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To: Members of the Executive Board
From: The Secretary
Subject: The Gambia - Policy Framework Paper, 1988-89/1990-91

Attached for consideration by the Executive Directors is the policy framework paper under the enhanced structural adjustment facility for The Gambia, which will be brought to the agenda for discussion on a date to be announced.

Mr. Rothman (ext. 8652) or Mr. Gunjal (ext. 8658) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

THE GAMBIA

Policy Framework Paper for 1988/89-1990/91 1/

Prepared by the Gambian authorities in collaboration
with the staffs of the Fund and the World Bank

October 19, 1988

I. Introduction

1. From the mid-1970s onwards, The Gambia's economic and financial situation deteriorated markedly, and, by early 1985, the underlying internal and external imbalances had assumed major proportions owing to a combination of adverse external factors, expansionary financial policies, and inappropriate exchange rate and other pricing policies. In the latter part of this period, the growing imbalances were reflected in economic decline, accelerating inflation, and the emergence of external payments arrears (including those to the IMF). To halt the deterioration and provide the basis for a resumption of sustained economic growth while restoring domestic and external financial equilibrium, the Government adopted in mid-1985 a comprehensive medium-term Economic Recovery Program (ERP). The ERP was supported by the IMF during 1986/87 (July-June) by drawings equivalent to SDR 5.13 million, or 30 percent of The Gambia's quota, under a stand-by arrangement, and a loan equivalent to SDR 3.42 million, or 20 percent of quota, under the first annual arrangement under the structural adjustment facility (SAF) and during 1987/88 by a loan equivalent to SDR 5.13 million, or 30 percent of quota, under the second annual arrangement under the SAF. During 1986/87-1987/88, the program was supported also by a World Bank Structural Adjustment Credit (SAC--including cofinancing) of US\$37.0 million. 2/

2. The Government's strategy under the ERP was described in a policy framework paper (PFP) that was reviewed by the World Bank Committee of the Whole on August 26, 1986 and by the Fund Executive Board on September 17, 1986. Its updated version was reviewed by the World Bank Committee of the Whole on December 8, 1987 and by the Fund Executive Board on December 23, 1987. The present updated version describes progress in implementing the program during 1986/87-1987/88 as well as economic and financial developments over those years; sets forth

1/ This paper updates and extends the policy framework paper for 1987/88-1989/90 of November 19, 1987.

2/ US\$18.0 million from the Special Facility for Africa and IDA, US\$4.3 million in Special Joint Financing from the United Kingdom, and cofinancing of US\$11.5 million from the African Development Fund and US\$3.2 million from the Saudi Fund.

objectives and policies for the three-year period 1988/89-1990/91; examines external assistance and financial requirements; discusses the social impact of the adjustment effort; and outlines some long-term issues.

II. Program Implementation and Economic and Financial Performance During the Period 1986/87-1987/88

3. The ERP aimed originally at achieving an annual rate of growth of real gross domestic product (GDP) of 3.3 percent over the period 1986/87-1988/89, while reducing the rate of inflation, as measured by the consumer price index on an end-period to end-period basis, from 70 percent in 1985/86 to 10 percent by 1988/89. In the external sector, the program's main objectives were to progressively narrow the external current account deficit, to build up official foreign reserves, to reduce the large stock of external payments arrears, and to normalize relations with creditors through rescheduling agreements and the timely servicing of nonreschedulable obligations. Based mainly on a reassessment of medium-term external financing prospects, the macroeconomic targets of the ERP were subsequently adjusted slightly, which was reflected in the second PFP. As a result, the program for the three-year period 1987/88-1989/90 aimed at achieving an annual rate of growth of real GDP of 3.5-4.0 percent, while reducing the rate of inflation further to 8 percent by 1989/90. The ratio of the external current account deficit (excluding official transfers) to GDP was programmed to decline steadily from 33 percent in 1986/87 to 24.5 percent in 1989/90.

4. In pursuit of these objectives, the Government's strategy has emphasized prudent demand management through appropriate fiscal, monetary, exchange rate, pricing, and external debt policies, and the promotion of private sector output through the provision of appropriate price and other incentives, particularly in agriculture and fisheries. To achieve greater efficiency in public sector operations, the program has called for significant reductions in government employment and a reorganization of the Civil Service, rationalization and divestiture of major public enterprises, and more stringent project selection to improve the productivity of public investment.

5. A significant measure of progress has been achieved in implementing the ERP, and The Gambia's economic and financial performance to date has, in many respects, exceeded the program's objectives. Real GDP growth during 1986/87-1987/88 is estimated to have averaged about 5.5 percent per annum (Annex Table I). This expansion in activity, following a period of declining aggregate output, was broadly based and included sharp increases in groundnut production, private and public construction activity, and small-scale manufacturing. At the same time, the rate of increase in the consumer price index dropped to 22 percent in 1986/87 and fell further to about 9 percent in 1987/88. Although under the program the budget deficit (on a cash basis and excluding grants) had been expected to increase to some 17 percent of GDP in

1986/87, owing mainly to a large transfer to the groundnut sector in support of a domestic producer price well above the world market price and a substantial increase in development expenditure from a particularly low level in 1985/86, the budget deficit was constrained to 15 percent of GDP (excluding the establishment of a Managed Fund 1/). For 1987/88, the budget deficit was expected to remain high at 18.7 percent of GDP, as the program provided for the repayment of the bulk of the debt of The Gambia Produce Marketing Board (GPMB) to the Central Bank of The Gambia (CBG). Excluding the Government's unanticipated repayment of The Gambia Utilities Corporation's (GUC's) debt to the CBG, equivalent to 2 percent of GDP, the fiscal outturn--a deficit of 19.5 percent of GDP--was broadly as planned. The repayments of the debt of both of these major public sector enterprises were effected from the Government's growing net creditor position with the CBG and were consistent with the ongoing financial restructuring of the public enterprise sector. A relatively rapid growth in money supply (44 percent through 1986/87 and 20 percent through 1987/88) derived entirely from an increase in net foreign assets of the banking system and reflected a financial deepening associated with the improved economic environment and the emergence of real positive interest rates on available financial assets.

6. In 1986/87, as anticipated, the external current account deficit widened somewhat from some SDR 32 million to about SDR 39 million (33 percent of GDP). However, owing to higher-than-programmed official capital inflows, the overall balance of payments (excluding exceptional financing 2/) showed a large surplus of SDR 27.3 million. For 1987/88, the external current account deficit is estimated at about SDR 31 million (24 percent of GDP), compared with a program target of SDR 34 million, mainly because higher-than-anticipated groundnut exports more than compensated for a decline in net re-exports. On the other hand, owing mainly to a delay in concluding a second SAC with the World Bank, the overall balance of payments surplus is estimated at about SDR 12 million, compared with the program projection of SDR 28.4 million. Nevertheless, during the 1986/87-1987/88 period as a whole, The Gambia increased its gross official foreign reserves by SDR 19 million and reduced its external payments arrears on a cash basis (including the settlement in July 1986 of overdue obligations to the IMF of SDR 10.3 million) by SDR 35.9 million. In addition, The Gambia concluded rescheduling agreements with Paris Club and London Club creditors in September 1986 and January 1988, respectively.

7. The basic objective of the Government's Civil Service Reform program is to create a better trained, professionally managed, and

1/ The assumption by the Government of government-guaranteed loans (equivalent to about 7 percent of GDP) extended by The Gambia Commercial and Development Bank (GCDB) to certain private and public enterprises.

2/ Defined to include purchases and loans from the IMF, USAID balance of payments-support grant, and net debt relief.

adequately remunerated Civil Service of appropriate size and composition. To this end, during 1986 the Government effected a retrenchment of more than 20 percent of total government employment and eliminated a large number of vacant positions from the Establishment roster. In addition, the Government developed a comprehensive Administrative Reform Program (ARP) for the period 1987-90, which includes, inter alia, measures to improve Civil Service personnel management. The two most significant of these measures are the establishment of a new Personnel Management Office, which became operational recently, and of a new Civil Service grade structure, which will be introduced by the end of September 1988.

8. To stimulate the development of economically efficient sectors while reducing the fiscal cost of investment incentives, the Government enacted in early 1988 a comprehensive new investment code, which limits the provision of tax credits to companies that either export at least half of their output or generate domestic value added of more than 60 percent. A time-bound action plan for the recovery of outstanding loans to The Gambia Cooperative Union (GCU) is also being implemented. Moreover, the Government eliminated the GCU's preferential buying allowance, with a view to liberalizing domestic marketing arrangements of groundnuts by placing private traders on the same competitive footing.

9. In order to improve the productivity of public investment, in 1986/87 the Government took two steps in the area of development planning. The concept of a "rolling" public investment program (PIP) based upon a three-year programming period and linked to the annual preparation of the recurrent budget was introduced. In addition, stringent selection criteria were established for new projects, including the requirement of a minimum rate of return (where calculable) of at least 15 percent and a thorough study demonstrating the sustainability of the project's recurrent costs as well as its complementarity with private sector investments. As a result of these procedures, the composition of the PIP has shifted significantly in favor of the rehabilitation and maintenance of basic infrastructure. The Government reached an agreement with the World Bank staff on the size and composition of the PIP for 1988/89-1990/91. Priority for new investments continues to be the rehabilitation of infrastructure and the development of support services for the promotion of private sector activity. The Government will agree with World Bank staff by April 30, 1989 on the size and composition of the PIP for 1989/90-1991/92. Since only project-related technical assistance activities are included in the PIP, and given the need for monitoring all technical assistance activities, the Government has prepared a consolidated roster of nonproject technical assistance activities, which specifies the sources of funding and includes projections for the following three years.

10. The Government has also adopted a comprehensive plan for rationalizing the public enterprise sector, involving the phased divestiture of most of the Government's holdings and the negotiation of performance

contracts with those enterprises which are to remain within the Government's portfolio. During 1987/88, the Government's minority shareholdings in Standard Chartered Bank, CFAO (a trading company), and the Brikama ice plant were sold to the public, and a leasing agreement was concluded with a foreign company for operating the wholly-owned Atlantic Hotel. The Government has signed full-year performance contracts with The Gambia's three largest nonfinancial public enterprises--the GPMB, the GUC, and The Gambia Port Authority (GPA). To broaden the domestic tax base and reduce reliance on import duties, in 1987/88 a general sales tax was adopted for full implementation during 1988/89. In addition, the income tax act was reformed in order to broaden the tax base, simplify the administrative procedures, and improve revenue collection.

III. Objectives and Policies for the Period 1988/89-1990/91

11. For the period 1988/89-1990/91, the Government is committed to pursuing the broad strategy and policies described in the previous PFPs. A summary and time frame for implementation of macroeconomic structural adjustment policies for the period 1988/89-1990/91 is presented in matrix form in Annex Table II. Based on a more recent reassessment of medium-term external financing prospects as well as of the growth potential of the Gambian economy, the macroeconomic targets of the program have again been adjusted. The target annual rate of growth for real GDP has been raised to about 4 percent, with the increased activity expected to be broadly based and to result from the Government's policies aimed mainly at encouraging private sector activity and at improving the effectiveness of public investment. This growth would permit a further, albeit modest, recovery in real per capita income. It is hoped to bring the rate of inflation down to 6 percent by 1990/91. The external current account deficit is programmed to remain essentially unchanged at about SDR 31 million but to decline from 24 percent of GDP in 1987/88 to 19.5 percent in 1990/91, which, with the maintenance of an appropriate debt profile, would be consistent with declines in both the external debt service and debt/GDP ratios. Moreover, the deficit by 1990/91 would be sustainable in that it would be financed totally by normal concessional inflows. The current account target is premised mainly on growth in groundnut and nontraditional exports (e.g., fish and horticultural products) and re-exports, more buoyant tourism earnings, restraint in overall import growth to below that of aggregate output, and reduced net interest payments, reflecting mainly the elimination of interest on external payments arrears and higher interest earnings from foreign reserves. Major objectives continue to be the normalization of The Gambia's relations with its external creditors and a buildup of foreign reserves. Therefore, in the current three-year program, all external payments arrears will be eliminated by end-1989/90, and it is expected that based on intensified adjustment efforts and prospects in the global economic environment, it should be possible for The Gambia to accumulate

gross official reserves to the equivalent of 6 months of imports in 1990/91. Such a level of reserves would enable The Gambia to support its liberalized exchange and trade system, to provide a much needed cushion for contingencies (especially given the economy's vulnerability to adverse weather conditions), and to ensure the timely servicing of debt.

Sectoral policies for expanding production

a. Agriculture

12. The performance of the agricultural sector has made a significant contribution to The Gambia's economic recovery. During the first stage of the ERP, the Government increased domestic producer prices and liberalized rice imports and fertilizer marketing. During 1987/88, the Government's priorities in the agricultural sector were changed to the rationalization of the groundnut subsector, the reform of the agricultural credit system, and the reorganization of the Ministry of Agriculture. These priorities will be maintained in 1988/89 in order to build upon the progress made so far in these areas.

13. In the groundnut subsector, the Government attaches great importance to the rationalization of pricing policy to eliminate the subsidy element. For the 1988/89 crop season, based on projections for world market prices and further cost saving efforts by the GPMB, the Government announced a producer price of D 1,100 per ton. This represents a reduction of about 27 percent from the 1987/88 price and a cut of almost 40 percent from the 1986/87 price and anticipates, for the first time in recent years, that the producer price will not exceed the export unit value. However, the GPMB will still make a slight loss, owing to its processing and debt-servicing costs. A strong effort will be made to improve efficiency in all aspects of groundnut marketing and processing. In this regard, a study will be undertaken shortly to review the operations of the GPMB to determine how its efficiency could be further improved, including by the privatization of additional GPMB activities. The study will also examine the potential for, and benefits of, increased competition in the marketing and processing of groundnuts. An action program based on the study will be implemented by the start of the 1989/90 marketing season.

14. With respect to agricultural credit, the Government has already taken certain steps agreed with the World Bank in the context of the first SAC to restore the financial viability and to improve the efficiency of the GCU. New credit eligibility criteria, which were instituted in 1987/88 and which led to the denial of fresh loans to farmers in default, are being maintained for the 1988/89 season. The recently introduced time-bound action program for recovery of outstanding GCU loans will continue to be implemented and will be updated. As the loan recovery by the GCU progresses, the GCU will seek to reduce arrears on its own outstanding debt to the banking system.

15. To improve the efficiency of agricultural sector management, the Government will continue to implement a comprehensive program for the reorganization of the Ministry of Agriculture. This program involves narrowing the focus of the Ministry's functions to those that cannot be handled by the private sector (e.g., research, extension and animal health support services, resource management, and sector planning) so that the Ministry's performance in these areas improves. Considerable progress was made during 1987/88 in the organizational restructuring of the Ministry, and progress is expected during 1989 in privatizing its commercial and service activities. The Government will also implement in 1989/90 an action program for agricultural diversification. This program will be based on the results of a report, to be completed by end-March 1989, evaluating diversification experiences. In addition, the Government is actively encouraging the private sector to enter into input marketing (fertilizer, seeds, and implements) and the provision of other agricultural services, e.g., seed multiplication, crop spraying, veterinary services, and tractor ploughing. In this context, the Government will maintain its policy of not subsidizing agricultural inputs including, notably, fertilizers.

b. Industry

16. The exchange rate reform of January 1986 (see paragraph 24 below) is providing a stimulus to export and import substitution industries, although an appreciable balance of payments impact can be expected only in the medium term. The new investment code is expected to stimulate further investment from domestic and foreign sources. In addition, the Government is taking steps to encourage expanded term-lending by the commercial banks (in conjunction with an IDA Enterprise Development Project to be implemented during 1988/89) and to strengthen institutional support systems for small-scale enterprises.

c. Fisheries

17. Investment in the fisheries subsector has increased significantly under the ERP since the exchange rate reform and the waiving of fish export taxes upon proof of remittance of foreign exchange earnings, and, from a small base, processing capacity has expanded considerably. To further encourage the private sector in this area, the Government recently decided to discontinue its investment in a parastatal fishing company. The Government will implement by end-1988 a fisheries resource management program, whose priorities are: (i) to develop a surveillance capability to conserve aquatic resources; (ii) to tighten licensing agreements in order to increase income accruing to the economy from fishing; (iii) to provide infrastructure, training, and credit facilities to artisanal fishermen in order to enable them to supply local processing companies; and (iv) to encourage the development of aquaculture of high-value species.

d. Tourism

18. In response to improved profitability, the tourism sector has also begun to attract additional foreign private investment. The Government's strategy in this sector centers on the divestiture of its holdings and a continued moratorium on government loan guarantees. The Government has already completed external debt rescheduling for a major hotel. To maximize tourism earnings, the Government will adopt during 1989/90 a program to promote the economic utilization of the presently designated Tourism Development Area, the development of tourism in the interior, and the growth of artisanal industries, while also providing effective control measures to ensure quality standards of hotels and restaurants.

Public sector management

19. An important medium-term policy aim of the program remains the reduction of the overall budgetary deficit. The deficit, which remained high at 21.5 percent of GDP in 1987/88 due to the Government's repayment of the debt (totaling 8.3 percent of GDP) of two major public enterprises noted in paragraph 5 above, is programmed to decline sharply to 8.3 percent of GDP in 1988/89. By 1990/91, moreover, the Government intends to bring the deficit down to about 6 percent of GDP through continued expenditure restraint and further efforts at generating revenues.

20. In the area of taxation, during 1988/89 the general sales tax is being implemented at a uniform 10 percent rate at the manufacturer-importer level. In the course of the year, the coverage of the tax will be extended to include hotels, restaurants, nightclubs, cinemas, and casinos. With a progressively broader coverage, the introduction of the sales tax is expected to yield a net increase in revenues, despite the accompanying elimination of both the import tax and excises on services and reductions in customs duties and excises on goods so as not to increase the tax burden on specific goods. Regarding taxes on international trade, the Government has, with the 1988/89 budget, reduced to zero the import duties on rice and tea, and rationalized duties on several other consumer goods to simplify collection. At the same time, a major administrative effort is being mounted to minimize revenue leakages from the misclassification of imports as duty free items. Finally, to increase the efficiency of the income tax system and curtail widespread tax evasion, the income tax law was reformed by reducing the number of tax brackets, raising and unifying the standard allowance, reducing the highest marginal tax rates, incorporating certain sources of nonwage income into the taxable base, and giving more legal power to the tax authorities.

21. The Government will continue to exert strict control over expenditures, especially on subsidies and personal emoluments, and give priority to maintenance and development needs. Much of the reduction in current expenditure in 1988/89 would result from the nonrecurrence of

the two exceptional repayments of public enterprise debt in 1987/88. In addition, to sharply curtail the budgetary subsidy to the GPMB for current operations in 1988/89--with a view to eliminating it by 1989/90--the groundnut producer price, as discussed in paragraph 13 above, was reduced by almost 27 percent. It is estimated that this cut will enable the Government to reduce the budgetary transfer to the GPMB for current operations to the equivalent of less than 1 percent of GDP, compared with a transfer in 1987/88 of about 4 percent of GDP. Moreover, efforts are being made to contain outlays for "other charges" at about their 1987/88 level. In 1987/88 such outlays increased sharply to accommodate urgent requirements for maintenance and adequate levels of materials and supplies. In addition, the budgeted growth in personal emoluments and pensions takes account of both the cost of the new Civil Service grade structure and a long-delayed general wage and salary adjustment. Given the budgetary deficit target, the above revenue measures and efforts at restraint in current expenditure are expected to permit a pickup in the pace of development outlays--a rise of almost 16.5 percent above the 1987/88 level--in line with the public investment program agreed with the World Bank. Overall, total expenditure plus net lending is programmed to decline to about 35 percent of GDP in 1988/89, from a level of about 47.5 percent of GDP in 1987/88.

22. With external grants and net foreign borrowing projected to be well in excess of the budget deficit for 1988/89, the Government would increase its net creditor position with the banking system. This trend is projected to continue for the two subsequent years (1989/90 and 1990/91).

23. The Government continues to accord high priority to the rationalization of the public enterprise sector. During 1988/89, it will continue to implement the public enterprise divestiture program adopted during 1986/87. In particular, government shares in the National Trading Corporation have already been floated, while those in The Gambia National Insurance Corporation will be offered for sale in March 1989. In addition, the Government is on the verge of completing arrangements to sell its holdings in the African (Sunwing) Hotel, Seagull Coldstores, and the Nyambai Sawmill and to lease the Pakalinding ice factory. It will continue to monitor closely the implementation of full-year performance contracts signed last year with the GPMB, the GUC, and the GPA. It will also negotiate and sign by end-June 1989 performance contracts with three additional public enterprises: The Gambia Telecommunications Company (GAMTEL), the Social Security and Housing Finance Corporation (SSHFC), and The Gambia Public Transport Corporation (GPTC).

Exchange rate and other pricing policies

24. A central element of the Government's adjustment strategy was the introduction in January 1986 of a floating exchange rate system within the framework of an interbank market. To strengthen the system, the Government removed all restrictions on payments and transfers for

current international transactions, established foreign exchange surrender requirements for public enterprises, and set limits on the foreign exchange working balances of the commercial banks. By mid-March 1986 the interbank rate of the dalasi had depreciated to D 10 per pound sterling (compared with the prefloat rate of D 5 per pound sterling). Since then, the rate has moved narrowly between D 10.95 and D 12.10 per pound sterling. The interbank exchange system, supported by a liberalized interest rate policy, has functioned smoothly and has resulted in the virtual elimination of the differential between the interbank and parallel market rates, greatly increased bank intermediation of foreign exchange receipts previously channelled through the parallel market, and a substantial increase in gross official reserves. The Government will continue to monitor carefully the evolution of the system to ensure its orderly functioning. Except for the restrictions evidenced by the remaining external payments arrears, The Gambia has no restrictions on current or capital international transactions nor trade controls.

25. With a view to ensuring a pass-through of exchange rate effects on prices to consumers, the Government has adopted a pragmatic approach to the pricing of petroleum products, public utilities, and bus transport. In the period December 1985-June 1986, the prices of premium gasoline and gas oil were raised by a cumulative 103 percent and 40 percent, respectively. Water and electricity tariffs were increased by varying percentage margins in July 1986, in January 1987, and more recently, in January 1988. Bus fares were raised on average by 33 percent in April 1987, following a similar increase in May 1986. The pass-through effects of the sharp depreciation of the dalasi in early 1986 have already occurred, but the Government will continue to review these prices and tariffs and make adjustments when necessary to reflect developments in costs, including those associated with further exchange rate movements.

Monetary and credit policies

26. The Government continues to support its fiscal policy with a monetary and credit policy aimed at further moderating inflation, generating domestic financial savings, and achieving its external targets. For 1988/89, credit policy has been established based on a further decline in the income velocity of money and thus an average annual increase in money plus quasi-money of 18.5 percent, compared with an increase of 14 percent in nominal GDP. As in 1986/87 and 1987/88, consistent with the projected monetary growth and increase in the net foreign assets of the banking system, appropriate limits are being placed on the net domestic assets of the banking system, with sub-limits on net bank credit to Government and on gross bank credit to the GPMB. Under the 1988/89 program, provision has been made for an increase of up to 20 percent in credit to the private sector. The program for 1988/89 envisages no domestic contribution to monetary growth for the third consecutive year. To buttress the monetary and credit program, the reserve ratio requirements will continue to be adjusted, as required,

and the Government will tender securities in a sufficient volume to provide a remunerative domestic outlet for possible excess liquidity. Also, during 1988/89 the Government will implement an action program for the financial, managerial, and operational reform of The Gambia's largest commercial bank (the GCDB).

27. To mobilize increased financial savings and to promote greater efficiency in credit allocation, the authorities have adopted a flexible interest rate policy. Since July 1986, key interest rates have been determined on the basis of a biweekly tender system for Treasury Bills, and rates have fluctuated between 16 percent and 20 percent (compared with the earlier fixed rate of 15 percent). The Treasury Bill rate recently declined to 16 percent from its peak of 20 percent. Nevertheless, given the recent sharp decline in the rate of inflation, real rates of return on available financial assets have remained positive. To facilitate the continuation of an appropriate interest rate policy and offer a wider range of financial assets, the Government will seek to change the pattern of its security issues from one of predominantly short-term Treasury Bills, as presently, to one with an increasing share of medium-term obligations. Moreover, to make government securities accessible to a larger segment of the nonbank public, offerings will be made in much smaller denominations than the current minimum of D 100,000.

IV. External Assistance and Financing Requirements

28. In 1987/88 external assistance and financing made available to The Gambia was significantly below the level projected under the program (Annex Table III). While official transfers plus project loans were only slightly below their program projection, balance of payments supporting inflows fell short of their program projection by SDR 15.5 million, owing mainly to the delay in concluding a second SAC with the World Bank. Moreover, the private capital account, for which a surplus of SDR 3.7 million had been projected, registered an estimated surplus of only SDR 2.1 million. As noted in paragraph 6 above, the current account deficit turned out to be smaller than had been anticipated, and, despite the substantial shortfall in external financing, The Gambia was able to effect a cash reduction in external payments arrears of SDR 6.9 million and a buildup in gross official foreign reserves of SDR 9.5 million (to a level equivalent to 2.5 months of imports by end-June 1988).

29. Notwithstanding the progress made over the past two years, The Gambia's medium-term external position remains vulnerable. As discussed in paragraph 11 above, even with attainment of the current three-year program's targets, The Gambia's external current account deficit in 1990/91 would still amount to almost 20 percent of GDP.

30. Over the current three-year program period (1988/89-1990/91), if The Gambia is to achieve the expansion and diversification of its production base needed to achieve a viable external position and its objectives of eliminating all outstanding external payments arrears by 1989/90 and of building gross official reserves to the equivalent of 6 months of imports in 1990/91, substantial external assistance and financing (SDR 197.5 million) will be required. While the Government will continue to observe the moratorium on contracting or guaranteeing new nonconcessional external debt, it is expected that bilateral and multilateral donors will continue to support The Gambia's adjustment efforts and structural reforms. In particular, crucial financing during this period is expected to derive from (i) the second World Bank SAC (including cofinancing) amounting to about SDR 25 million over 1988/89-1989/90 and (ii) the first, second, and third annual arrangements under the IMF's enhanced structural adjustment facility (ESAF), providing SDR 20.52 million over 1988/89-1990/91. These inflows are expected to be complemented by moderately rising technical assistance grants and project-related grants and loans from other multilateral and bilateral donors and by modest but sustained private capital account surpluses. Based on the above, the financing requirements are envisaged to be met.

V. Social Impact

31. Improvements in the policy environment coupled with favorable weather led to an increase in real GDP of over 5 percent in both 1986/87 and 1987/88, successfully reversing the economic decline and resulting in increases in real per capita GDP. As a result of financial stabilization efforts, the rate of inflation was significantly lowered and a climate more conducive to the growth of the private sector has emerged, providing enhanced employment opportunities throughout the economy. Moreover, as a result of the exchange rate and trade reforms, there have been increased availabilities of imported goods and agricultural inputs. The policies adopted for the 1988/89-1990/91 period should continue to contribute to broadly-based economic growth and provide further increases in per capita incomes. Although the lower domestic producer price for groundnuts in 1988/89 could adversely affect rural incomes, this should be mitigated to some extent by increased unrecorded exports at higher prices and by expanded production of sesame and cereals. In addition, to raise farm incomes, measures are being taken to improve services to farmers, to increase the efficiency of groundnut marketing and processing, as well as to diversify production.

32. To address the problem of transitional unemployment among re-trenched public sector workers, the Government established a Civil Service Resettlement Program under the auspices of the Indigenous Business Advisory Service and the National Investment Board. Under the program, re-trenched workers were provided with (a) employment counselling; (b) access to basic entrepreneurship training and more

specialized technical training, if appropriate; and (c) financial assistance for the establishment of business ventures in priority sectors.

33. There are indications that the retrenched workers have been absorbed into private employment more readily than initially expected. The major reason for this and for a relatively low number of applicants for government assistance is probably the revived economy and demand pulls in the private labor market, particularly from the agricultural sector. In addition, several new donor-assisted programs are being undertaken in rural areas, such as labor-intensive road maintenance and locally-administered construction schemes.

34. Despite the constraints on the overall government budget, the basic social services have been protected. With donor assistance, maternal and child health services (including family planning) are being expanded and a new urban polyclinic (in the capital--Banjul) is now operational, providing improved public health services to the relatively low-income population. In 1987, seven regional health centers were chosen to be upgraded to improve and expand services in rural areas, of which two have been completed and another is under construction. A nationwide immunization campaign against seven childhood diseases has been expanded, and the national immunization average has risen from 55 percent to 70 percent in the last two years. Nutrition programs targeted to the poorest urban neighborhoods and rural areas have also been expanded with the help of nongovernmental organizations (NGOs). Despite the retrenchments in education staff, no schools have been closed, and, again with the assistance of NGOs, the supply of textbooks and writing materials has been increased, which is expected to improve the effectiveness of schooling. There has also been a rise in the number of qualified teachers graduating from The Gambia College. Since the beginning of the ERP, primary school enrollment has increased from 50-55 percent to 60 percent of school-age children and secondary school enrollment from 24 percent to 35 percent. Moreover, performance in all sectors will be enhanced by improvements in infrastructure, which has been given a high priority in the development budget.

35. Although the initial results of the ERP are regarded as highly positive, the Government is cognizant of the need to monitor the economic and social aspects of the program closely. To this end, it has requested African Development Bank/World Bank/UNDP assistance in establishing a nationwide living standards survey in the context of the regional Social Dimensions of Adjustment Project. Over time, the survey will generate the detailed social data needed for a deeper understanding of the effects of the adjustment process and the more effective formulation of both economic policies and social programs to help ensure the equitable distribution of the benefits of development to all income groups.

VI. Long-term Issues

36. The ERP aims at reducing The Gambia's economic and financial imbalances and at promoting the structural changes needed to alleviate the country's long-term development constraints. The Gambia, with a per capita income in 1987 estimated at about US\$230, is one of Africa's least developed countries. Given The Gambia's resource endowment and a small domestic market, the long-term potential of the country appears to be mainly in agriculture, with an emphasis on increased self-sufficiency in cereal crops and on exports of groundnuts, sesame, livestock, and horticultural products. There is also good growth potential for export-oriented small-scale manufacturing, fisheries, tourism, and entrepot trade and services. Sectoral growth rate projections for the long term imply a sustainable annual growth rate of real GDP of nearly 4 percent, while projections for the external sector show steady declines in the current account/GDP, debt/GDP, and debt service ratios.

37. Important constraints to The Gambia's development are the high rate of population growth (currently estimated at 3.4 percent per annum) and underdevelopment of The Gambia's human resources. However, the Government is committed to family planning and, with the rapid expansion of family planning services currently under way, a decline in population growth is expected by 1990.

38. The expansion of the education system achieved over the past decade has been impressive. However, the rate of adult literacy is still estimated to be around 15 percent, and, as noted above, only 60 percent of all primary school-age children attend school. Similarly, although The Gambia's innovative village-based primary health care system has been a model for other African countries, reported maternal and infant mortality rates remain high, owing to widespread seasonal malnutrition and chronic infectious diseases. A promising start has been made to attack these problems, but a sustained expansion of education and health care systems will be required. In this context, and given the existing financial constraints, the Government has progressively introduced in the health care system direct cost recovery for many types of services and consumables. Attainment of The Gambia's development potential will depend importantly upon improvement of the populations' health, education, and productivity.

Annex Table I. The Gambia: Selected Economic and Financial Indicators, 1985/86-1990/91

	1985/86	1986/87	1987/88		1988/89	1989/90	1990/91
	Rev.	Rev.	Prog.	Est.	Projections		
(Annual percentage changes, unless otherwise specified)							
National income and prices							
GDP at constant prices	-0.3	5.4	4.0	5.5	4.3	3.9	3.9
GDP deflator	28.1	19.0	11.8	12.1	9.5	8.0	7.0
Consumer prices							
Average annual basis	35.0	46.0	15.0	12.4	9.4	7.0	6.2
End-period to end-period	70.4	22.3	12.5	9.2	7.5	6.5	6.0
External sector							
Exports, f.o.b. (in SDRs)	-4.5	-3.1	5.6	5.7	6.8	6.6	6.6
Imports, f.o.b. (in SDRs)	-2.0	10.9	8.2	1.2	7.7	6.4	6.2
Export volume (excluding re-exports)	9.0	-5.3	1.4	45.5	12.2	3.5	3.5
Import volume (excluding imports for re-export)	-4.1	14.5	4.8	—	4.8	3.7	3.3
Terms of trade (in SDRs; deterioration -)	-41.7	-2.8	1.8	-6.2	-6.3	2.6	2.6
Nominal effective exchange rate (depreciation -)	-25.7	-43.6	...	4.7	...	...	...
Real effective exchange rate (depreciation -)	-1.2	-18.3	...	7.1	...	...	...
Government budget							
Revenue (excluding grants)	41.1	51.9	6.7	6.1	14.2	9.6	5.3
Expenditure and net lending	8.6	90.3	5.4	12.0	-16.5	2.6	5.8
Of which:							
development expenditure	(-16.5)	(76.7)	(15.0)	(9.4)	(16.4)	(7.4)	(7.3)
(Annual changes as percent of beginning-of-period stock of broad money)							
Money and credit							
Domestic credit	38.5	-77.7	-37.9	-21.3	-27.7	...	...
Government	4.5	-73.9	-26.9	8.4	-48.0	...	...
GPMB	13.3	10.7	-25.4	-30.6	8.1	...	...
Other public enterprises	7.3	-10.5	3.7	-4.6	2.3	...	...
Private sector	13.4	-4.1	10.7	5.5	9.8	...	...
Money plus quasi-money	24.6	43.9	17.2	20.5	25.3	...	...
Velocity of circulation	3.7	3.6	3.3	3.5	3.3	...	...
Interest rate on Treasury Bills (end of period)	15.0	19.0	...	16.8	...	...	...
(In percent of GDP)							
Consumption	92.3	93.8	91.9	93.6	89.7	87.9	87.3
Investment	15.8	20.4	21.1	18.9	19.3	18.8	18.6
Resources gap	-8.5	-17.5	-12.9	-12.6	-12.9	-12.2	-11.5
Government surplus/deficit (-) (cash basis)							
Excluding grants	-13.0	-22.0	-18.7	-21.5	-8.3	-6.0	-5.8
Of which: transfer to the GPMB	(-1.5)	(-7.7)	(-10.4)	(-10.3)	(-0.9)	(-)	(-)
Including grants	-6.1	-7.1	-7.1	-9.2	1.6	1.9	0.8
Of which:							
domestic financing (net)	(5.2)	(-15.3)	(-8.5)	(3.4)	(-13.2)	(-11.7)	(-4.8)
foreign financing (net)	(0.8)	(22.4)	(15.6)	(5.8)	(11.6)	(9.8)	(4.0)
External current account	-29.7	-33.0	-26.6	-24.0	-22.4	-21.1	-19.5
External public debt outstanding (end of period) ^{1/}	202.5	182.3	172.5	168.8	161.8	155.8	151.3
(In percent of net exports and travel income) ^{2/}							
External debt service ^{3/}	23.9	106.0	69.2	49.2	54.9	49.7	27.3
(In SDRs per ton)							
Official groundnut exports							
Unit value	266	129	154	138	151	161	171
Domestic producer price	223	199	165	163	120	...	...
(In millions of SDRs)							
External current account	-32.2	-39.1	-34.0	-31.1	-31.3	-31.5	-31.2
Overall balance of payments (before exceptional financing)	-11.6	27.3	28.4	12.1	21.2	19.3	11.9
External payments arrears	88.2 ^{4/}	38.3	16.1	26.0	13.0	—	—
Gross official reserves	1.4	10.9	18.9	20.4	32.8	44.4	58.5
In months of imports, c.i.f. (end of period)	0.2	1.4	2.2	2.5	3.8	4.8	6.0

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

^{1/} Disbursed public and publicly guaranteed debt, including outstanding use of Fund credit.

^{2/} Net exports defined as total exports minus imports used for re-exports.

^{3/} Includes IMF charges and repurchases and cash payments for arrears reduction.

^{4/} Includes SDR 10.3 million in arrears to the Fund as of end-June 1986.

Annex Table II. The Gambia: Summary and Time Frame for Implementation of Macroeconomic Structural Adjustment Policies, 1988/89-1990/91

Issues	Objectives and Policies	Strategies and Measures	Phasing and Implementation
1. <u>Agricultural policy</u>			
a. Produce marketing and prices	To develop an efficient and diversified agricultural sector and improve the balance of payments prospects through export promotion and efficient import substitution.	To align the groundnut producer price for the 1989/90 season with the world market price adjusted for transportation, processing, and other costs so as to eliminate the subsidy to GPMB in 1989/90. To improve efficiency in groundnut marketing and processing. To implement action program for agricultural diversification.	To be done in conjunction with 1989/90 budget. Study to be initiated by end-November 1988. Implementation of agreed action program during 1989/90. Evaluation report to be completed by end-March 1989. Based on its recommendations, action program will be implemented during 1989/90.
b. Input marketing and prices	To achieve economic pricing and efficient distribution of inputs.	To increase the role of private sector and allow prices to reflect market conditions.	Maintain policy of not subsidizing fertilizers and other inputs.
c. Agricultural credit	To support the objectives and strategies stated in (a) and (b) above.	Continue implementation of GCU's credit action program.	Updated credit action program, with timebound specific objectives, to be implemented by end-1988.
d. Restructuring of the Ministry of Agriculture (MOA)	To limit the MOA's functions to those that cannot be handled effectively by the private sector (research, extension and animal health support services, resource management, and sector planning), and to strengthen the MOA as an agency for the monitoring of agricultural activities.	Implement action program as recommended in study carried out under the first SAC, including privatization of commercial and service activities.	Implementation of agreed action program by end-1988. Privatization program as agreed with IDA to be completed by end-June 1989.
2. <u>Other sectoral policies</u>			
a. Industry	To encourage private (domestic and foreign) investment in industry, especially in export activities.	Implement a program of administrative action and investment promotion for the economic utilization of industrial estates, including the rationalization of land allocation and monitoring of land use. Encourage term-lending from banking system.	Draft program of administrative action to be reviewed with IDA by end-1988. Implementation of program by end-March 1989. Modalities included in IDA Enterprise Development Project to be implemented during 1988/89.
b. Fisheries	To stimulate private investment and increase exports, while preserving this resource.	Develop a fishing surveillance capability to conserve aquatic resources, tighten licensing agreements in order to increase income accruing from the subsector, provide infrastructure, training, and credit facilities to artisanal fishermen, and develop a culture of high-value species.	Preparation of overall resource management action program for implementation by end-1988.

Annex Table II. The Gambia: Summary and Time Frame for Implementation of Macroeconomic Structural Adjustment Policies, 1988/89-1990/91 (continued)

Issues	Objectives and Policies	Strategies and Measures	Phasing and Implementation
c. <u>Tourism</u>	To promote orderly development of sector and maximize foreign exchange earnings.	Implement a tourism development strategy, including a program of administrative action to promote the economic utilization of the Tourism Development Area, including review of land allocation and tenure and access to water.	Preparation of strategy and action program to be completed and reviewed by end-1988. Adoption of program during 1989/90.
3. <u>Public enterprises</u>	To improve the efficiency of public enterprises and to reduce scope of government financial and managerial involvement in commercially-oriented ventures.	Privatize nonstrategic enterprises and rationalize enterprises which are to remain in the public sector.	Sign performance contracts with GANTEL, SSHFC, and GPTC by end-June 1989.
		Review of performance to date and budget/targets for second-year contracts with GPMB, GUC, and CPA.	Agreement with IDA on remedial actions and new contracts to be prepared, reviewed with IDA, and signed by end-1988.
		Implement recommendations of diagnostic study of GCDB.	Study completed. Agreement with IDA on a program of action by end-October 1988.
		Divest the following wholly government-owned enterprises/activities:	
		- National Trading Corporation (NTC)	Turned into limited liability company with share offering by end-1988.
		- Gambia National Insurance Corporation (GNIC)	Papers being prepared for GNIC to be turned into limited liability company, with share offering by end-March 1989.
		- Gambia River Transport Company (GRTC)	Dates depend on consultant's recommendations. May require additional study.
		- Ferry services	Study of modalities for divestiture to start by end-November 1988.
		- Dockyard	Valuation of assets to be completed by end-January 1989.
		Divest government holdings in the following joint ventures:	
		- African Hotel	By end-1988.
		- Banjul Breweries	By end-1988.
4. <u>Fiscal policy</u>			
a. <u>Revenue</u>	To improve fiscal performance and efficiency in tax administration.	Implement the sales tax adopted in April 1988.	Full implementation to be completed by end-June 1989.
		<i>Actions to minimize revenue leakages from the misclassification of imports as duty free items.</i>	During 1988/89.
b. <u>Expenditure</u>	To eliminate current transfers to the public enterprises.	See 1.a. above.	Following reduction in subsidy to GPMB from 7.7 percent of GDP in 1986/87, to 3.9 percent of GDP in 1987/88, and to 0.9 percent of GDP in 1988/89, eliminate subsidy by 1989/90.
	To increase the contribution of public investment to development.	Maintain improved project selection criteria and increase implementation rate of three-year PIP.	Draft PIP to be prepared and reviewed in consultation with World Bank by end-April 1989.

Annex Table II. The Gambia: Summary and Time Frame for Implementation of Macroeconomic Structural Adjustment Policies, 1988/89-1990/91 (concluded)

Issues	Objectives and Policies	Strategies and Measures	Phasing and Implementation
	To improve recurrent cost budgeting.	Complete ministry by ministry review of investments and related recurrent expenditure in each sector.	During 1988/89.
	To improve monitoring/effectiveness of external technical assistance.	Update consolidated roster of all external nonproject technical assistance activities. ¹	By end-March 1989.
c. Civil Service Reform	To improve efficiency in the provision of government services. To tighten control over personnel expenditure.	Implement new Civil Service grade structure.	Implement by end-September 1988.
	To improve efficiency of administration and personnel management.	Prepare first-year work programs for all Personnel Management Office staff, including staff training.	By end-September 1988.
		Introduce computerized payroll system to facilitate budget preparation and control.	Ongoing.
		Exercise wage restraint to favor budgetary allocations for materials and supplies.	Ongoing.
5. <u>Monetary and credit policies</u>	To minimize pressures on domestic prices and the exchange rate; provide positive real returns on financial assets; and improve efficiency of financial sector intermediation.	Continue prudent credit policies and maintain flexible interest rate policy.	During the program period, continue tender system for Treasury Bills introduced in July 1986 and offer an adequate supply of Treasury Bills and government securities, including those of medium-term maturities and smaller denominations.
		Develop and implement comprehensive rehabilitation plan for GCDB.	See 3. above.
6. <u>External policies</u>			
a. Exchange rate	To promote efficient resource allocation.	Maintain flexible exchange rate system introduced in January 1986. Monitor evolution of interbank market.	Over the program period.
b. External reserves	Promote inflow of foreign exchange into the banking system.	Continue review of and, if necessary, make further revisions to regulations concerning foreign exchange holdings of public enterprises.	Over the program period.
	Increase gross official reserves.	Minimum annual buildup of official reserves.	Over the program period.
c. External borrowing	Reduce debt service burden and improve profile of external public debt.	No contracting or guaranteeing of new public sector external debt on nonconcessional terms in the 1-5 and 1-12 year maturity ranges. Limits on public sector short-term debt outstanding.	Over the program period.
d. Relations with external creditors	Continue to improve relations with external creditors with the objective of restoring normal debtor-creditor relations as The Gambia's debt servicing capacity improves.	Remain current on non-reschedulable obligations. Minimum annual reduction in nonreschedulable arrears during program period.	Elimination of all non-reschedulable arrears by end-June 1990.
e. Foreign currency budget	Continue to accumulate reserves, reduce arrears, and service debt in a timely manner.	Continue the practice of drawing up foreign currency budget on a quarterly basis.	Over the program period.

Annex Table III. The Gambia: External Financing Requirements, 1986/87-1992/93

(In millions of SDRs)

	1986/87	1987/88		1988/89	1989/90	1990/91	1991/92	1992/93
	Rev.	Prog.	Est.			Projections		
Current account (excluding official transfers)	-39.1	-34.0	-31.1	-31.3	-31.5	-31.2	-30.9	-31.6
Amortization	-8.6	-8.8	-7.8	-10.1	-10.0	-8.5	-13.4	-14.4
Arrears (decrease -)	-29.0	-22.2	-6.9	-13.0	-13.0	--	--	--
Gross official reserves (increase -)	-9.5	-11.6	-9.5	-12.4	-11.7	-14.1	-3.8	-3.8
IMF repurchases/repayments	-5.9	-4.2	-4.2	-3.2	-3.1	-4.7	-3.1	-1.7
Total financing requirement	92.2	80.8	59.5	69.9	69.2	58.4	51.2	51.5
Disbursements (existing commitments)	80.7	55.8	57.7	46.3	39.6	33.3	24.7	16.4
Official transfers	32.4	35.5	34.6	31.3	26.7	23.1	17.3	11.8
Borrowing by the Government	37.1	16.7	14.3	13.3	11.3	10.2	7.4	4.6
Bilateral creditors	1.8	1.4	1.3	1.5	1.1	0.8	--	--
Multilateral creditors	35.3	15.3	13.0	11.8	10.2	9.4	7.4	4.6
Of which:								
World Bank project loans	3.4	4.1	3.9	5.5	4.9	3.8	2.4	0.9
SAC (World Bank)	13.7	0.4	--	--	--	--	--	--
SAC (cofinancing)	11.3	3.8	1.7	--	--	--	--	--
Private creditors	--	--	--	--	--	--	--	--
IMF loans	11.2	2.1	7.2	--	--	--	--	--
USAID (BOP-support grant)	--	1.6	1.6	1.6	1.6	--	--	--
Disbursements (expected commitments)	--	20.5	--	22.6	27.2	22.5	23.7	32.1
Official transfers	--	2.4	--	2.1	5.6	10.3	15.9	21.5
Borrowing by the Government	--	13.0	--	13.6	14.8	5.4	7.9	10.7
Bilateral creditors	--	--	--	--	1.6	0.5	1.4	2.5
Multilateral creditors	--	13.0	--	13.6	13.2	4.9	6.5	8.2
Of which:								
World Bank project loans	--	--	--	--	1.5	3.0	2.4	3.9
SAC (World Bank)	--	7.0	--	6.8	6.8	--	--	--
SAC (cofinancing)	--	6.0	--	6.7	4.8	--	--	--
Private creditors	--	--	--	--	--	--	--	--
IMF loans	--	5.1	--	6.8	6.8	6.8	--	--
USAID (BOP-support grant)	--	--	--	--	--	--	--	--
Residual financing needs	11.5	4.5	1.8	1.1	2.4	2.6	2.8	3.0
Private capital account	5.5	3.7	2.1	2.2	2.4	2.6	2.8	3.0
Debt relief	3.0	0.8	1.5	--	--	--	--	--
Other ^{1/}	2.9	--	-1.8	-1.1	--	--	--	--

Sources: Data provided by the Gambian authorities; and IMF and World Bank staff estimates and projections.

^{1/} Deposits with the Bank of England in respect of Paris Club reschedulings.