **Improving the monitoring and evaluation of the PRSP program remains an important challenge.** Relatively little information is provided in the APR's results matrix on achievement of the 2007 targets apart from the macroeconomic indicators. However, the 2007 MDG Status Report and the 2007 Poverty Reducing Expenditure Report provided complementary information for the monitoring of PRSP objectives. The staffs recommend that these reports be prepared annually and that their main findings be reflected in the APR. The staffs also recommend refining the PRSP policies and target output and outcome indicators in order to make them more specific and concrete. In particular, agriculture, governance and cross-cutting issues, such as gender and environment, appear to lack cohesive and well defined policies and target indicators. The refinement of policies would provide an opportunity to review government priorities,

critical given the sizable funding gap identified in the PRSP. Prioritizing will be even more critical in light of the projected decline in government revenues as a result of the impact of the global economic slowdown.

**16. Improving the quality and timeliness of data, particularly economic statistics, is needed to improve program monitoring.** Once survey field works are conducted, there are often significant lags until the data become available. Archiving and dissemination of data remain relatively weak. The authorities have made major efforts to build institutional capacity through the enactment of the Statistics Act (2005) and the subsequent establishment of the Statistic Council and the Gambia Bureau of Statistics (GBOS). The staffs recommend prioritizing the implementation of the government's "Strategic Plan for the Development of Statistics in The Gambia: 2008-11," which focus on continued structural reforms and capacity building of GBOS. In particular, the staffs support the Strategic Plan's proposal for a "performance contract" for GBOS which would be used to hold it accountable for improved data quality and availability.

**17. The PRSP highlights the Medium Term Expenditure Framework (MTEF) as a means to further deepen the integration of PRSP priorities with the budget.** However, its adoption would be feasible only if there can be a credible commitment to future sectoral budgetary allocations. As the initial steps towards eventually adopting a MTEF, the staffs recommend that major sectors improve their annual budget submissions by incorporating target output and outcome indicators linked to their proposed expenditures. Departments of State (ministries) which already have sectoral policies and public expenditure reviews would use them to derive their PRSP performance indicators. Sectoral policies and expenditure reviews could be gradually expanded to the remaining Departments. As the sectoral policies are refined, the budget codes which identify PRSP related expenditures can be revised to ensure that they reflect the new policies.

**18. Strengthened governance remains a priority for the PRSP implementation.** International observers generally agree that the country's oversight institutions and the opposition media are weak. Strengthened governance would enhance the transparency and accountability of the public sector and reduce the risk of policy slippages. The PRSP has been prepared in an open, transparent and participatory manner in order to promote country ownership and a government that is responsive to the needs of the poor. Free dissemination of information and an independent media would support such an approach.

**19. Implementation of the recommendations of the previous JSAN has been mixed.** As recommended, the authorities maintained prudent macroeconomic policies, achieved the completion point triggers for the HIPC program, prepared a groundnut sector reform strategy, strengthened the governance of the Central Bank and developed a civil service reform strategy focused on pay and human management reforms. Some of the recommendations are being implemented on an ongoing basis, including for education and health. Regarding the recommendation on the investment climate, the authorities currently are collaborating with IDA on an ongoing Investment Climate Assessment (ICA) and preparing a new Growth and Competitiveness Project for addressing some of the identified shortcomings. Although recommended, there have been



less success in developing a agriculture sector strategy beyond the groundnut sector, preparing an implementation and sensitization program for decentralization, improving the management of the electricity utility and PURA, and further prioritizing the PRSP and refining the performance indicators.

#### IV. CONCLUSION

20. **The staffs believe that the progress report provides an adequate assessment of PRSP implementation for 2007.** As detailed in the report, progress was made in the implementation of the PRSP. Macroeconomic stability and real growth was maintained, public financial management was strengthened and progress was made in the key social sectors. By contrast, progress has been relatively slow with regards to agricultural reforms and decentralization, and there could be a greater emphasis on governance, including economic governance, and the groundnuts sector reforms. PRSP monitoring improved with the complementary reports on MDGs and poverty related public expenditures but the PRSP target outcome and output indicators would benefit from further refinement. Since 2007, the country has had to deal with sharply increasing import prices and the impact of the ongoing global economic slowdown. It is critical that the country maintains its commitment to the PRSP program in the midst of these new challenges.

21. Priority areas identified by staffs for strengthening the implementation of the PRSP include: (i) developing a comprehensive agricultural sector strategy; (ii) prioritizing improvement of governance; and (iii) refining PRSP performance indicators.