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AGENDA

EBS/86/189

CONFIDENTIAL

August 19, 1986

To: Members of the Executive Board

From: The Acting Secretary

Subject: The Gambia - Staff Report for the 1986 Article IV Consultation, Request for Stand-By Arrangement, and Request for Arrangements Under the Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with The Gambia, its requests for a stand-by arrangement equivalent to SDR 5.13 million, and arrangements under the structural adjustment facility (SAF). Draft decisions appear on pages 33 and 34.

It is proposed to bring this subject, together with The Gambia's request for a purchase under the compensatory financing facility (EBS/86/193, 8/19/86), to the agenda for discussion on Wednesday, September 17, 1986.

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

Att: (1)

INTERNATIONAL MONETARY FUND

THE GAMBIA

Staff Report for the 1986 Article IV Consultation;
Request for Stand-By Arrangement; and Request for
Arrangements Under the Structural Adjustment Facility

Prepared by the African Department and the
Exchange and Trade Relations Department

(In consultation with the Fiscal Affairs, Legal,
and Treasurer's Departments)

Approved by A.D. Ouattara and Eduard Brau

August 15, 1986

I. Introduction

The 1986 Article IV consultation discussions with The Gambia were held in Banjul during May 19-June 3, and July 7-18, 1986. The Gambian representatives included the Honorable S.S. Sisay, Minister of Finance and Trade; the Honorable A.A. N'Jai, Minister of Economic Planning and Industrial Development; Mr. T.G.G. Senghore, Governor of the Central Bank of The Gambia; Mr. M.G. Bala-Gaye, Permanent Secretary to the Ministry of Finance and Trade; and other senior officials. The staff missions 1/ were received by the President, His Excellency Sir Dawda K. Jawara.

In a letter dated August 1, 1986 to which is annexed a memorandum of economic policies, the authorities have requested a 13-month stand-by arrangement (Appendix I) in an amount of SDR 5.13 million, equivalent to 30 percent of The Gambia's quota of SDR 17.10 million, and a three-year structural arrangement in an amount that will be available to The Gambia under the structural adjustment facility (SAF) (SDR 8.04 million) and the first annual arrangement thereunder (SDR 3.42 million, equivalent to 20 percent of quota) (Appendix II). The authorities have also indicated their intention to request shortly a drawing of SDR 4.71 million

1/ The staff team for the May discussions consisted of Mr. D. Donovan (head-AFR), Mrs. U. Wilson (AFR), Mr. R. Kennedy (STA), Mr. T. Sasaki (ETR), and Mrs. S. Ghafir (secretary-ADM). Ms. B. Bruns (IBRD) also participated in the mission. The staff team for the July visit comprised Mr. D. Donovan (head), Mrs. U. Wilson, Mr. K. Dublin, and Mrs. B. Nairn (secretary) (all AFR).

(equivalent to 28 percent of quota) under the compensatory financing facility. Discussions on the authorities' letter of intent took place at headquarters during the period July 25-August 1, 1986 with a Gambian delegation led by the Minister of Finance and Trade. Following joint discussions with the staffs of the Fund and the Bank during this period, in a letter dated August 1, 1986 the authorities have transmitted to the Managing Director of the Fund a medium-term policy framework paper covering the three-year period July 1, 1986 to June 30, 1989 (see attachment to Appendix II). This paper was transmitted to the Executive Board of the World Bank on August 12, 1986. The authorities have also requested a structural adjustment loan (SAL) from the World Bank, which is scheduled for consideration by the Executive Board of the Bank on August 26, 1986. 1/

The most recent stand-by arrangement with The Gambia was approved on April 2, 1984 in an amount of SDR 12.83 million, representing 75 percent of quota. The Gambia made only one purchase under the arrangement which, at The Gambia's request, was canceled on April 25, 1985. Since late 1984, The Gambia has encountered increasing difficulties in meeting its financial obligations to the Fund. Following settlement of its overdue obligations to the Fund in April 1985, arrears to the Fund re-emerged, and on November 8, 1985, The Executive Board adopted a decision limiting The Gambia's access to the Fund's general resources. This decision was reviewed in February 1986 and in May 1986. On July 25, 1986, The Gambia settled its arrears to the Fund, which, on that date, amounted to SDR 10.6 million, equivalent to 62.0 percent of quota, and is now current in its financial obligations to the Fund. Following this payment, the limitation of The Gambia's use of the general resources of the Fund was terminated as of that date. As of July 31, 1986, The Gambia's outstanding use of Fund credit amounted to SDR 14.4 million, or 84.2 percent of quota. During the period of the proposed stand-by arrangement, The Gambia's outstanding use of Fund credit would rise to SDR 17.7 million, or 103.2 percent of quota; of this, SDR 4.7 million (27.5 percent of quota) would represent purchases under the compensatory financing facility (Table 1). Since the Fund's holdings of Gambian currency would exceed 200 percent of quota, a waiver of the limitation in Article V, Section 3b(iii) is proposed.

Series on basic data and detailed medium-term balance of payments projections are contained in Appendices III and IV, respectively. Summaries of The Gambia's relations with the Fund and the World Bank Group and of outstanding statistical issues are provided in Appendices V, VI, and VII, respectively. The Gambia continues to avail itself of the transitional arrangements of Article XIV.

1/ The staffs of the Fund and Bank have collaborated closely in assisting the authorities to develop their adjustment program. As noted above, a Bank staff member participated in the 1986 Article IV consultation mission.

Table 1. The Gambia: Fund Position During Period of Proposed Arrangement

	August 31, 1986 <u>1/</u>	1986		1987		
		Sept.	Oct.- Dec.	Jan.- March	April- June	July- Sept.
(In millions of SDRs)						
Transactions under tranche policies (net) <u>2/</u>		0.99	-0.75	-0.46	-0.39	0.02
Purchases		1.03	1.02	1.03	1.03	1.02
Ordinary resources		1.03	1.02	1.03	1.03	1.02
Borrowed resources		--	--	--	--	--
Repurchases		0.04	1.77	1.49	1.42	1.00
Ordinary resources		--	1.00	1.15	0.64	0.66
Borrowed resources		0.04	0.77	0.34	0.77	0.34
Transactions under special facilities (net) <u>3/</u>		4.71	--	--	--	--
Purchases		4.71	--	--	--	--
Repurchases		--	--	--	--	--
Total Fund credit outstanding (end of period)	13.53	19.23	18.48	18.02	17.63	17.65
Under tranche policies	13.53	14.52	13.77	13.31	12.92	12.94
Special facilities	--	4.71	4.71	4.71	4.71	4.71
(As percent of quota)						
Total Fund credit outstanding (end of period)	79.12	112.46	108.07	105.38	103.10	103.22
Under tranche policies	79.12	84.91	80.53	77.84	75.56	75.67
Special facilities	--	27.54	27.54	27.54	27.54	27.54

Source: Treasurer's Department, International Monetary Fund.

1/ End of calendar month prior to issuance of staff paper.

2/ Ordinary and borrowed resources.

3/ Compensatory financing facility.

II. Background and Recent Economic Developments

1. Background

From the mid-1970s onward, The Gambia's economy began to experience growing internal and external disequilibria. Rising imports, associated with both increasing government consumption and a surge in development expenditures, caused the trade balance to move into deficit after 1979. During 1980/81-1981/82 1/ the emerging external sector pressures were to some extent masked by exceptionally large inflows of capital and official transfers. However, during 1982/83, following a return of capital flows to more normal levels and a fall in world groundnut prices (groundnuts comprise over 80 percent of domestic exports), total domestic credit and liquidity rose sharply. International reserves fell precipitously, external arrears began to mount, and a widespread parallel exchange market emerged. Under an adjustment program supported by a stand-by arrangement from the Fund approved in early 1984, the authorities took a number of important measures, including a 25 percent devaluation of the dalasi. However, the performance criteria for end-June 1984 were not observed, and the first review under the arrangement was not completed.

The economic and financial difficulties experienced by The Gambia in recent years became more acute in 1984/85. As a result of a poor harvest and uncompetitive producer pricing policies, marketed groundnut production fell sharply and real GDP declined by an estimated 8.7 percent. At the same time, domestic demand pressures intensified: the overall budgetary deficit (on a partial commitment basis, 2/ and including grants) of the Central Government rose from 9.7 percent of GDP in 1983/84 to 13.0 percent in 1984/85, and domestic liquidity rose by 34.5 percent, contributing to an increase in the rate of inflation to 22 percent. Largely due to a shortfall in groundnut exports, the external current account deficit widened from 19 percent to 22 percent of GDP, gross official reserves were exhausted, and external arrears to virtually all creditors (including the Fund) continued to mount (Table 2).

Faced with a sharply deteriorating situation, following discussions with the staffs of the Fund and the World Bank, in mid-1985, the authorities began to implement a comprehensive adjustment program (Economic Recovery Program--ERP). The main elements of the program are as follows: first, exchange rate and pricing policies that adequately take into account the inherently high degree of openness of the economy; second, sharply restrained demand-management policies; and third, a reduction in the size and role of the public sector to a level that is sustainable given the small size and limited resource base of the

1/ Fiscal year ending June 30.

2/ I.e., on a cash basis, except for debt service expenditures on a commitment basis.

Table 2. The Gambia: Selected Economic and Financial Indicators,
1982/83-86/87

	1982/83	1983/84	1984/85	1985/86 Prov.	1986/87 Program
(Annual percentage changes, unless otherwise specified)					
National income and prices					
GDP at constant prices	14.6	-7.5	-8.7	6.6	3.5
GDP deflator	1.7	24.4	17.0	20.1	10.5
Consumer prices	9.3	15.6	22.8	41.8	15.0
External sector					
Exports f.o.b. (in SDRs)	15.2	11.1	-27.9	-4.5	-2.3
Imports, f.o.b. (in SDRs)	-4.7	17.6	-22.1	-2.0	-1.3
Export volume	8.3	-31.3	-9.7	30.0	...
Import volume	-5.6	17.9	-16.9	3.0	...
Terms of trade (in SDRs; deterioration -)	4.9	62.0	-14.2	-31.9	...
Nominal effective exchange rate (depreciation -) ^{1/}	-1.3	-6.6	-16.5	-23.1	...
Real effective exchange rate (depreciation -) ^{1/}	0.9	1.2	-3.3	-8.6	...
Government budget					
Revenue (excluding grants)	15.4	20.9	14.4	42.3	43.0
Expenditure (commitment basis)	-3.1	17.6	24.4	8.6	62.5
(Annual changes as percent of beginning stock of broad money)					
Money and credit (end of period)					
Domestic credit	92.2	46.0	14.4	39.8	-31.5
Government	24.1	18.1	9.7	7.4	-59.8
GPMB	48.9	7.1	-11.6	11.8	9.8
Other public enterprises	...	...	15.9	5.0	3.6
Private sector	19.2	20.7	0.4	15.7	14.9
Money and quasi-money	35.1	7.4	34.5	24.8	16.3
Velocity	3.8	4.4	3.5	3.6	3.5
Interest rates (end of period) ^{2/}	7.5	9.5	9.5	13.0	18.0
(In percent of GDP)					
Fiscal deficit (commitment basis)					
Excluding grants	-14.0	-14.1	-18.0	-9.3	-17.5
Including grants	-10.8	-9.7	-13.0	-2.2	-3.0
Fiscal deficit (cash basis)					
Excluding grants	-14.0	-10.6	-14.0	-13.3	-17.5
Including grants	-10.8	-6.2	-9.0	-6.2	-3.0
Of which: domestic financing (net)	(4.8)	(2.6)	(3.1)	(5.3)	(-14.0)
foreign financing (net)	(5.9)	(3.6)	(5.9)	(0.9)	(17.0)
External current account deficit					
Excluding official transfers	14.6	19.1	22.4	21.4	30.1
Including official transfers	1.8	6.7	4.1	7.8	11.4
External payments arrears (end of period) ^{3/}	17.3	26.8	36.8	44.6	59.6
External public debt outstanding (disbursed; inc. IMF)	136.2	148.5	186.0	192.7	250.8
(In percent of domestic exports of goods and nonfactor services)					
External debt service due ^{4/}	24.8	31.6	52.8	98.4	91.7
(In millions of SDRs)					
External current account deficit (excluding official transfers)	-27.1	-36.4	-35.0	-33.3	-35.1
Overall balance of payments (deficit -)	-28.5	-24.7	-3.8	-21.2	-20.4
Change in external payments arrears (excluding arrears to the Fund)	28.7	18.9	6.4	12.1	... ^{5/}
(In weeks of imports; f.o.b.)					
Gross official reserves	1.7	2.8	2.7	0.9	4.9

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

^{1/} Trade weighted.

^{2/} Maximum short-term deposit rate.

^{3/} Excluding arrears to the Fund.

^{4/} Including repurchases to the Fund, Fund charges, and interest on short-term debt.

^{5/} Zero change in arrears specified through end-December 1986.

economy. These are coupled with measures designed to stimulate the growth of the agriculture, fisheries, tourism, and small-scale manufacturing sectors, to increase the productivity of public investment, to improve public enterprise performance, and to rehabilitate the weak financial position of the largest (government-owned) commercial bank, the Gambia Commercial and Development Bank (GCDB).

2. Developments during 1985/86

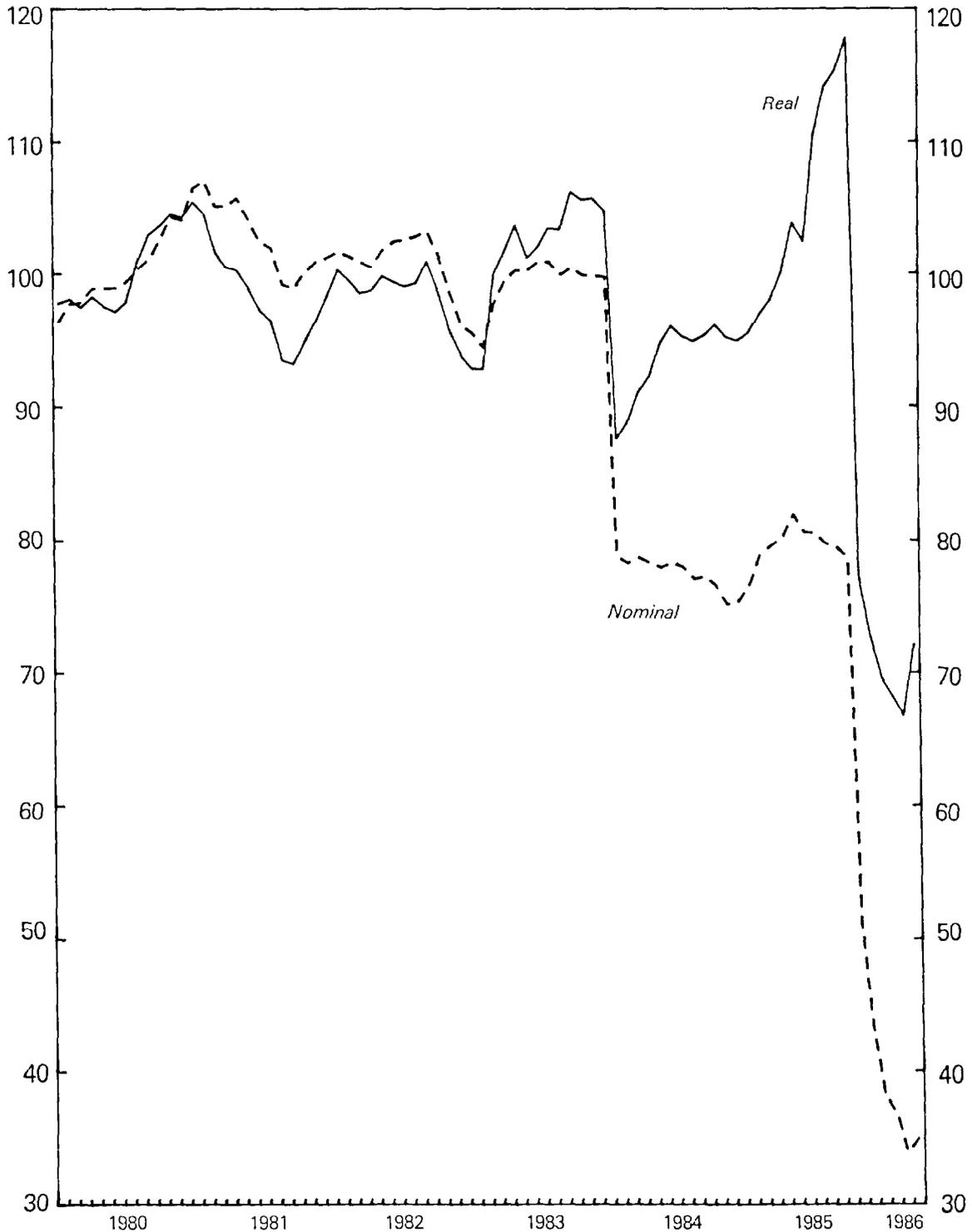
Overall economic performance during 1985/86 (the first year of the ERP) was mixed. Real GDP grew by an estimated 6.6 percent, as a result of an excellent foodgrain harvest and some recovery in groundnut production. However, the annual average inflation rate rose to 42 percent, reflecting a sharp depreciation in the exchange rate and a rapid growth of the money supply. The external financial position remained extremely tight, and the authorities continued to face major difficulties in meeting pressing external obligations, including debt service payments.

a. Exchange rate and pricing policies

Effective January 20, 1986 a new exchange system was introduced. The previous fixed peg of the currency was abolished and commercial banks are free to transact during each week either among themselves or with customers at exchange rates agreed upon by the parties concerned. Once a week, the Central Bank conducts a fixing session to set the exchange rate (the interbank rate) to value certain official transactions in the subsequent week. In support of the system, commercial banks have been instructed to make foreign exchange freely available to their customers for all current transactions without prior approval from the Central Bank and subject only to documentation being provided (for recording purposes) indicating the nature of the transactions involved. During the first month of the new exchange system, the exchange rates quoted by commercial banks were significantly higher than the reported parallel market exchange rate; the latter had depreciated sharply beforehand, largely reflecting speculative pressures associated with a major expansion in money and credit toward the end of 1985. However, since end-February 1986, the interbank exchange rate has depreciated gradually (to D 11.2 per pound sterling as of end-July 1986) compared with the pre-January 20, 1986 parity of D 5 per pound. ^{1/} The differential between the parallel market rate and the interbank rate has been almost eliminated, and foreign exchange inflows to the banking system have exhibited a marked increase. The authorities expressed satisfaction that, following the resolution of some initial difficulties, the flexible exchange system was now working quite smoothly, and commanded the support and confidence of market participants.

^{1/} Following an appreciation of about 34 percent between end-March 1984 and end-December 1985, the real effective exchange rate depreciated by 42 percent in the three months ended March 1986 and is estimated to have depreciated further subsequently (see Chart).

CHART
THE GAMBIA
REAL AND NOMINAL EFFECTIVE EXCHANGE RATES, 1980-86
(Index: 1980=100)¹



Source: IMF, Exchange and Trade Relations Department.
¹ Trade weighted.



With respect to pricing policies, during 1985/86, the producer price for groundnuts was raised on three occasions (by a cumulative 104 percent) in order to provide adequate incentives to producers and to maintain competitiveness with producer prices prevailing in the region. However, largely reflecting the recent decline in world groundnut prices, the Gambia Produce Marketing Board (GPMB) is expected to register a substantial loss of about D 34 million in 1985/86 (financial year ending September 30), which is largely being covered by transfers from the budget. Following price decontrol and the liberalization of rice imports in mid-1985, the retail price of rice rose sharply from D 110 per 100 kg bag to over D 300 per bag by February 1986, partly reflecting the depreciation of the parallel exchange rate and initial hesitancy on the part of private sector importers. However, during the past few months, the positive effects of the import liberalization policy have been felt; the rice price has fallen to about D 170 per bag, reflecting greatly increased private sector imports, as well as the stability of the exchange rate and lower world prices.

With respect to other administered prices, during the first half of 1986, the prices of premium gasoline and gas oil were raised twice by a cumulative 57 percent and 20 percent, respectively. After taking account of the recent fall in oil prices, in the case of premium gasoline, these adjustments implied a pass-through of prior movements in the exchange rate. To improve the extremely weak financial position of the Gambia Utilities Corporation, on January 1, 1986, electricity and water charges were increased by 6 percent and 15 percent, respectively, in the context of a World Bank Water Supply and Electricity Project.

b. Public sector performance

The authorities' fiscal program for 1985/86 envisaged a sharp reduction in the overall budgetary deficit (on a commitment basis, and including grants) from 13.0 percent of GDP to 6.4 percent; 1/ excluding grants, the deficit was programmed to decline from 18.0 percent of GDP to 9.9 percent (Table 3). During the first half of the year, budgetary developments were less favorable than planned, largely due to a poor revenue performance that reflected, in turn, specific difficulties associated with import duty collections. Following the provision of U.K. technical assistance to address the latter problem, customs revenue picked up sharply in the ensuing months and total revenue is estimated to have registered an increase of 42 percent for the year as a whole. Current expenditures, with the exception of unprogrammed budgetary transfers equivalent to 2 percent of GDP (mainly to cover the GPMB's losses), remained broadly on track. However, the pace of development expenditures slowed abruptly, due to a severe cutback in foreign concessional financing, largely resulting from the incurrence of external arrears by The Gambia. The authorities explained that, in certain

1/ After taking into account the anticipated impact of the exchange reform.

Table 3. The Gambia: Central Government Operations, 1982/83-1986/87

	1982/83	1983/84	1984/85	1985/86		1986/87
				Authori- ties' Prog.	Actual (Prov.)	Program ^{1/}
(In millions of dalasis)						
Revenue and grants	122.5	153.6	178.3	210.1	266.8	434.8
Revenue	105.5	127.6	146.0	178.0	207.7	297.0
Grants	16.9	26.0	32.3	32.1	59.1	137.8
Expenditure and net lending	179.1	210.9	262.3	252.4	284.8	462.9
Current expenditure	112.6	140.6	151.4	151.7	178.8	301.6
Personal emoluments and pensions	(52.9)	(55.1)	(58.3)	(61.3)	(62.9)	(65.8)
Interest due	(11.8)	(17.3)	(29.2)	(31.0)	(37.7)	(62.6)
Internal	[...]	[...]	[18.2]	[12.0]	[15.7]	[17.0]
External	[...]	[...]	[11.0]	[19.0]	[22.0]	[45.6] ^{2/}
Other charges	(46.7)	(68.2)	(63.6)	(59.4)	(61.9)	(90.2)
Transfers to parastatals	(1.2)	(--)	(0.3)	(--)	(16.3)	(83.0)
Development expenditure	66.5	70.3	109.1	100.7	91.1	165.0
Unallocable expenditure and net lending	--	--	1.8	--	14.9	-3.7
Overall deficit (partial commitment basis)						
Excluding grants	-73.5	-83.3	-116.3	-74.4	-77.1	-165.9
Including grants	-56.6	-57.3	-84.0	-42.3	-18.0	-28.1
Change in arrears	--	20.5	25.7	--	-33.2	--
Overall deficit (cash basis)						
Excluding grants	-73.5	-62.8	-90.6	-74.4	-110.3	-165.9
Including grants	-56.6	-36.8	-58.3	-42.3	-51.2	-28.1
Financing	56.6	36.8	58.3	42.3	51.2	28.1
Foreign (net)	31.2	21.2	38.0	24.8	7.1	161.1
Gross borrowing	(36.7)	(32.1)	(59.9)	(56.0)	(36.6)	(218.5)
Amortization due	(-5.5)	(-10.9)	(-21.9)	(-31.2)	(-29.5)	(-70.0) ^{2/}
Other (including possible debt relief)	(--)	(--)	(--)	(--)	(--)	(12.6)
Domestic	25.4	15.6	20.3	17.5	44.1	-133.0
Banking system	(23.7)	(5.4)	(13.4)	(12.5)	(25.6)	(-138.0)
Other	(1.7)	(10.2)	(6.9)	(5.0)	(18.5)	(5.0)
(In percent of GDP)						
Deficit (partial commitment basis)						
Excluding grants	-14.0	-14.1	-18.0	-9.9	-9.3	-17.5
Including grants	-10.8	-9.7	-13.0	-5.6 ^{3/}	-2.2	-3.0
<u>Memorandum item:</u>						
GDP at current prices	524.9	591.6	647.0	753.0	828.0	947.0

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

^{1/} Program projections are based on an exchange rate of D 11 per £1, the rate prevailing at end-June 1986.

^{2/} Includes government-guaranteed debt.

^{3/} After taking into account the anticipated impact of the exchange rate reform, the authorities' target for the fiscal deficit was set at 6.4 percent of GDP.

cases, they had obtained, on a temporary basis, replacement financing (in an amount of D 26.2 million) from domestic commercial banks and from contractors in order to minimize the costs associated with an abrupt suspension of projects. However, total development expenditures amounted to only D91 million, equivalent to 11.0 percent of GDP, compared with 16.9 percent in 1984/85. The overall budgetary deficit on a commitment basis (excluding grants) is estimated to have been 9.3 percent of GDP, while, due to the unanticipated receipt of commodity grants equivalent to almost 5 percent of GDP, the overall deficit, including grants, amounted to 2.2 percent of GDP. On a cash basis, the deficit was higher (6.2 percent of GDP, including grants), reflecting an unprogrammed reduction in domestic arrears in respect of debt service obligations that had been incurred in previous years. 1/ Due to the cutback in external loans for development purposes, net foreign budgetary financing fell sharply. The stock of net bank credit to Government (including contractor bank financing) 2/ rose by D 25.7 million.

c. Monetary and credit developments

During the first half of 1985/86, domestic credit rose by 56 percent of the beginning period money stock and was accompanied by an increase of 39.3 percent in broad money (narrow money rose by 64.7 percent--Table 4). These developments increased pressures on both the exchange rate and domestic prices. The authorities explained that a substantial part of the unanticipated increase in credit to the private sector reflected groundnut purchases and was necessitated by the increases in the producer price and an earlier than usual start to the buying season. During the second half of 1985/86, despite the retirement of crop credit, total domestic credit declined by only 5.8 percent, while, for the year as a whole, the money supply rose by 24.8 percent. The authorities indicated that this outcome was less satisfactory than had been envisaged and reflected a number of unanticipated factors, including bank credit to government contractors, some excess above the authorities' end-June ceiling on credit to the private sector, and substantial unblocking of deposits in respect of external commercial arrears (the latter was reflected in an expansionary movement in "other items (net)"). In September 1985, the authorities increased reserve requirements by 4 percentage points, raised administered interest rates

1/ In addition, following the tabulation (with Fund technical assistance) in early 1986 of domestic arrears in the public sector (i.e., among public enterprises and between the latter and Government), tax arrears and other arrears in respect of domestic goods and services were reduced substantially, to D 16 million (on a gross basis) by end-June 1986.

2/ Such financing, provided at the request of the authorities and amounting to D 12.1 million in 1985/86, is included in credit to the private sector in the monetary survey.

Table 4. The Gambia: Monetary Survey, 1984-87

(In millions of dalasis)

	1984	1985		1986		1987
	June	June	Dec.	June	Dec. (Proj.)	June (Progr.)
Net foreign assets	-294.5	-277.3	-324.8	-515.9	-515.2	-483.4
Monetary authorities	-296.5	-295.6	-330.9	-527.7	-527.0	-495.2
Foreign assets	(24.4)	(14.9)	(10.5)	(11.2)	(33.7)	(56.3)
Foreign liabilities ^{1/}	(-320.9)	(-310.5)	(-341.4)	(-538.9)	(-560.7)	(-551.5)
Commercial banks	2.1	18.3	6.1	11.8	11.8	11.8
Domestic credit	<u>392.6</u>	<u>412.4</u>	<u>516.0</u>	<u>486.0</u>	<u>464.0</u>	<u>413.3</u>
Claims on Government (net) ^{2/}	73.4	86.8	134.9	100.4	36.4	-37.6
Claims on nonfinancial public enterprises	160.8	166.6	205.2	197.6	225.4	228.5
Of which: GPMB	(111.4)	(95.4)	(96.9)	(117.2)	(108.0)	(139.8)
Claims on private sector	158.4	159.0	175.9	188.0	202.2	222.4
Money plus quasi-money	<u>137.5</u>	<u>184.9</u>	<u>257.5</u>	<u>230.7</u>	<u>258.4</u>	<u>268.3</u>
Money	77.6	98.8	162.7	132.8	...	...
Quasi-money	59.9	86.1	94.9	97.9	...	...
Other items (net)	<u>-39.4</u>	<u>-49.7</u>	<u>-66.3</u>	<u>-260.6</u>	<u>-309.6</u>	<u>-338.4</u>

Source: Central Bank of the Gambia.

^{1/} Excludes government debt service arrears where the domestic counterpart was not credited to the Special Deposit Account.

^{2/} Includes actual financing provided to credit the Special Deposit Account.

by an average of 7 percentage points (the rediscount rate was set at 15 percent) and decontrolled commercial bank lending rates.

d. External sector

The external financing situation remained under severe pressure in 1985/86 (Table 5). Despite an improved groundnut crop, due to difficulties in maintaining the competitiveness of the producer price during part of the buying season, cross-border outflows appear to have been significant. Official purchases by the GPMB amounted to 48,000 tons, compared to the previous year's exceptionally low figure of 45,000 tons. As world prices fell by over one third, total exports of groundnuts amounted to SDR 8.5 million, compared with SDR 15.9 million in 1984/85. The value of imports declined by 2 percent; reduced project-related imports were offset by an increased volume of petroleum product imports which was reflected in a temporary rise in petroleum stocks as of end-June 1986. After taking account of re-exports and an improvement in the services account relating to increased tourism receipts, the current account deficit is estimated to have declined from SDR 35 million in 1984/85 to SDR 33 million. 1/ Despite the receipt of significant commodity aid assistance pledged at a Donors' Conference held in London in September 1985, 2/ net capital inflows and official transfers fell sharply, and the overall balance of payments registered a deficit of SDR 13.5 million, which was largely financed by a further accumulation of external arrears. As of end-June 1986, total arrears (excluding arrears to the Fund, and including certain outstanding short-term debts) amounted to SDR 78.8 million or almost two and one half times 1985/86 exports (excluding re-exports) of goods and nonfactor services. Total external debt (including short-term debt and the use of Fund credit) outstanding at end-June 1986 amounted to SDR 302 million, equivalent to 194 percent of GDP.

III. The Program for 1986/87 and the Medium Term

1. The medium-term policy framework

The authorities have emphasized their commitment to pursuing vigorously, over an extended period, the comprehensive adjustment efforts begun in mid-1985. To this end, the Government's Economic Recovery Program has been extended for one year to embody a comprehensive economic and financial program covering the three-year period 1986/87-

1/ Balance of payments statistics for The Gambia (particularly the trade account) are subject to unusually wide margins of error because re-exports are largely unrecorded. These difficulties have recently been compounded by the coming to light of significant problems concerning the accuracy of import data recorded by customs.

2/ At this conference, which was hosted by the U.K. Government and chaired by the World Bank staff, donors indicated their endorsement of the authorities' Economic Recovery Program.

Table 5. The Gambia: Balance of Payments, 1982/83-1986/87

(In millions of SDRs)

	1982/83	1983/84	1984/85	1985/86 Est.	1986/87 Proj.
Merchandise trade, f.o.b.	-4.24	-9.97	-12.82	-14.12	-14.50
Exports, f.o.b. <u>1/</u>	77.47	86.11	62.07	59.27	57.93
Imports, f.o.b. <u>2/</u>	-81.71	-96.08	-74.89	-73.39	-72.43
Services (net) and private transfers	-22.85	-26.43	-22.13	-19.14	-20.57
Freight and insurance	-13.64	-16.04	-12.50	-12.62	-12.46
Travel	14.12	18.36	18.46	20.60	21.60
Other services and private transfers	-23.33	-28.75	-28.09	-27.12	-29.71
Current account	-27.09	-36.40	-34.95	-33.26	-35.07
Capital account	-1.38	11.70	31.13	19.76	25.03
Official loans and transfers (net)	34.56	32.37	33.78	24.24	34.31
Official transfers	23.74	23.70	28.57	28.83	32.21
Of which: commodity aid	(...)	(...)	(...)	(6.89)	(4.50)
STABEX	(...)	(...)	(...)	(0.80)	(5.90)
Official loans	10.82	8.67	5.21	-4.59	2.10
Gross borrowing	17.14	15.07	12.24	6.59	12.00
Amortization	-6.32	-6.40	-7.03	-11.18	-9.90
Private capital (net)	-35.94	-20.67	-2.65	-4.48	-9.28
Long-term	2.91	0.75	0.77	7.37	-1.00
Short-term, errors and omissions	-38.85	-21.42	-3.42	-11.85	-8.28
Overall balance	-28.47	-24.70	-3.82	-13.50	-10.04
Financing	28.47	24.70	3.82	13.50	10.04
IMF (net)	6.65	0.75	-4.32	-9.12	6.03
Purchases	8.78	2.63	--	--	11.90
Repurchases	-2.13	-1.88	-4.32	-9.12	-5.87
Net foreign assets of monetary authorities	-6.89	3.45	1.73	2.29	-5.50
SAL	--	--	--	--	15.00
Arrears <u>3/</u> (increase +)	28.71	20.50	6.41	20.33	-10.33 <u>4/</u>
Other (including possible debt relief)	--	--	--	--	4.84 <u>5/</u>
<u>Memorandum items:</u>					
External current account (percent of GDP)	14.6	19.1	22.4	21.4	30.1
Gross official reserves (end of period)					
Amount	2.6	5.2	3.8	1.3	6.8
Weeks of imports	1.7	2.8	2.7	0.9	4.9
Exchange rate (dalasi/SDR)	2.7488	3.0923	4.1500	5.459	8.790

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

1/ Export figures include an estimate of unrecorded trade.

2/ Import figures are adjusted from a c.i.f. to an f.o.b. valuation by deducting 12.4 percent for freight and 1.9 percent for insurance.

3/ Including arrears to the Fund.

4/ Settlement of overdue obligations to the Fund.

5/ Possible debt relief does not include that which may be granted in respect of end-June 1986 arrears.

1988/89, the main elements of which are outlined in Appendix II ("Government of The Gambia - Policy Framework Paper, 1986/87-1988/89"). The program aims at maximizing the potential for increasing real output in the productive sectors. However, given the small resource base of the economy and the somewhat uncertain prospects in the short run for rapid output growth and diversification, it is recognized that, in the period ahead, a substantial part of the adjustment effort will need to continue to be directed toward adjusting aggregate demand from the unsustainable high levels of recent years. In quantitative terms, the program aims at raising the real growth rate of the economy to 3.0-3.5 percent per annum, while progressively reducing the domestic rate of inflation to below 10 percent (Table 6). In the external sector, the program targets a reduction in the current account deficit of the balance of payments from a projected 30 percent of GDP for 1986/87 to 21 percent by 1988/89, and a further reduction (to about 15 percent of GDP) is envisaged by 1990/91. To help achieve these objectives, specific measures are being taken in the following areas: (a) exchange rate policies; (b) pricing policies; (c) structural reforms in the productive sectors; (d) public sector policies; (e) monetary and credit policies; and (f) external debt management.

2. The program for 1986/87 ^{1/} and policies for subsequent years

a. Exchange rate policies

As indicated above, the new exchange system has been functioning relatively smoothly in recent months. The authorities have recently taken several steps to strengthen the system, including (i) tightened implementation of foreign exchange surrender obligations on the part of parastatals; ^{2/} (ii) the prescription of limits on foreign exchange working balances of commercial banks (defined to include all foreign exchange holdings other than balances for confirmation of outstanding letters of credit or for settlement of foreign liabilities maturing during the following week), with any amounts in excess of these limits to be sold to the interbank market; and (iii) the automatic reduction in credit ceilings to the private sector pari passu with any settlement of the existing pipeline of external commercial arrears. By end-October 1986, a plan is to be drawn up for the phased settlement of such arrears. The authorities intend to continue to monitor carefully the evolution of the interbank system in the period ahead to ensure that the process of exchange rate determination is fully flexible, and are

^{1/} Summarized in Table 7.

^{2/} Two parastatals (the GPMB and GAMTEL) have been permitted, on a temporary basis, to retain foreign exchange working balances not exceeding £100,000. Adherence to the latter limits will be monitored closely, and the desirability of modifying these arrangements will be reviewed by the authorities no later than September 30, 1986.

Table 6. The Gambia: Summary Economic and
Financial Indicators 1985/86-1988/89

	1985/86	1986/87	1987/88	1988/89
	<u>(Annual percentage change)</u>			
Real GDP	6.6	3.3	3.3	3.3
Consumer prices	41.8	15.0	...	10.0
	<u>(Percent of GDP)</u>			
Overall budget deficit (excluding grants)	9.3	17.5	...	9.0
External current account deficit	21.4	30.1	24.4	20.8
	<u>(In millions of SDRs)</u>			
External current account	-33.3	-35.1	-31.9	-30.2
Overall balance of payments deficit	-21.2	-20.4	-9.7	-7.2
	<u>(Percent)</u>			
Debt service payments/domestic exports plus markup on re-exports <u>1/</u>	58.8	57.2	51.7	49.6

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

1/ Includes debt service on medium- and long-term debt, interest on short-term debt, and IMF repurchases and charges.

Table 7. The Gambia: Summary of the 1986/87 Program

Assumptions

Real GDP growth (in percent)	3.5
Inflation rate (in percent)	
GDP deflator	10.5
Consumer prices	15.0
Exchange rate: D/£ (average rate)	11.1 ^{1/}
Official purchases of groundnuts (thousand tons)	60.0
Exports of groundnuts and groundnut products (thousand tons)	42.8
Unit export value of groundnuts and groundnut products (SDRs per ton)	181.7

Principal elements

1. Exchange rate policies

Maintenance of flexible exchange rate in context of interbank system. Closing of external bank accounts of three parastatals; those of two other parastatals limited to working balances not exceeding £100,000. Foreign currency budget limiting government foreign exchange requirements.

2. Pricing policies

Maintenance of flexible pricing policy for key commodities, including rice and fertilizer. Regular (at least quarterly) adjustment of prices of petroleum products, utility tariffs, and transportation charges to reflect exchange rate changes.

Increase in petroleum product prices by 17-31 percent (effective June 21, 1986); in utility tariffs, by 9-15 percent (July 1, 1986); and in public transportation charges, by 40-45 percent (April 3, 1986).

Increase in import duty on rice by 7 percentage points (June 21, 1986).

Increase in agricultural producer prices for the 1986/87 crop year: groundnuts, 42 percent; paddy rice, 5 percent; and cotton, 5 percent.

3. Other measures to stimulate growth in productive sectors

Specific structural measures in the agricultural, manufacturing, fishing, and tourism sectors.

^{1/} Rate prevailing at end-June 1986.

Table 7. The Gambia: Summary of the 1986/87 Program (continued)

4. Fiscal policy

Overall fiscal deficit (excluding grants) widening from 9.3 percent of GDP to 17.5 percent owing to recovery of development expenditure and to temporary provision of price support to the groundnut sector. Sharp reduction in outstanding stock of net credit to Government, reflecting large increase in concessionary foreign financing.

Revenue increasing by 43 percent, with revenue measures totaling 3.2 percent of GDP: increases in import duties on rice (from 23 percent to 30 percent), petroleum products (from 260 percent to 450 percent for premium gasoline, and from 140 percent to 211 percent for gas oil), and tobacco products (by 5 percentage points), and an increase in the general import tax from 5 percent to 6 percent.

Current expenditure (excluding interest payments and the transfer for temporary groundnut price support) rising by no more than 25 percent, with increase in personal emoluments and pensions limited to 5 percent. Development expenditure limited to D 165 million (6 percent of GDP above the exceptionally low 1985/86 level). Quarterly limits on major expenditure subcategories.

Government payments for external debt service (including government-guaranteed debt) to be made in full to Special Deposit Account for all debt service obligations during first quarter of the fiscal year, and for all nonreschedulable obligations thereafter.

Settlement of tax and other arrears in respect of domestic goods and services by end-September 1986. Monitoring of domestic arrears on monthly basis by the National Investment Board.

5. Public sector structural measures

Revision of 1986/87-1988/89 Public Investment Program (to be agreed with World Bank), including improved estimates of recurrent expenditure.

Major retrenchment of government employment: reduction in established posts by at least 14 percent or 1,500, of which one half are currently filled. Laying off 340 temporary workers and tightening control over wage outlays.

Tightening of supervision of public enterprises and preparation of plan for divestiture and rationalization of the sector. Moratorium on creation of new public enterprises.

Table 7. The Gambia: Summary of the 1986/87 Program (concluded)

6. Monetary and credit policies

Increase in net domestic assets limited to D 5.1 million, with net credit to Government to be reduced by at least D 138.0 million and increase in credit to GPMB limited to D 22.6 million. Implied increase in other credit is D 42.7 million or 15.9 percent, and in broad money 16.3 percent.

Flexible interest rate policy. Introduction of fortnightly Treasury bill tender in July 1986. Bank rate raised to 20 percent and concessional rate for crop finance abolished.

7. External sector policies

Temporary widening of external current account deficit from 21 percent of GDP to 30 percent owing to increased project-related imports.

Rescheduling of external debt service obligations, and payment of all nonreschedulable 1986/87 maturities. No increase in nonreschedulable external arrears during July-December 1986. No new nonconcessional direct or guaranteed foreign borrowing by the Government. Decline in outstanding short-term debt.

Increase in gross official reserves by SDR 5 million.

prepared to take appropriate steps should the official exchange rate determined under the new system fall significantly below the reported parallel market exchange rate.

b. Pricing policies

Following substantial increases in agricultural producer prices in 1985/86, the authorities have announced for the 1986/87 season further increases of 43 percent, 5 percent, and 5 percent in the producer prices for groundnuts, cotton, and rice, respectively. The new groundnut producer price is D 1800 per ton, equivalent to about CFA 88,000 per ton. The authorities intend to make further adjustments in the groundnut producer price as frequently as may be necessary in light of exchange market developments, in order to maintain competitiveness with prices prevailing in neighboring countries. Because of declining world groundnut prices, the GPMB is likely to incur a substantial loss (estimated at D 83 million, or about 8.8 percent of GDP) during 1986/87 (crop year ending September 30), which would be covered by a temporary transfer from the budget. The authorities explained that they had adopted the above approach of competitive pricing for 1986/87 in order to discourage potential cross-border outflows and maximize official groundnut export earnings, in view of the present critical shortage of foreign exchange available to the Central Bank for essential external payments. However, over the medium term, they indicated that they will ensure to the extent necessary that official foreign exchange requirements are met through official purchases of foreign exchange in the interbank market. In this connection, during 1986/87 they intend to undertake a careful review of groundnut pricing policy and existing official groundnut marketing arrangements, with a view to achieving a sharp reduction in the potential transfer payment to the GPMB during 1987/88.

With respect to other agricultural prices, the authorities intend to continue to restrict official imports of rice to those supplied under official aid arrangements, and to undertake any sales of the latter at prevailing market prices. In June 1986, the import duty on rice was raised by 7 percentage points to 30 percent to stimulate the profitability of domestic cereals production and to generate additional budgetary resources. The retail price of rice is currently about D 170 (equivalent to about CFAF 8,300) per 100 kg bag. Consistent with the Government's intention to liberalize fertilizer pricing policy, fertilizers received as a grant are being sold by the private sector through competitive bidding, and retail prices to farmers have been decontrolled.

In the case of petroleum products, following the substantial increases during the first half of 1986, in June 1986, the prices of premium gasoline and gas oil were increased further, to curb domestic consumption and generate needed budgetary resources. The price per liter of premium gasoline was raised by 31 percent (to D 5.5, equivalent to CFAF 270 or about US\$3.10 per gallon) and that of gasoil by

17 percent (to D 3.5, equivalent to CFAF 170). In July 1986, utility tariffs were increased by 9-15 percent to effect a pass-through of recent exchange rate changes. In the case of petroleum product prices, utility tariffs, and transportation charges, the authorities intend to adjust prices, at least quarterly, to reflect changes in the cost of imported inputs resulting from exchange rate changes, and to undertake more frequent adjustments, whenever costs diverge significantly from the base period level.

c. Measures to stimulate growth in the productive sectors

The authorities attach major importance to measures to stimulate the agricultural sector, and, in particular, the groundnut sector, in view of its key role in the growth and export earning potential of the economy. Apart from the pricing policy incentives referred to above, measures to be taken in the agricultural sector during 1986/87 and in subsequent years in the context of the World Bank SAL include the following: (i) development of an action plan by October 1986 for establishment of a decentralized scheme for seed multiplication (this follows the commencement of a seed reserve exchange system in mid-1986); (ii) following completion of a comprehensive study later this year, elaboration of an action plan involving fundamental reform of the current system of agricultural credit; (iii) reorganization, including any necessary staff retrenchment, of the Ministry of Agriculture during 1987; and (iv) in the context of the review of groundnut marketing strategy, signature of a performance contract between the Government and the GPMB by end-1986.

An important element of the authorities' medium-term strategy is the promotion of output diversification. In the manufacturing sector, later this year, the Government intends to adopt a revised Investment Code and to revise the provision of the Customs Tariff Act regarding duty drawbacks for manufacturing exporters with a view, inter alia, to ensuring that the system is available for all exports of "domestic origin". A comprehensive review of customs tariffs has been initiated with a view to rationalizing the tariff structure during 1987. To promote expansion of the fishing sector, during 1986/87, a strategy will be developed to encourage artisanal fishing. The authorities also intend to seek majority private equity participation in a proposed new company for the fisheries sector. With World Bank assistance, a major study of the tourism sector is being undertaken, with the intention of designing a medium-term development strategy by March 1987.

d. Public sector policies

The authorities intend to limit the overall budgetary deficit (excluding grants) to a maximum of D 166 million, or 17.5 percent of GDP, compared with an estimated outcome of 9.3 percent in 1985/86. The projected rise in the deficit/GDP ratio is due to the decision to make a large budgetary transfer (equivalent to about 9 percent of GDP) to the GPMB, and the expectation that development expenditures would recover

(by about 6 percentage points of GDP) from the exceptionally low 1985/86 level, which was considerably less than had been programmed. Including grants, the deficit will be limited to the equivalent of 3 percent of GDP. However, because of an expected large increase in net foreign financing (including disbursement of the World Bank SAL), the outstanding stock of net bank credit to Government is programmed to be reduced by D 138 million during 1986/87. 1/ 2/

The 1986/87 budget contains additional revenue measures with an estimated total yield of D 30 million (3.2 percent of GDP), consisting of the following (estimated yield in parentheses): increases in the import duties on petroleum products (D 16 million) and rice (D 9 million); increases in import duties on tobacco products by 5 percentage points (D 0.5 million); and a 1 percentage point increase in the general import tax (D 4.5 million). Import duties on certain consumer goods were lowered to stimulate the re-export trade in these products which had recently declined significantly. The authorities expect that this measure will have a positive revenue impact. Total revenue during 1986/87 is envisaged to increase by 43 percent. Total expenditures are projected to rise by 62.5 percent and current expenditures by 68.7 percent. Excluding transfer payments to the GPMB and debt service due, the increase in current expenditure will be constrained to 24.3 percent, mainly reflecting a rise in expenditures on materials and supplies. Expenditure on personal emoluments and pensions will not rise by more than 4.6 percent. The authorities do not intend to grant any general wage or salary increase during 1986/87 without prior consultation with the Fund. Total development expenditure outlays (financed from all sources) will be limited to D 165 million, implying an increase of 6 percentage points of GDP over 1985/86. In order to monitor the evolution of budgetary outlays closely, quarterly indicative limits for the major current expenditure subcategories have been established.

A fundamental structural element of the authorities' adjustment program consists of a major retrenchment in the size of the civil service. During 1985/86, termination notices were issued to about 2,000 temporary employees. Following the completion of a U.K. O.D.A. consultants' report, in June 1986, the authorities announced their intention

1/ This limit will be reduced by (a) any amounts that accrue to the budget from the proceeds of any cash loans and grants and commodity assistance (loans and grants) that are not already included in the 1986/87 program estimate, and (b) any unpaid amount of the domestic counterpart of all government debt service obligations falling due during the period July-September 1986 (i.e., before a possible rescheduling is obtained), as well as of all nonreschedulable obligations falling due from October 1986 onwards.

2/ This limit does not take into account proposals under consideration by the authorities with World Bank assistance to assume, under a "managed fund" arrangement, government-guaranteed loans extended by the Gambia Commercial and Development Bank. The authorities have indicated that such proposals will not be implemented before early 1987.

during 1986/87, to effect at least a 14 percent reduction in the number of Establishment Posts (currently about 10,700) and to reduce further the number of temporary employees. By end-August, 750 vacant posts, which were identified by end-July, will be abolished, and some 340 temporary workers will be laid off. In the case of 750 filled posts, at end-July, the employees to be retrenched were identified, and termination notices are to be issued by end-August. The retrenchment is to be fully implemented by end-October 1986. Also, beginning with the 1986/87 budget, wage payments will only be made against specific budgetary provisions for wages and only to those included in a consolidated and verified list of eligible employees. With World Bank assistance, a program is to be instituted by end-1986 focussing on job counselling and retraining for the redundant employees. During 1986/87, the authorities intend to continue to review the size and performance of the civil service.

As regards the medium-term budgetary outlook, the authorities intend to reduce the overall budgetary deficit (excluding grants) as a proportion of GDP to no more than 9 percent of GDP by 1988/89, and to reduce the net outstanding stock of bank credit in each of the next three years. On the revenue side, while the uncertainties surrounding the traditional re-export trade are a constraining element, some scope may exist for raising duties on certain imported commodities. However, the authorities recognize that over the medium term it will be essential to reduce reliance on international trade taxes, and therefore intend, by end-March 1987, to develop proposals for increasing the revenue contribution from domestic taxes (including, possibly, the conversion of specific duties to an ad valorem basis and the introduction of a general sales tax), with a view to introducing specific measures at the time of the 1987/88 budget. With respect to expenditure, during 1986/87, the Government will review its present price support policies for the groundnut sector as well as existing official marketing arrangements for groundnuts, with a view to a sharp reduction in the potential budgetary transfer to the GPMB in 1987/88. It is hoped that the transfer will be essentially eliminated by 1988/89. Throughout the program period, close attention will be paid to further improving budget preparation and expenditure monitoring procedures. Also, the Government intends to take measures to prevent any accumulation of domestic arrears, including arrears between Government and the rest of the public sector.

By end-1986, the authorities intend to prepare and agree with the World Bank staff on a revised and updated Public Investment Program for the period 1986/87-1988/89, so as to ensure that, inter alia, adequate feasibility studies (that also assess recurrent cost implications) have been completed prior to project approval, and that, for the first two years of the program, the economic rate of return (where calculable) is at least 15 percent. Also, the concept of a "rolling" three-year public investment program initially covering the period 1986/87-1988/89 has been adopted.

With respect to the public enterprise sector, a moratorium has been adopted on the creation of new public enterprises, except as agreed with the World Bank. A detailed plan for divestiture and rationalization of the parastatal sector is to be prepared by end-December 1986. Also by that date, performance contracts with three major enterprises will be signed and three other enterprises selected for which performance standards will be developed thereafter. In addition, the increases in tariffs referred to above will improve the financial performance of public enterprises. The remaining public sector tax arrears and arrears in respect of domestic goods and services are to be settled by end-September 1986, and by the latter date a phased timetable is to be adopted for settlement of arrears in respect of domestic and foreign debt service payments. All public enterprises are required to report monthly to the National Investment Board (NIB) any unsettled amounts owed among enterprises; the NIB will prepare a quarterly report indicating any outstanding arrears between enterprises and government and action will be taken by the latter to ensure settlement of any such arrears.

e. Monetary and credit policies

Under the credit program adopted for 1986/87, the increase in the net domestic assets of the banking system ^{1/} would be limited to D 5.1 million (equivalent to 2.2 percent of the end-June 1986 money stock). Total domestic credit and net credit to Government would decline by D 72.7 million and D 138.0 million, respectively, while the increase in credit to public enterprises (including the GPMB) and to the private sector will be limited to 15.6 percent and 18.3 percent, respectively. "Other items (net)" is expected to be significantly expansionary, reflecting losses by the Central Bank resulting from the payment of external debt service charges. Quarterly ceilings for the period July-December 1986 consistent with the above annual limits have also been established; the ceilings for end-March 1987 will be set by end-January 1987, in light (inter alia) of the proposals, referred to above, to establish a "managed fund". Assuming an increase of SDR 5.5 million in gross international reserves, the above credit program implies that the growth in domestic liquidity could be constrained to about 16 percent, which, assuming a real growth rate of about 3 percent, would be consistent with reducing the rate of inflation to around 15 percent.

The authorities recognize that a flexible interest rate policy aimed at increased mobilization of financial resources within the banking system is an essential accompaniment to the flexible exchange system. In September 1985, administered interest rates were virtually doubled to about 15 percent on average and interest rates on lending by commercial banks were decontrolled. In mid-July 1986, the authorities introduced a tender system for Treasury bills. The initial offering was

^{1/} Excluding the counterpart of valuation changes in net foreign assets associated with changes in the exchange rate.

for D 5 million, and tenders were received for D 4.1 million. All tenders were accepted with an average weighted interest rate of 19.4 percent. The authorities intend to issue Treasury bills by tender twice a month to provide market-related incentives for increasing domestic savings. Following the initial Treasury bills tender, the authorities have reviewed the level of the remaining administratively determined rates. The Bank Rate was increased by 5 percentage points to 20 percent with effect from July 16, 1986 and the rediscount rate was set at 20.4 percent; these interest rate levels compare with an expected reduction in the inflation rate during 1986/87 to about 15 percent. On the same date, the concessional rate for crop finance of 12 percent was abolished and the minimum rate payable on three-month deposits was set at 18 percent.

f. Balance of payments

For 1986/87, a small widening of the external current account deficit (to SDR 35 million, from SDR 33 million in 1985/86) is projected as a result of a forecast decline in receipts from groundnut exports of 8.6 percent and higher project-related imports. ^{1/} Partly associated with the latter, official loans and transfers (net) are projected to increase by 44 percent. Net private capital is likely to become more negative in 1986/87 as an expected reduction in the "errors and omissions" item (which tends to reflect the nonrepatriation of receipts from the re-export trade) would be offset by a decline in long-term private capital, reflecting the replacement of contractor financing of development expenditures by official financing. The overall deficit (before taking into account exceptional financing items) would decline to SDR 20.4 million during 1986/87 from SDR 21.2 million in 1985/86. Exceptional financing outflows would amount to SDR 21.7 million, including scheduled repurchases and the settlement of overdue obligations to the Fund and the programmed buildup of international reserves and/or cash reduction in external arrears of SDR 5.5 million. The envisaged exceptional financing inflows include the first tranche of the World Bank SAL (including cofinancing from the African Development Bank) estimated at SDR 15 million; commodity assistance grants including an EC STABEX grant (SDR 10.4 million); and the use of Fund resources under the proposed stand-by arrangement, the loan under the SAF, and the purchase under the CFF (amounting to about SDR 12 million in total). It is expected that the remaining external financing need of about SDR 5 million can be met in large part through a rescheduling of debt service obligations falling due during 1986/87 ^{2/} that is being requested from the Paris Club and other creditors on terms comparable to those granted to countries in similar circumstances. The authorities intend to take

^{1/} As a proportion of GDP, the deficit would rise from 21 percent to 30 percent. However, this increase mainly reflects the valuation effect associated with the large exchange rate depreciation during the second half of 1985/86.

^{2/} The authorities also intend to seek a rescheduling of end-June 1986 arrears.

all measures required to ensure full and timely adherence to their non-reschedulable debt service obligations 1/ falling due in 1986/87 (including those arising from rescheduling arrangements), and they attach the highest priority to the achievement of the programmed buildup in gross reserves and/or cash reduction in external arrears.

g. External debt management policies

Conscious of the fact that The Gambia's external debt service burden is extremely heavy, during the ERP period, the authorities do not intend to contract or guarantee any nonconcessional external loans in the 1-12-year maturity range (other than refinancing loans contracted in the context of possible multilateral debt rescheduling arrangements). Also, quarterly limits have been set on the stock of outstanding short-term debt (providing for some reduction in the first quarter). The stock of external payments arrears (excluding those eligible for rescheduling) will not be permitted to increase during the period July-December 1986, and limits for the first half of 1987 will be set by end-1986. The authorities intend to aim at as sharp a reduction as possible in the stock of such arrears during the period of the ERP with a view to their rapid elimination.

IV. Medium-Term Outlook

The staff estimates that the external current account deficit would decline from SDR 35 million (30 percent of GDP) in 1986/87 to SDR 27 million (15 percent of GDP) by 1990/91, based on the following assumptions (Scenario A, Table 8, and Appendix IV): (i) an annual average increase of 10 percent in volumes of official groundnut purchases from the projected 1986/87 level of 60,000 tons; (ii) an annual average increase of 7 percent in world groundnut prices from 1987/88 onwards; (iii) a 9 percent growth in the value of other domestic exports; (iv) a 5 percent growth in the value of re-exports; (v) annual increases of 3 percent and 5 percent in the volume and the unit price respectively, of rice imports for domestic consumption; (vi) annual average rates of growth of 5 percent and 3 percent, respectively, in project-related and nonproject related imports; (vii) a 5 percent annual increase in project grants and loans; and (viii) a reduction in net private capital outflows (including "errors and omissions") to about SDR 3 million on average. The exceptional external financing requirement (after taking account of repurchases from the Fund and an annual buildup of reserves/cash reduction of arrears in the range of SDR 5.5-SDR 7.0 million) would decline from SDR 42 million in 1986/87 to SDR 16 million in 1988/89 and SDR 12 million by 1990/91. The authorities indicated that, under such a scenario, they would hope to meet the above exceptional financing needs through a combination of continued support from multilateral institutions (including disbursement

1/ I.e., those not eligible to be rescheduled. The precise definition is set forth in a technical memorandum of understanding accompanying the memorandum of economic policies.

Table 8. The Gambia: Summary Medium-Term Balance of Payments on Debt Service Scenario, 1985/86-1990/91

(In millions of SDRs)

	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
	<u>Scenario A</u>					
Balance of payments						
Exports	59.3	57.9	62.0	66.4	71.4	76.1
Current account	-33.3	-35.1	-31.9	-30.2	-28.4	-27.0
Overall deficit	-21.2	-20.4	-9.7	-7.2	-3.9	--
Debt service payments ^{1/}						
a. Percent of exports of domestic goods and nonfactor services						
Including IMF	98.4	91.7	81.7	77.3	73.3	70.6
Excluding IMF	65.6	66.7	63.6	64.2	61.7	58.2
b. Percent of exports of domestic goods and nonfactor services plus markup on re-exports (including IMF)	58.8	57.2	51.7	49.6	47.8	46.5
	<u>Scenario B</u>					
Balance of payments						
Exports	59.3	57.9	64.3	71.5	79.4	87.7
Current account	-33.3	-35.1	-30.9	-27.5	-24.0	-20.4
Overall deficit	-21.2	-20.4	-7.7	-3.5	-2.5	10.0
Debt service payments ^{1/}						
a. Percent of exports of domestic goods and nonfactor services						
Including IMF	98.4	91.7	81.6	77.2	73.1	70.3
Excluding IMF	65.6	66.7	63.5	64.1	61.6	58.0
b. Percent of exports of domestic goods and services plus markup on re-exports (including IMF)	58.8	57.2	51.3	48.9	46.7	45.2

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

^{1/} Includes debt service on existing medium- and long-term public debt, interest on short-term debt, IMF repurchases and charges, debt service on new long-term loans (from Appendix II - assumed to be on concessional terms) and on possible "exceptional financing (from Appendix II adjusted for the annual requirement of rebuilding gross reserves and reducing external arrears).

Note: Principal assumptions of the two scenarios are as follows:

	1986/87		1987/88		1988/89		1989/90		1990/91	
	A	B	A	B	A	B	A	B	A	B
Other domestic exports (annual rate of increase)	5.4	5.4	8.7	12.0	9.4	12.0	9.5	12.0	9.5	12.0
Re-exports (annual rate of increase)	-1.8	-1.8	5.0	7.0	5.0	7.0	5.0	7.0	5.0	7.0
Rice imports, volume (thousands of tons)	25.0	25.0	25.8	22.5	26.5	15.7	27.3	9.0	28.1	--
Rice imports, unit prices (annual rate of increase)	-4.0	-4.0	5.0	--	5.0	--	5.0	--	5.0	--
Imports for re-export, volume (annual rate of increase)	5.0	5.0	5.0	7.0	5.0	7.0	5.0	7.0	5.0	7.0
Net private capital, including errors and omissions (in millions of SDRs)	-9.3	-9.3	-4.0	-3.0	-3.0	-2.0	-3.0	-1.0	-3.0	--

of the second tranche of the World Bank SAL in 1987/88), commodity assistance (which has not been taken into account in the above estimates) and debt relief. However, they felt that with full implementation of the Economic Recovery Program the medium-term external outlook could well be more favorable. A more optimistic outcome is illustrated in Scenario B which assumes that (i) the value of other domestic exports grows by 12 percent per annum; (ii) the value of re-exports grows by 7 percent annually; (iii) imports of rice decline gradually and are eliminated by 1990/91, as The Gambia moves toward self-sufficiency in food production; and (iii) net private capital outflows decline to zero by 1990/91. Other assumptions are unchanged from those in Scenario A. Under this scenario, by 1990/91 the current account deficit would decline to SDR 20.4 million (12 percent of GDP), while the exceptional financing requirement would be reduced to SDR 3 million.

The Gambia's financial obligations to the Fund (including those arising from the proposed use of Fund resources) remain substantial, averaging SDR 5.7 million per annum during the period 1987/88-1990/91 (repurchases alone will average SDR 4.0 million per year). However, as a percentage of projected exports of goods and nonfactor services, they would decline gradually, from 25 percent in 1986/87 to about 12 percent in 1990/91. In view of the difficulties experienced in this respect in the recent past, the authorities have emphasized their determination to take all necessary steps to remain current in their financial obligations to the Fund and they attach particular importance to the interbank market as a mechanism for obtaining foreign exchange to build up international reserves and/or to discharge official external obligations.

V. Performance Criteria and Phasing under the Proposed Stand-By Arrangement and Benchmarks Under the Proposed First-Year Arrangement Under the SAF

The proposed stand-by arrangement includes as performance criteria (Table 9) quarterly ceilings for end-September and end-December 1986 on (i) the net domestic assets of the banking system (defined to exclude the counterpart of valuation changes in net foreign assets of the Central Bank); (ii) net credit to the Government; (iii) gross credit to the GPMB; and (iv) the stock of outstanding external arrears (defined to include the short-term external liabilities of the Central Bank of The Gambia). The criteria (i), (ii), and (iv) have been set on the assumption of the receipt of certain cash loans and grants and commodity assistance (loans and grants), the precise timing of the disbursement of which is subject to some uncertainty: therefore, these performance criteria for end-September 1986 would be subject to automatic adjustment (in either direction) pari passu with any excess or shortfall in actual disbursements from programmed amounts. In the case of the end-December performance criteria, the automatic adjustment will apply only in respect to any excess above programmed receipts. Performance criteria also include (v) a zero limit on the contracting or guaranteeing of new nonconcessional loans in the 1-12-year maturity range (other than re-

Table 9. The Gambia: Quantitative Performance Criteria, 1986/87

	Stock at June 30, 1986	Maximum cumulative change from July 1, 1986 to		
		Sept. 30, 1986	Dec. 31, 1986	June 30, 1987 (Indicative limit)
(In millions of dalasis)				
Credit ceilings				
Net domestic assets <u>1/</u> <u>2/</u>	564.0	-5.4 <u>3/</u>	27.0 <u>3/</u>	5.1 <u>3/</u>
Net credit to Government <u>1/</u> <u>2/</u>	100.4	-31.0	-64.0	-138.0
Gross credit to the GPMB	117.2	-13.6	-9.2	22.6
(In millions of SDRs)				
External sector				
Total external arrears <u>4/</u>	78.84	78.84	78.84	... <u>7/</u>
Short-term public sector debt outstanding <u>5/</u>	9.37	8.37	8.37	...
Contracting or guaranteeing of new medium- or long-term nonconcessional external debt by the public sector in the 1-12 year maturity range during period <u>6/</u>		--	--	--

Source: Memorandum of economic policies attached to the letter of intent of the Minister of Finance and Trade of The Gambia, dated August 1, 1986.

1/ The limits for September and December 1986 have been set assuming payment of the domestic counterpart funds of all government debt service obligations falling due during the period July-September 1986 (i.e., before a possible debt rescheduling is obtained), as well as payment of all nonreschedulable obligations falling due during the period October to December, and will be adjusted downward automatically to the extent that this does not occur.

2/ The limits will automatically be reduced to the extent that the budget benefits from external cash loans and grants, and commodity aid not included in the program estimate but will be increased (for the July-September period only) to the extent that such loans and grants fall short of the program estimate.

3/ Excluding changes in the valuation account of the Central Bank.

4/ The ceiling for September 30 only will be subject to automatic upward adjustment to the extent that exceptional foreign financing inflows during the period July-September 1986 fall short of programmed amounts.

5/ Excluding trade credits and specified bridging finance.

6/ Excluding refinancing loans contracted in the context of possible multilateral rescheduling arrangements.

7/ By end-December 1986, the Government intends to establish limits on the stock of arrears for the period January-June 1987 consistent with their intention to seek as rapid as a reduction as possible in such arrears.

financing loans contracted in the context of multilateral rescheduling arrangements); (vi) limits on the stock of short-term external debt; and (vii) the standard clause on the exchange and trade system. The program also includes two reviews with the Fund: the first, to be completed by March 15, 1987, covers the status of debt rescheduling arrangements, exchange rate and pricing policies, the implementation of civil service reforms, and the setting of quantitative performance criteria for end-March and end-June 1987. The second review, to be completed by September 15, 1987, will cover, in particular, producer pricing policy and fiscal policy for 1987/88.

Purchases under the stand-by arrangement would be made available in five equal instalments. Following the first purchase upon Board approval, the second purchase would be dependent upon meeting the end-September 1986 performance criteria, while the third purchase would be available upon adherence to the end-December 1986 performance criteria and completion of the first review. The fourth purchase would be dependent upon meeting the end-March 1987 criteria, and the final purchase would be available upon meeting the end-June 1987 performance criteria and completing the second review.

The ceilings on net domestic assets, net credit to Government, and gross credit to the GPMB, as well as the limits on the contracting or guaranteeing of medium- and long-term debt, and on outstanding external arrears referred to above, would serve as benchmarks for appraising progress in the first year program under the structural adjustment facility. Benchmarks will also include the structural measures listed in Table 10, 1/ namely, (i) adoption of a revised Investment Code (by end-December 1986); (ii) full implementation of the civil service reform (by end-October 1986); (iii) preparation of an administrative reform program (by end-February 1987); (iv) preparation of a revised Public Investment Program (by end-December 1986); (v) preparation of a divestiture and rationalization plan for public enterprises (by end-December 1986); and (vi) elaboration of proposals for increasing the revenue contribution from domestic taxes (by end-March 1987).

VI. Staff Appraisal

The Gambia's economic and financial situation deteriorated sharply in recent years, and by early 1985, the underlying internal and external imbalances had assumed acute proportions. As Executive Directors noted in concluding the 1985 Article IV consultation, decisive actions were urgently needed to tackle the deep-rooted economic and financial disequilibria. Thus, the adoption, in mid-1985, by the authorities of a comprehensive medium-term economic recovery program is to be welcomed. The program, which has been developed in close consultation with the

1/ These measures and their timing are referred to in the authorities' memorandum of economic policies and their policy framework paper.

Table 10. The Gambia: Benchmarks of Implementation
of Structural Policy Measures for the 1986/87 Program
Under the Structural Adjustment Facility

Policy measures	Dates
1. <u>Sectoral policies</u>	
Revise investment code.	By December 31, 1986
2. <u>Civil service reform</u>	
Fully implement the government employment retrenchment program.	By October 31, 1986
Prepare an administrative reform program, including pay and grading reforms	By February 28, 1987
3. <u>Public investment</u>	
Prepare revised Public Investment Program for 1986/87-1988/89	By December 31, 1986
4. <u>Public enterprises</u>	
Prepare divestiture and rationalization plan for 1986/87-1988/89.	By December 31, 1986
5. <u>Fiscal policy</u>	
Elaborate proposals for increasing the revenue contribution of domestic taxes, for implementation in fiscal year 1987/88.	By March 31, 1987

Source: Government of The Gambia "Memorandum of Economic Policies"
and "Policy Framework Paper."

staffs of the Fund and the World Bank, is aimed at raising real output significantly through price and other incentives, achieving greater efficiency in public sector performance, and reducing existing financial imbalances through appropriate demand-management and exchange rate policies.

During 1985/86, the authorities took several major policy actions in the implementation of their program. The recent introduction of the flexible exchange rate system is a radical and courageous step, which, after some initial difficulties, has met with considerable success. The depreciation of the exchange rate since early 1986 has led to a sharp reduction in the scope of the parallel exchange market and has increased foreign exchange inflows to the banking system. The staff welcomes the authorities' assurances that they intend to monitor closely the evolution of the system in the period ahead so as to ensure that the process of exchange rate determination is fully flexible; in this respect, strict enforcement of foreign exchange surrender obligations by public enterprises and of limits on commercial banks' foreign exchange working balances will be needed to ensure the smooth functioning of the system. A more realistic official exchange rate will also serve as a better guide to pricing and allocative decisions within the economy, and the staff urges the authorities to continue to ensure a full and timely pass through of exchange rate changes to administered prices, in particular, petroleum products. The courageous decision in mid-1985 to decontrol the retail price of rice has improved the availability of supplies and reduced the foreign exchange requirements of the public sector. The recent sharp decline in world groundnut prices, combined with the decision to maximize official foreign exchange earnings through adjusting producer prices in line with those prevailing in neighboring countries poses a difficult policy dilemma for the authorities as it has entailed a large budgetary transfer to the GPMB. The staff notes the temporary nature of the transfer and welcomes the authorities' intention to undertake during 1986/87 a review of producer pricing policy and existing official groundnut marketing arrangements, in light of world price prospects and the evolution of the flexible exchange system.

Significant progress was achieved during 1985/86 toward ensuring a tight demand-management policy stance. The overall budget deficit (including grants) was reduced sharply, although this was largely due to an unplanned cutback in foreign-financed development expenditures and larger-than-expected commodity assistance grants. Following the resolution of specific problems associated with import duty collections, revenue performance was satisfactory, while current expenditures remained broadly on track. For 1986/87, the deficit is projected to increase significantly, mainly reflecting an expected return of development expenditures to more normal levels, and the temporary transfer to the GPMB. The staff supports the authorities' intention to achieve a major reduction in the deficit equivalent to about 8 percentage points of GDP over the medium term, through, inter alia, reducing sharply the budgetary transfer to the groundnut sector, as well as lessening the present excessive reliance on revenue from international trade taxes.

However, in view of the highly uncertain external outlook, additional fiscal adjustment beyond that presently contemplated may well prove to be necessary. The intention by end-1986 to prepare and agree upon the details of a revised Public Investment Program with the World Bank staff is also welcome. An important start was made in 1985/86 in tackling excessive government employment, and the staff urges the authorities to proceed resolutely and expeditiously with the planned next stage, namely, reducing significantly the size of the established civil service. Moreover, given the economy's resource constraints, in the staff's view, further reductions beyond those presently planned will be required in subsequent years.

As regards credit policy, in view of the difficulties experienced during the first half of 1986, it will be essential to monitor closely adherence by all sectors to the credit ceilings set by the authorities. In this respect, the recent improvements in the timeliness and accuracy of reporting by commercial banks are to be welcomed. The recent introduction of a tender system for sales of Treasury bills, together with the increase in the remaining administered interest rates, should assist in ensuring that interest rates are positive in real terms, an important element in attaining the needed external adjustment.

Despite the adjustment measures already taken and those intended during the program period, The Gambia's external position will remain extremely tight in the foreseeable future, as evidenced by the substantial, albeit declining, external financing requirement likely to be present during each of the next three years. For 1986/87, the major part of the financing requirement is expected to be met by disbursements from the World Bank SAL (including cofinancing), which is scheduled for consideration by the Executive Board of the Bank in late August, and the authorities have sought a meeting of the Paris Club to take place shortly after consideration by the Fund Executive Board of the proposed stand-by arrangement. The provision of significant external assistance in support of the authorities' efforts is to be welcomed. However, for the latter to be successful and for normal relations with creditors to be restored, it is essential that the authorities take all necessary steps (including, to the extent required, purchases from the interbank market) to ensure that The Gambia is current in its nonreschedulable debt service obligations (including financial obligations to the Fund). In this context, the staff attaches particular importance to the authorities' intention to accord the highest priority to building up international reserves from their present critically low level.

In summary, the staff considers that the program for 1986/87 set forth by the authorities contains a comprehensive and far-reaching set of policy measures (major elements of which are already in place) that are appropriate for The Gambia's current situation, and thus merits support by the requested stand-by arrangement. In addition, these adjustment measures are consistent with an appropriate medium-term strategy outlined in the authorities' policy framework paper and a suitable first year program under the structural adjustment facility and

justify their request for a loan from the latter. The staff also considers that full implementation of the policies set forth in the authorities' program will enable The Gambia to remain current in its financial obligations to the Fund.

The Gambia's accumulation of commercial external payments arrears in respect of current international transactions manifests an exchange restriction subject to approval under Article VIII. The Gambia also maintains a multiple currency practice arising from the costs to purchasers of foreign exchange of counterpart deposits required for arrears. The Gambia has not requested Fund approval of these restrictions at this time.

Consistent with the 12-month cycle envisaged for consultation discussions with The Gambia, the authorities have proposed that the next Article IV consultation discussions take place around May 1987.

VII. Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board:

(i) 1986 Consultation

1. The Fund takes this decision relating to The Gambia's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1986 Article XIV consultation with The Gambia, in the light of the 1986 Article IV consultation with The Gambia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 ("Surveillance over Exchange Rate Policies").
2. The Gambia maintains the restrictive exchange measures described in SM/86/ , in accordance with Article XIV, Section 2, except that the restrictions evidenced by the accumulation of commercial external payments arrears and the multiple currency practice arising from the costs to purchasers of foreign exchange of counterpart deposits required for arrears, are subject to approval by the Fund under Article VIII, Sections 2 and 3. The Fund urges the authorities to remove these restrictions as soon as possible.

(ii) Stand-By Arrangement

1. The Government of The Gambia has requested a stand-by arrangement for a period of 13 months from _____, 1986 through _____, 1987, in an amount equivalent to SDR 5.13 million.
2. The Fund approves the stand-by arrangement set forth in EBS/86/189.
3. The Fund waives the limitation in Article V, Section 3(b)(iii).

(iii) Structural Adjustment Facility: Three-Year
and First Annual Arrangement

1. The Government of The Gambia has requested a three year structural adjustment, and the first annual arrangement thereunder, under the Structural Adjustment Facility.
2. The Fund approves the arrangement set forth in EBS/86/189.

THE GAMBIA - Stand-By Arrangement

Attached hereto is a letter and annexed Memorandum dated August 1, 1986, from the Minister of Finance and Trade of The Gambia requesting a stand-by arrangement and setting forth (a) the objectives and policies that the authorities of The Gambia intend to pursue for the period of this stand-by arrangement; and (b) understandings of The Gambian authorities with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities 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 the period from ---- --, 1986 to ----- --, 1987, The Gambia will have the right to make purchases from the Fund in an amount equivalent to SDR 5.13 million, subject to paragraphs 2, 3, 4, 5, and 6 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 1.03 million until October 30, 1986, SDR 2.05 million until March 15, 1987, SDR 3.08 million until April 30, 1987, and SDR 4.10 million until September 1, 1987.

(b) None of the limits in (a) above 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 percent of quota.
3. Purchases under this stand-by arrangement shall be made from ordinary resources.
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 percent of quota:
 - (a) during any period in which the data at the end of the preceding period indicate that
 - (i) the limits on the changes in net domestic assets referred to in Section III, paragraph 6 and Table 2 of the memorandum annexed to the attached letter, or

- (ii) the limits on the changes in net credit to the Government referred to in Section III, paragraph 6 and Table 2 of the memorandum annexed to the attached letter, or
- (iii) the limits on changes in credit to the Gambia Produce Marketing Board (GPMB) referred to in Section III, paragraph 6 and Table 2 of the memorandum annexed to the attached letter, or
- (iv) the limit on the total outstanding stock of external payments arrears described in Section III, paragraph 7(a) and Table 2 of the memorandum annexed to the attached letter, or
- (v) *the limit on the contracting of new public and publicly guaranteed foreign borrowing* described in Section III, paragraph 7(b) and Table 2 of the memorandum annexed to the attached letter, or
- (vi) the limit on the outstanding stock of short-term external debt described in Section III, paragraph 7(b) and Table 2 of the memorandum annexed to the attached letter,

have not been observed;

- (b) after March 15, 1987 until suitable performance criteria have been established pursuant to the first review contemplated in paragraph 7 of the attached letter, or after such performance criteria have been established, while they are not being observed;
- (c) after September 1, 1987, until the second review contemplated in paragraph 7 of the attached letter has been completed;
- (d) during the entire period of this stand-by 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.

When 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 will not make purchases under this stand-by arrangement during any period of the arrangement in which the member has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase.

6. 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 6, 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.

7. 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.

8. The Gambia shall pay a charge for this 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 stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchases 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.

10. During the period of the stand-by arrangement The Gambia shall remain in close consultation with the Fund. These consultations 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.

11. In accordance with paragraph 9 of the attached letter, The Gambia will consult with 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.

THE REPUBLIC OF THE GAMBIA

Washington, August 1, 1986

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

Dear Mr. de Larosière:

1. In mid-1985 the Government of The Gambia adopted an Economic Recovery Programme (ERP) embodying a comprehensive set of policy measures aimed at resolving the country's financial disequilibrium and laying the basis for sustained economic growth. Under this programme, a number of important measures have already been implemented including the introduction of a flexible exchange rate system, liberalization of pricing policies and adjustments in administered prices, steps to reduce the budget deficit through revenue measures and tighter expenditure control, and implementation of a more flexible interest rate policy. At the same time a process of structural adjustment has been initiated with a view to stimulating the growth of the productive sectors of the economy and making the public sector more efficient. While these measures have already contributed to a considerable improvement in the budgetary position, the external position and outlook remain extremely difficult owing to declining market prices for groundnuts and the heavy external debt service burden.

2. The Government is determined to persevere with its adjustment effort and has extended the scope of the ERP by one year to align it to the comprehensive economic and financial programme set forth in the Policy Framework Paper which was sent to you on August 1, 1986, covering the three-year period 1986/87-1988/89. The Government of The Gambia will remain in close contact with the staffs of the Fund and the World Bank on developments and progress in implementing these policies. The Policy Framework Paper will be updated annually as the programme is implemented.

3. The fundamental objectives of the programme for 1986/87-1988/89 are to restore financial equilibrium and to lay the basis for sustained economic growth. The programme aims at raising output in key resource-based sectors through the provision of adequate price and other incentives, increasing the productivity of public sector operations, and reducing the internal and external financial imbalances through appropriate demand management as well as exchange rate and pricing policies.

4. During 1986/87, the Government intends to consolidate and build upon the progress achieved in 1985/86 by strengthening the adjustment effort so as to achieve a further reduction in the existing financial disequilibria. To this end the financial program for 1986/87 provides for a comprehensive set of specific adjustment measures including, in

particular: exchange rate and other pricing policies that take into account the openness of The Gambian economy; tight demand management policies; structural reforms in the productive sectors; streamlining of the public sector; and prudent external debt management.

5. In support of our adjustment efforts we have likewise requested a Structural Adjustment Loan from the World Bank which is expected to be considered shortly by the Bank's Executive Board. In addition, we will seek debt relief for 1986/87 from official and other external creditors.

6. The accompanying "Memorandum of Economic Policies" consistent with the thrust of policies set forth in the "Policy Framework Paper" outlines the objectives and policies that the Government of The Gambia intends to pursue for the period 1986/87 to 1988/89, and the financial policies for the first year of this period for which balance of payments assistance is needed. In support of these objectives and policies, The Gambia hereby requests from the Fund a three-year structural adjustment arrangement in the amount that will be available to The Gambia under the Fund's Structural Adjustment Facility, and the first annual arrangement thereunder. The Gambia also requests a 13-month stand-by arrangement in the amount of SDR 5.13 million in support of the programme for the financial year 1986/87.

7. We intend to review the progress of the 1986/87 programme with the Fund for the first time before March 15, 1987, in particular, the status of debt rescheduling arrangements, exchange rate and pricing policies, and the implementation of civil service reforms, and will reach understandings on performance criteria for end-March and end-June 1987. We will carry out with the Fund a second review before September 15, 1987 which will cover, in particular, producer pricing policy and fiscal policy for 1987/88.

8. The Gambia will provide the Fund with such information as the Fund requests in connection with the progress made by The Gambia in implementing the policies and achieving the objectives of the programme.

9. The Government believes that the policies and measures set forth in the attached memorandum represent continued major steps toward the restoration of economic stability. Nevertheless, it will take any further measures that may become appropriate for this purpose. The Gambia will consult with the Fund on the adoption of any measures that may be considered appropriate, at the initiative of the Government of The Gambia, or whenever the Managing Director requests such consultation.

Sincerely,

/ s /

S.S. Sisay
Minister of Finance and Trade

/ s /

T.G.G. Senghor
Governor
Central Bank of The Gambia

August 1, 1986

The Gambia

Memorandum of Economic Policies

I. Introduction

For some time the economy of The Gambia has been experiencing growing economic and financial difficulties due to several factors, some of which are exogenous in origin. On the one hand, production of groundnuts, the major export crop, has exhibited a downward trend over the past several years (partly due to climatic factors), while world groundnut prices have fluctuated erratically. At the same time, domestic expenditures have remained at high levels, to a considerable extent as a result of previous growth in public sector employment and in development outlays. From the early 1980s onward, these factors contributed to the emergence of increased external disequilibria: external debt rose steadily (to about 180 percent of GDP at end 1985/86); the net foreign assets of the banking system have become highly negative; and at end-June 1986, total external arrears were estimated at about SDR 89 million, equivalent to over two and half times 1985/86 exports of goods and services, excluding re-exports. On the domestic side, performance has also been disappointing. Overall growth of the directly productive sectors of the economy (i.e., total GDP less government services) has remained low, averaging less than 2 percent per annum during the period 1974/75 to 1985/86, and real per capita income declined significantly.

Over the past several years, in the context of a series of stabilisation programs, the Government has taken a number of important measures to redress the situation. These include: devaluation of the dalasi (in early 1984), adjustments in several key prices, and measures to control domestic credit expansion through restraints on fiscal outlays. However, in view of the serious and deep-rooted nature of the current difficulties, in mid-1985 the Government began to implement a more comprehensive set of adjustment measures (outlined in the Government's Economic Recovery Programme--ERP) to help restore financial equilibrium and lay the basis for sustained economic growth. These included, inter alia, the introduction of a flexible exchange rate system (in early 1986), liberalisation of pricing policies and adjustments in administered prices, steps to reduce the budget deficit through revenue measures and tighter control on expenditures, and the implementation of a more flexible interest rate policy. Also, initial steps were taken regarding structural measures to stimulate the growth of the productive sectors of the economy, to increase the overall economic efficiency of the public sector, and to address the prevailing difficulties of financial institutions.

Overall economic performance during 1985/86 (the first year of the ERP) was mixed. Real GDP grew by an estimated 6.6 percent, as a result

of an excellent foodgrain harvest and some recovery in groundnut production. However, the annual average inflation rate rose to about 42 percent, reflecting a sharp depreciation in the exchange rate and a rapid growth in the money supply. The overall budgetary deficit (on a partial commitment basis and excluding grants) as a percentage of GDP declined from 18.0 percent to 9.3 percent due to improved revenue collections, more stringent expenditure controls, and a sharp reduction in development expenditures resulting from a slowdown in disbursements on the part of aid agencies to which arrears are owed. The deficit, including grants, fell more sharply, from 13.0 percent to 2.2 percent of GDP, largely reflecting the receipt of substantial commodity aid grants. During the first half of 1985/86, the authorities experienced some difficulties in implementing their credit program as envisaged, and this contributed to a considerably larger expansion in liquidity during 1985/86 than had been planned. In addition, official purchases of groundnuts by the Gambia Produce Marketing Board (GPMB) were only slightly higher than last year's exceptionally low level and world groundnut prices fell by about 40 percent. As a consequence of these two factors, the external financial position remained extremely tight, and the authorities continued to face major difficulties in meeting pressing external obligations, including debt service payments.

The Government remains fully committed to pursuing vigorously the comprehensive adjustment effort begun in mid-1985. The macroeconomic framework and objectives of the authorities for the three year period 1986/87-1988/89, as well as the major policy elements required to achieve those objectives, are described in Section II. Section III describes the policies to be followed during 1986/87 which are consistent with these medium-term objectives.

II. Economic Recovery Programme: Policies for 1986/87-1988/89

The Government believes that successfully tackling the present economic difficulties facing The Gambia requires a major sustained adjustment effort. To this end, the Government's Economic Recovery Programme has been extended for one year to embody a comprehensive economic and financial programme covering the three-year period 1986/87-1988/89. The programme aims at raising output significantly in the agriculture, manufacturing, and other resource-based sectors, through the provision of adequate price and other incentives and by increasing the productivity of public sector investment. At the same time, in order for the economy's growth potential to be realised, it is essential that the present internal and external financial imbalances of the economy be reduced sharply through the adoption of demand management and exchange rate and other pricing policies that adequately take into account the open nature of the Gambian economy and its present resource constraints.

Concurrently, the Government is addressing the supply side by instituting the policy measures and strategies outlined below.

a. (i) In the agricultural sector, the programme aims at steady progress toward restoring groundnut production to the average level achieved during the seventies, while simultaneously maintaining reasonable growth in food crop output; it is expected that agricultural output can be increased by 3 percent per annum on average over the next few years. To achieve this target, the Government has taken a wide range of policy actions, including sharply increased producer prices, liberalisation of other key input and output prices, improved input supplies, and steps to reform the agricultural credit system; (ii) manufacturing output is expected to be stimulated by the fundamental reform of the exchange system, which should enhance the availability of foreign exchange through the banking system. As a further incentive, the Government intends to adopt shortly a revised, simplified investment code and prepare a comprehensive reform of the tariff structure; (iii) in line with the programme's diversification objectives, the Government recognizes the importance of achieving maximum private sector development of the fisheries sector through the removal of possible disincentives (e.g., export taxes), encouragement of artisanal fishing through improved infrastructure and credit facilities, and the development of an overall resource management plan for the sector; (iv) finally, the programme aims at improving the weak financial position and net foreign exchange contribution of the tourism sector through a threefold strategy: rescheduling of the hotels' external debt; divestiture of government ownership; and a moratorium on government loan guarantees (except as agreed with the World Bank), which will help ensure that future tourism projects are financially viable.

b. A key objective of the Government's recovery programme is to achieve a substantial improvement in the productivity and efficiency of public sector operations. To this end, the public investment programme is being redesigned with the assistance of the World Bank. It is intended to ensure that adequate feasibility studies (that also assess the project's recurrent cost implications) have been completed before projects are approved, and for the initial two years of the Economic Recovery Program, the Government has established a stringent requirement that only projects with an economic rate of return of at least 15 percent (where calculable) will be undertaken. The Government has adopted the concept of a "rolling" three-year public investment programme initially covering the period 1986/87-1988/89. At the same time, beginning in 1986/87, the Government intends to implement a substantial retrenchment of the size of the Civil Service (involving a reduction of at least 14 percent over present levels in the first year) to permit a much needed shift in the composition of current budget expenditure in favor of equipment and supplies. The public enterprise sector will be streamlined through rationalisation or privatization of a number of enterprises. The performance of those enterprises that are to remain in the public sector will be improved significantly, through the adoption of pricing policies aimed at accelerated progress in cost recovery and the signature of performance contracts with the Government.

c. A central element of the adjustment strategy is the adoption of exchange rate and pricing policies that serve as a better guide to the allocation of resources within the economy. In this connection, the flexible exchange rate system, which was introduced in early 1986 and which resulted in a depreciation (measured in local currency terms) of about 125 percent in the prevailing exchange rate, has provided a clearer measure of the true scarcity value of foreign exchange and has led to increased foreign exchange transactions within the banking system. The adoption of a more liberalised pricing policy is a vital element accompanying the exchange reform. The prices of certain key commodities (rice and fertiliser) have already been decontrolled, and the Government is fully committed to regular adjustments of other administered prices so as to ensure a pass-through of any changes in the exchange rate.

d. The Government recognises that for its structural measures to be effective, tight demand management policies are essential. While the overall budgetary deficit (on a commitment basis and excluding grants) is expected to rise to about 17.5 percent of GDP in 1986/87 (largely reflecting a recovery in development expenditures from the exceptionally low level in 1985/86, and the need to provide temporary price support assistance to the groundnut sector), it is intended to achieve a progressive reduction in the overall deficit over the next two years (to about 9 percent of GDP by 1988/89) through a combination of revenue and expenditure measures. The deficits in each of the three years 1986/87-1988/89 would be financed entirely from external resources and the stock of outstanding bank credit to Government is expected to decline sharply on a year-to-year basis during this period. To help achieve the above objectives, the authorities intend by end-March 1987 to draw up proposals to increase the revenue contribution from domestic taxes, with a view to introducing specific measures (including, possibly, the conversion of specific duties to an ad valorem basis and the introduction of a general sales tax) at the time of the 1987/88 budget. Also, during 1986/87, the Government will review its present price support policies for the groundnut sector as well as existing official marketing arrangements for groundnuts, with a view to a sharp reduction in the potential budgetary transfer to the GPMB in 1987/88. It is hoped that the transfer will be essentially eliminated by 1988/89. Throughout the programme period, close attention will be paid to further improving budget preparation and expenditure monitoring procedures. Also, the Government intends to take measures to prevent any accumulation of domestic arrears, including arrears between Government and the rest of the public sector.

e. The envisaged reduction in the fiscal deficit will be accompanied by a prudent credit policy intended to reduce significantly the annual average rate of inflation during the program period and to protect the balance of payments. In support of this credit policy stance, and in order to encourage domestic savings, the Government is pursuing a flexible interest rate policy and, to this end, has recently introduced a tender for Treasury bills. These policies will be accompanied by

prudent external debt management--in particular, the Government does not intend to contract or guarantee any nonconcessional foreign loans within the 1-12 year maturity range during the programme period.

f. The Government believes that the above set of policies can succeed in raising the overall real growth rate of the economy to 3.0-3.5 percent per annum over the next three years (implying a modest increase in real per capita income), while simultaneously sharply reducing the domestic rate of inflation. However, in spite of the programmed comprehensive adjustment effort, the external sector outlook remains difficult due to the limited prospects for significant increases in export earnings (world prices of groundnuts, the principal export commodity, may well decline further), and continued high external debt service obligations. Thus, although the programme aims at a reduction in the external current account deficit as a percentage of GDP from 30 percent in 1986/87 to 21 percent by 1988/89, an annual external financing gap of SDR 26 million on average is projected for the next three years. Therefore, The Gambia will continue to require significant external financing (including debt relief and other exceptional balance of payments support) for some time to come. However, the Government is determined to take the necessary steps to ensure that The Gambia meets fully its nonreschedulable external obligations falling due throughout this period. To ensure achievement of this objective, the authorities intend to give the highest priority to building up gross reserves from their present critically low level.

III. The Programme for Fiscal Year 1986/87

During 1986/87, the authorities intend to build upon the progress achieved in 1985/86 by strengthening the adjustment effort so as to achieve a further reduction in the existing domestic and external financial disequilibria. To this end, the programme for 1986/87 includes a comprehensive set of specific adjustment measures in the following areas: (i) exchange rate policies; (ii) pricing policies; (iii) structural reforms in the productive sectors; (iv) fiscal policies; (v) public sector structural reforms; (vi) monetary and credit policies; and (vii) external debt management.

1. Exchange rate policies

a. On January 20, 1986, the authorities introduced a flexible exchange rate system. The previous fixed rate of the currency was abolished and the exchange rate of the dalasi has been permitted to float freely within the context of an interbank system. Under this system, commercial banks are free to transact during each week either among themselves or with customers at exchange rates agreed upon by the parties to these transactions. Once a week, the Central Bank conducts a trading and fixing session with the participation of the commercial banks to set the exchange rate to value official transactions in foreign exchange in the subsequent week.

b. In support of the flexible exchange rate system, commercial banks have been instructed to make foreign exchange freely available to their customers for all current transactions, without prior approval from the Central Bank, and subject only to documentation being provided (for recording purposes) indicating the nature of the current transaction involved. Loans and advances to nonresidents continue to require prior approval of the Central Bank, and certain restrictions apply to the use of external accounts. Taxes or subsidies are not to be levied on foreign exchange transactions. Except for certain specified commodities prohibited for religious or security reasons, all imports are now permissible under open general license.

c. To promote the maximum inflow of foreign exchange into the banking system, instructions have been issued to three parastatals holding foreign balances 1/ to surrender all their foreign exchange earnings to the banking system, and to obtain their foreign exchange requirements from commercial banks in the interbank market. Confirmation has been received from two of the parastatals involved that their external bank accounts have been closed and the authorities will ensure that by end-August 1986 the remaining account is closed and all foreign exchange holdings (net of outstanding foreign liabilities) repatriated to the domestic banking system. Two parastatals (the GPMB and GAMTEL) have been permitted, on a temporary basis, to retain foreign exchange working balances not exceeding f100,000. Adherence to these limits will be monitored closely by the Central Bank and the desirability of modifying such arrangements will be reviewed by the authorities no later than September 30, 1986. In the case of the tourism sector, following the introduction of the flexible exchange system, the authorities have taken a number of steps (including the use of moral suasion) to promote increased foreign exchange surrender by the entities involved.

d. In April 1986, the authorities prescribed limits on the working balances of commercial banks with any amounts in excess of these limits to be sold to other commercial banks or to the Central Bank. To reinforce these limits, instructions were subsequently issued to banks, inter alia, defining working balances to include all foreign exchange holdings other than balances required for (a) confirmation of outstanding letters of credit and (b) settlement of foreign liabilities maturing during the following week.

e. Based on a regular review of the foreign currency budget, the authorities will establish, by end-December 1986, predetermined limits on government foreign exchange requirements either from Central Bank resources or from the interbank market in order to avoid unnecessary pressures on the exchange market.

1/ The Gambia Port Authority, the Gambia Public Transportation Corporation, and the National Trading Corporation.

f. The Central Bank is currently studying the composition of the pipeline of external commercial arrears. By end-October 1986, in light of developments in the interbank foreign exchange market, the authorities will determine a scheme providing for a maximum permissible reduction in the pipeline during the remaining period of 1986/87. In the meantime, the liquidity effects of any reduction in the level of external commercial arrears will be offset by an equivalent reduction in the credit ceiling of the individual bank affected by a clearance in the pipeline on behalf of its customers.

g. Since the inception of the interbank system, the exchange rates quoted by commercial banks have depreciated significantly. The exchange rate is currently D 11.2 per pound sterling, compared with the pre-January 20, 1986 parity of D 5 per pound. The differential between the parallel market rate and the interbank rate has almost been eliminated, and inflows of foreign exchange to the banking system have exhibited a marked increase. The authorities intend to monitor carefully the evolution of the interbank system in the period ahead to ensure that the process of exchange rate determination is fully flexible. In particular, appropriate steps will be taken by the authorities should the official exchange rate determined in the interbank market fall significantly below the reported parallel market exchange rate.

2. Pricing policies

The Government recognizes that an essential element accompanying the exchange rate system is a flexible pricing policy for certain key commodities in the economy. Accordingly, the following actions have been taken.

a. In the case of agricultural producer prices, the Government raised the producer price of groundnuts on three occasions during the 1985/86 season by a cumulative 103 percent. On May 15, 1986, an increase of 5 percent was announced for the preplanting producer price for the 1986/87 season; a further increase of 36 percent (to D 1,800 per ton) was announced on June 27. Before and during the 1986/87 buying season, the authorities will adjust further the producer price as frequently as may be necessary, in light of exchange market developments, in order to maintain competitiveness with neighbouring countries. Producer prices for cotton and rice were raised by 60 percent and 50 percent, respectively, during 1985/86. For the 1986/87 season, the prices of paddy and cotton have each been increased by a further 5 percent.

b. To encourage private traders to enter domestic distribution of fertilisers, the Government has initiated the sale of fertilisers received as a grant to private traders and agents through competitive bidding. Retail fertiliser prices charged to farmers have been decontrolled by the Government and will be market determined.

c. In view of the difficulties of ensuring continued adequate official supplies of rice and the need to lessen the foreign exchange requirements of the public sector, in July 1985 the Government decontrolled the retail price of rice and removed all restrictions on its importation. The authorities also announced that official imports of rice will be limited to those supplied under official aid arrangements and that any sales of the latter will take place at prevailing market prices. Following price decontrol, the retail price of rice initially rose sharply, but has since declined, due to an increased volume of imports and lower world prices. Effective June 21, 1986, the import duty on rice was raised by 7 percentage points to stimulate the profitability of domestic cereals production and to generate additional budgetary resources.

d. To improve the financial position of the GPMB, the price of domestic cooking oil was recently raised by 29 percent and steps were taken to modernize the GPMB's plant and facilities; these measures together are expected to yield savings of about D 4-5 million on an annual basis. Also, the authorities intend to review shortly the provision of free inputs to cotton farmers with a view to their elimination. However, following the increase in the producer prices for groundnuts, cotton, and rice at prevailing world prices, the GPMB would incur a total loss of D 83 million during 1986/87 (financial year ending September 30). The Government, recognising the need at the present time to maximise the foreign exchange earnings of the GPMB by setting producer prices at levels competitive with those prevailing in the region, has decided to provide temporary support to the GPMB to cover the projected loss through transfers from the budget.

e. In the case of petroleum products, during 1985/86, the prices of premium gasoline, gas oil, and kerosene were increased by 57 percent, 20 percent, and 25 percent, respectively. On June 21, 1986 the prices of premium gasoline and gas oil were increased further, by 31 percent and 17 percent, respectively, to curb domestic consumption and generate needed budgetary resources.

f. On January 1, 1986, utility tariffs were raised by 6-15 percent in line with an agreement with the World Bank to implement an improved cost recovery programme and, with effect from July 1, they were increased further, by 9-15 percent, to effect a pass-through of recent exchange rate changes. In November 1985, ferry tariffs were increased by 75 percent, and on April 3, 1986, public transportation charges were raised by 45-50 percent.

g. In the case of petroleum product prices, utility tariffs, and transportation charges, the authorities intend to adjust prices, at least quarterly, to reflect changes in the cost of imported inputs resulting from exchange rate changes. It is intended to undertake more frequent adjustments, whenever costs diverge significantly from the base period level.

3. Measures to stimulate growth in the productive sectors

a. In addition to the increases in producer prices for the 1985/86-1986/87 seasons and the recent liberalisation of rice and fertiliser pricing and distribution policies (referred to above), the following agricultural sector measures are being taken during 1986/87: (i) a 3,000 ton groundnut seed reserve exchange system has begun, and by October 1986, a detailed action plan for establishment of a decentralised system of seed multiplication will be developed; (ii) a comprehensive study of the current system of agricultural credit will be completed later this year and an action programme involving fundamental reform of the system will be elaborated; (iii) a major reorganisation, including any necessary staff retrenchment, of the Ministry of Agriculture to improve efficiency will be implemented beginning in 1987; and (iv) an action plan is being developed to improve the efficiency of groundnut marketing and processing operations of the GPMB and, in the context of its parastatal reform strategy, the Government will sign a performance contract with the GPMB by end-December 1986.

b. In the manufacturing sector, later this year the Government will (i) adopt a revised Investment Code (Development Act); (ii) revise the provisions of the Gambia Customs Tariff Act regarding duty drawbacks for manufacturing exporters with a view, inter alia, to ensuring that the system is available for all exports of "domestic origin"; and (iii) undertake a comprehensive review of customs tariffs with a view to rationalizing the tariff structure during 1987.

c. To promote expansion of the fishing sector, during 1986/87 the Government intends to develop a strategy to encourage artisanal fishing, and will commission an updated study of The Gambia's fish stocks. In July 1986, fees for foreign vessels operating in Gambian waters were increased to cover the cost of increased on-board surveillance. With respect to the proposed new company in the fisheries sector (the FPMC), the Government intends to shortly update the studies of the project's feasibility. The Government also intends to seek majority private equity participation in the project, and, to that end, will consult with the World Bank and financing institutions as well as bilateral donors as to the structure and shareholding of the company.

d. The World Bank is collaborating with the authorities on a major study of the tourism sector; based on this study's recommendations, a medium-term development strategy for tourism will be designed by March 1987.

4. Fiscal policy

a. As indicated above, the overall budget deficit (excluding grants) declined markedly during 1985/86 (to 9.3 percent of GDP compared with 18.0 percent in the previous year) due to improved revenue collections, more stringent expenditure controls, and a sharp fall in development expenditures, which declined from about 16.9 percent to 11 percent

of GDP. During 1986/87, the overall budget deficit (excluding grants) is projected to increase to a maximum of D 166 million, or 17.5 percent of GDP, reflecting a rise in development expenditures from the exceptionally low level of 1985/86 and the decision by the Government to provide temporary price support to the GPMB. Including grants, the deficit is projected to be equivalent to 3 percent of GDP compared with 2.2 percent in 1985/86. However, because of an expected large increase in foreign financing (including disbursement of a World Bank Structural Adjustment Loan), this budgetary objective will permit a reduction of D 138 million in the outstanding stock of net bank credit to Government during 1986/87. The limit on outstanding bank credit to Government will be reduced by any amounts that accrue to the budget from the proceeds of any cash loans and grants and commodity assistance (loans and grants) that are not already included in the 1986/87 programme projection. By end-December 1986, the limit on bank credit to Government for the period January-June 1987 will be reviewed to take account, inter alia, of the actual outcome in respect of debt relief that may be obtained from foreign creditors and of plans to create in early 1987 a government-held "managed fund" in respect of certain government-guaranteed loans of the Gambia Commercial and Development Bank (GCDB).

b. To ensure that the above quantitative limits are not exceeded, the 1986/87 budget, announced on June 27, 1986, contains additional revenue measures with an estimated total yield of D 30 million. These include (estimated yield in parentheses): (i) an increase of 7 percentage points in the import duty on rice (D 9 million); (ii) an increase in the import duties on petroleum products (D 16 million); (iii) increases of 5 percentage points in import duties on cigarettes and other tobacco products (D 0.5 million); and (iv) an increase in the import tax from 5 percent to 6 percent (D 4.5 million). Total revenue, after taking account of the full-year impact of the exchange rate depreciation, is expected to rise by 43 percent.

c. During 1986/87, total expenditures will be limited to D 463 million.

(i) The increase in current expenditures, excluding transfers, will be limited to 33 percent. Expenditures on personal emoluments will be limited to D 66 million, on "other charges" to D 90 million, and on transfers to D 83 million. The Government does not intend to grant any general wage or salary increase during 1986/87 without prior consultations with the Fund.

(ii) Consistent with the objective of promoting the diversification of the productive base of the economy, the Government attaches particular importance to restoring investment to adequate levels. However, conscious of the need to limit aggregate demand pressures and to constrain borrowed resources in line with the economy's debt servicing capacity, total development expenditure outlays (financed from all sources) will be limited to D 165 million, implying an increase of 6 percentage points of GDP over the exceptionally low 1985/86 outcome.

The planned financing of these expenditures consists of D 100 million in foreign development loans, D 50 million in foreign grants, and D 15 million from the Gambia Local Fund. Financing from sources other than those indicated (for example, contractor financing) will not exceed D 5.3 million during the period July-October 1986 and will not be permitted to occur thereafter.

(iii) During the period July-September 1986 (i.e., prior to obtaining a possible rescheduling of its external debt), the Government intends to operate the Special Deposit Account system for external debt service payments fully and to make payments into the Account at the relevant prevailing exchange rate in respect of all reschedulable debt service obligations on public and publicly guaranteed debt as required on a monthly basis. Nonreschedulable external debt service obligations will be settled fully and promptly as and when they fall due, consistent with the Government's intention not to incur any external arrears in respect of such obligations (see para. 7(a)).

(iv) There will be no expenditures undertaken other than the amounts indicated in (i), (ii), and (iii) above.

(v) In order to monitor the evolution of budgetary outlays closely, quarterly limits for the major expenditure subcategories have been established, as indicated in Table 1.

d. The authorities, with IMF technical assistance, have recently tabulated all domestic arrears of the public sector outstanding as of end-1985. Most tax and other arrears in respect of domestic goods and services were settled by end-June 1986 and settlement of the remaining amount (about D 16 million) will be effected by end-September 1986. By that date also, a plan will be adopted involving a phased timetable for settling arrears in respect of domestic and foreign debt service payments. To prevent any re-emergence of domestic arrears, all public enterprises are required to report monthly to the National Investment Board (NIB) any unsettled amounts between enterprises. Every quarter the NIB will prepare a report indicating any outstanding arrears between enterprises and government and, in light of these reports, the Government will take appropriate action to ensure immediate settlement of any such arrears.

5. Public sector structural reforms

a. By December 1986, the Government will prepare and agree with the World Bank on a revised Public Investment Programme for the period 1986/87-1988/89, with updated information on project execution, changes in costs, and the results of the review of "B list" projects, which require modification in light of ERP priorities. Consistent with the overall thrust and redesign of the investment programme, during 1986/87 detailed reviews will be completed of associated recurrent costs in four ministries--Agriculture, Health, Education, and Works and Communications.

b. As indicated above, a fundamental element of the authorities' adjustment programme consists of a major retrenchment of government employment. During 1985/86, the Government implemented a sharp reduction of 2,284 in the number of temporary/daily wage employees and 459 in the number of Established Posts. Following the completion of a consultant report prepared with U.K. O.D.A. assistance, the Government intends, during 1986/87, to effect a further reduction of at least 14 percent in the number of Established Posts (currently about 10,700) and to lay off an additional 340 temporary/daily-paid workers.

(i) In the 1986/87 budget, a total of 1,118 vacant posts have been fully funded while only token provisions have been allocated for 1,132 vacant posts. At the time of the budget, the authorities announced the decision to abolish 750 vacant posts and a further 750 currently filled posts. In connection with the latter, the Government, by end-July 1986, will have identified the names of employees to be retrenched and by end-August will have issued redundancy notices for those concerned. The 750 vacant posts will be identified by end-July and effectively abolished by end-August. Furthermore, the Government has adopted, as of July 1986, a moratorium on the filling of vacant posts which have not been fully funded.

(ii) A further reduction involving 340 temporary/daily wage employees will be effected by end-August 1986. Beginning with the 1986/87 budget, wage payments will only be made against specific budgetary provisions for wages and only to employees included in a consolidated list of temporary/daily-paid employees that will be verified by end-July 1986. By October 31, the Government's retrenchment programme will have been fully implemented; also by end-February 1987, an administrative reform programme will have been prepared detailing other organizational changes, and pay and grading reforms.

(iii) The Government is committed to using the expected savings from the administrative reform programme on a priority basis for increased expenditures on materials and supplies (within the limits imposed on total budgetary expenditures), with the objective of raising the overall productivity of government administration. In light of the potentially large number of individuals to be affected by the reform programme, the Government is instituting a programme focusing on job counselling and re-training that will seek to provide reasonable alternative income-earning opportunities for those leaving government service; it is expected that with World Bank technical assistance this programme will be operational by December 1986.

(iv) During 1986/87, the Government intends to continue to review the size and performance of the civil service.

c. Effective December 1985, the Government adopted a moratorium on the creation of new public enterprises except as agreed with the World Bank. A detailed plan for divestiture and rationalisation of the parapublic sector (to be carried out during the 1986-89 period) is being

prepared. By December 1986, performance contracts with the GPMB, GUC, and GPA will have been signed, and three additional enterprises (GPTC, GAMTEL, and SSHFC) selected for whom performance contracts will be developed thereafter. In addition to these measures, the actions to raise certain administered tariffs and charges referred to above will have a direct beneficial impact on the financial performance of the GUC and the GPTC.

6. Monetary and credit policies

A key supporting element to the new exchange system is the adoption of a prudent credit policy stance and the provision of sufficiently remunerative returns to assets held in local currency form. During 1986/87, the authorities intend to: (i) limit the increase in the net domestic assets of the banking system (excluding the counterpart of valuation changes in net foreign assets) to D 5.1 million; (ii) reduce the stock of net credit to Government outstanding by D 138.0 million; and (iii) limit the increase in banking system credit to the GPMB to D 22.6 million. The above limits, taken together, imply a maximum increase in credit to the private sector and to public enterprises other than the GPMB of D 42.7 million. Quarterly credit ceilings referring to (i), (ii), and (iii) for the period July-December 1986 consistent with the above annual limits are set forth in Table 2. The ceilings for end-March 1987 will be established by end-January 1987. The limits in (i) and (ii) have been set assuming full payment of the domestic counterpart funds of all government debt service obligations falling due during the period July-September 1986 (i.e., before a possible debt rescheduling is obtained) as well as payment of all nonreschedulable obligations from October 1 onwards (see Table 1) and will be adjusted downward automatically to the extent that this does not occur. The ceilings in (i) and (ii) will also automatically be reduced to the extent that the budget benefits from external cash loans and grants and commodity assistance (loans and grants) not already included in the programme estimates, but, because of uncertainties with respect to the timing of certain inflows, will be increased (for the July-September period only) to the extent that such loans and grants fall short of the programme estimate.

b. The Government is conscious of the need to take specific actions to ensure that commercial banks adhere to the credit ceilings set forth in (a) above. Accordingly, commercial banks have been required to provide weekly statements of their financial position to the Central Bank by the end of the following week. These reports will be monitored closely and the authorities will take all necessary measures, on a timely basis, to ensure that commercial banks adhere to the credit limits set by the Central Bank.

c. In order to strengthen the presently extremely weak position of the Gambia Commercial and Development Bank, recently the Government has (i) paid an overdue contribution to the GCDB's callable capital; and (ii) converted about one third of the GCDB's short- and medium-term debt to the Central Bank into a quasi-equity loan, the interest on which is

being paid by the Government. As noted in paragraph 4(a), the Government is currently considering proposals to allocate certain outstanding GCDB government-guaranteed loans to a "managed fund."

d. The Government has adopted a flexible interest rate policy so as to increase the mobilisation of financial resources within the banking system and to promote a more rational system of credit allocation. Accordingly, in September 1985, interest rates were raised by an average of 7 percentage points, and ceilings on commercial banks' deposit and lending rates were abolished. In mid-July 1986, the authorities introduced a tender system for Treasury Bills. The initial offering was for D 5 million and tenders were received for D 4.1 million. All tenders were accepted with an average weighted interest rate of 19.4 percent; the rediscount rate has been set at 1 percentage point higher. The authorities intend to issue Treasury Bills by tender twice a month to provide market-related incentives for increasing domestic savings. Following the initial Treasury Bill tender, the authorities have reviewed the level of other administratively determined rates. The Bank Rate has been increased by 5 percentage points to 20 percent with effect from July 16, 1986, compared with an expected reduction in the domestic inflation rate to about 15 percent during 1986/87. On the same date, the concessional rate for crop finance of 12 percent has been abolished and the minimum rate payable on three-month deposits has been set at 18 percent. During the period November 1986-February 1987, when credit extended for crop purposes is likely to be very substantial, it is intended to pursue an aggressive use of monetary policy instruments so as to mobilise domestic savings and absorb excess liquidity that could otherwise cause undue inflationary pressures.

e. The Central Bank intends to continue to use credit ceilings as the primary tool for controlling the expansion of credit within the economy. To support the effectiveness of these credit ceilings, in September 1985 the Central Bank raised the reserve requirement ratios by 4 percentage points to 10 percent and 8 percent of demand deposits and time and savings deposits, respectively. In addition, the method of allocating ceilings on the private sector credit extended by individual commercial banks has been rationalised to take adequate account of the deposits and reserve position of each bank.

f. Assuming an increase of about D 32 million in net foreign assets, the targeted change in net domestic assets during 1986/87 implies that the growth in domestic liquidity could be constrained to about 15 percent. Assuming a real growth rate of about 3 percent, this increase would be consistent with the policy goal of sharply reducing the rate of inflation to about 15 percent.

7. External sector policies

a. Despite the adoption of the policies described above, the external account deficit (excluding transfers) is expected to widen slightly to SDR 35 million, owing to the rise in project-related

imports. However, with net capital inflows rising substantially, it is expected that the overall balance of payments deficit can be reduced somewhat, to SDR 10 million. These estimates assume that groundnut deliveries to the GPMB will amount to 60,000 tons. The Government intends to seek shortly rescheduling arrangements in respect of its medium- and long-term debt service obligations to official bilateral creditors and to private financial institutions, and intends to adhere fully and in a timely manner to all nonreschedulable debt service obligations falling due in 1986/87. In particular, as set forth in Table 2, the stock of external arrears (defined to include certain outstanding short-term liabilities) as of end-September and end-December 1986 with respect to nonreschedulable external obligations will be no higher than the corresponding level of such arrears as of end-June 1986 (defined to exclude overdue obligations to the Fund as of that date). However, the ceiling for September 1986 only will be automatically adjusted upward by any shortfall in certain exceptional financing inflows (see Table 1). By end-December 1986 the Government intends to establish quarterly limits for the period January-June 1987 on the outstanding stock of such arrears. The Government also intends to achieve a significant increase in gross official reserves of about SDR 5 million during 1986/87. In view of the uncertain foreign exchange situation, the Government is prepared to take all measures required to achieve full adherence to the above targets, including, if necessary, purchases of foreign exchange by the Central Bank on the interbank market.

b. In order to ensure that the present debt servicing difficulties are not exacerbated further, during 1986/87 the Government does not intend to contract or guarantee any nonconcessional foreign loans within the 1-12 year maturity range (other than refinancing loans contracted in the context of possible multilateral rescheduling arrangements). Also, the Government has set limits on the stock of outstanding short-term external debt as shown in Table 2.

The Government believes that the policy actions set forth in this memorandum constitute an adjustment strategy that is worthy of support by the international community. However, in view of the uncertainties involved, these policies will be subject to continuous review by the Government, and the Government stands prepared to adopt further measures as may prove necessary to ensure that the objectives and targets of its program are achieved.

Table 1. The Gambia: Selected Components of Programme Estimates, 1986/87

	Cumulative Amounts to the End of			
	Sept.	Dec.	March	June
	(In millions of dalasis)			
Quarterly limits on government current expenditure (excluding interest) and Gambia Local Fund (GLF)	...	...	...	254.0
Personal emoluments and pensions	16.2	33.6	49.8	65.8
Other charges	16.6	30.7	43.9	62.0 ^{1/}
Transfers	20.0	40.0	...	83.0
Gambia Local Fund	5.3	8.8	12.8	15.0
Not subject to quarterly allocation	...	...	...	28.2
	(In millions of SDRs) ^{2/}			
External public debt service obligations payable by the budget	5.8	6.5	...	...
Cash loans and grants, and commodity aid	11.5	15.2	...	25.1
Exceptional foreign financing inflows	10.0	...	...	...

^{1/} Of the total "other charges" included in the budget (D 90 million), only D 62 million is subject to quarterly allocation, the remainder being subject to reservation warrants. Of the D 62 million to be allocated, an amount of D 4.5 million has been set aside for contingencies.

^{2/} Converted at exchange rate prevailing at the time.

Table 2. The Gambia: Quantitative Ceilings, 1986/87

	Stock at June 30, 1986	Maximum cumulative change from July 1, 1986 to		
		Sept. 30, 1986	Dec. 31, 1986	June 30, 1987
(In millions of dalasis)				
<u>Credit ceilings</u>				
Net domestic assets <u>1/ 2/</u>	564.0	-5.4 <u>3/</u>	27.0 <u>3/</u>	5.1 <u>3/</u>
Net credit to Government <u>1/ 2/</u>	100.4	-31.0	-64.0	-138.0
Gross credit to the GPMB	117.2	-13.6	-9.2	22.6
Other credit	268.4	5.2	51.2	42.7

	Stock at June 30, 1986	Maximum stock at the end of		
		Sept. 30, 1986	Dec. 31, 1986	June 30, 1987
(In millions of SDRs)				
<u>External sector</u>				
Total external arrears <u>4/</u>	78.84	78.84	78.84	...
Public sector borrowing				
Nonconcessional loans or loan guarantees in the 1-12-year maturity range (during period) <u>5/</u>	...	--	--	--
Short-term external debt outstanding <u>6/</u>	9.37	8.37	8.37	...

1/ The limits for September and December 1986 have been set assuming payment of the domestic counterpart funds of all government debt service obligations falling due during the period July-September 1986 (i.e., before a possible debt rescheduling is obtained), as well as payment of all nonreschedulable obligations falling due during the period October to December, and will be adjusted downward automatically to the extent that this does not occur (see Table 1).

2/ The limits will automatically be reduced to the extent that the budget benefits from external cash loans and grants, and commodity aid not included in the program estimate, but will be increased (for the July-September period only) to the extent that such loans and grants fall short of the program estimate (see Table 1).

3/ Excluding changes in the valuation account of the Central Bank.

4/ The ceiling for September 30 only will be subject to automatic upward adjustment to the extent that exceptional foreign financing inflows during the period July-September 1986 fall short of programmed amounts (see Table 1).

5/ Excluding refinancing loans contracted in the context of possible multilateral rescheduling arrangements.

6/ Excluding trade credits and specified bridging finance.

The Gambia - Structural Adjustment Facility: Three-Year and First Annual Arrangement

Attached hereto is a letter with an annexed policy framework paper and a letter with an annexed memorandum of economic policies dated August 1, 1986 from the Minister of Finance and Trade of The Gambia, requesting from the Fund a three-year structural adjustment arrangement and the first annual arrangement thereunder, and setting forth

(i) the objectives and policies of the program to be supported by the three-year arrangement, and

(ii) the objectives and policies of the program to be supported by the first annual arrangement.

To support these objectives and policies, the International Monetary Fund grants the requested arrangements in accordance with the following provisions and subject to the regulations for the administration of the structural adjustment facility:

1. For a period of three years from _____, 1986, The Gambia will have the right to obtain three successive loans from the Fund under the structural adjustment facility in a total amount equivalent to SDR 8.04 million.

2. The first loan, in an amount equivalent to SDR 3.42 million, is available for disbursement at the request of The Gambia.

3. The second and third loans will be available upon approval by the Fund of the corresponding annual arrangements and will be disbursed at the request of The Gambia. The amount of the second loan will be equivalent to SDR 2.31 million, and the amount of the third loan will be equivalent to SDR 2.31 million.

4. Before approving the second annual arrangement, the Fund will appraise the progress of The Gambia in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, taking into account primarily the following:

(a) the indicators relating to net domestic assets, net credit to Government, gross credit to the GPMB, total external arrears, and the contracting or guaranteeing of new medium- and long-term public debt by the Government described in Table 9 of EBS/86/189,

(b) the indicators described in Table 10 of EBS/86/189,

(c) imposition or intensification of restrictions on payments and transfers for current international transactions,

(d) introduction or modification of multiple currency practices,

(e) conclusion of bilateral payments agreements which are inconsistent with Article VIII,

(f) imposition or intensification of import restrictions for balance of payments reasons.

5. In accordance with paragraph 8 of the attached letter transmitting the memorandum of economic policies, The Gambia will provide the Fund with such information as the Fund requests in connection with the progress of The Gambia in implementing the policies and reaching the objectives supported by the first annual arrangement.

6. In accordance with paragraph 9 of the attached letter transmitting the memorandum of economic policies, The Gambia will consult with the Managing Director on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests such consultation. These consultations may include correspondence and visits of officials of the Fund to The Gambia or of representatives of The Gambia to the Fund.

THE REPUBLIC OF THE GAMBIA

August 1, 1986

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

Dear Mr. de Larosière:

On behalf of the Government of The Gambia, I am pleased to transmit herewith a Policy Framework Paper, prepared in collaboration with the staff of the Fund and World Bank, setting forth the Government's basic macroeconomic objectives for the next three years and structural adjustment policies designed to achieve those objectives. These policies are fully consistent with our financial program for 1986/87 in support of which we have requested a 13-month stand-by arrangement from the Fund, and with our adjustment program in support of which we have requested a Structural Adjustment Loan from the World Bank.

We are forwarding today a similar letter and attached paper to the President of the World Bank.

Sincerely yours,

/ s /

S.S. Sisay
Minister of Finance and Trade

/ s /

A.A. N'Jai
Minister of Economic Planning
and Industrial Development

THE GAMBIA

Policy Framework Paper, 1986/87-1988/89

August 1, 1986

I. Economic Background

1. During the decade following independence in 1965, The Gambia achieved a moderate rate of economic growth and followed fairly prudent financial policies which, aided by favorable external circumstances, maintained broad equilibrium in public sector operations and in the balance of payments. However, from the mid-1970s onward, production of groundnuts (the main export crop) began to exhibit a downward trend (partly due to climatic factors), while world groundnut prices fluctuated erratically. At the same time, the public sector began to expand rapidly. Rising imports, associated with both increasing government consumption (government employment approximately doubled in the five years ended 1979/80), ^{1/} and a surge in foreign-financed development expenditures caused the trade account to move into deficit after 1979. While in the following two years unusually large capital inflows financed the external deficit, by 1982/83 the emerging domestic and external financial pressures had become more marked and were reflected in a precipitous fall in international reserves and mounting external arrears. Domestic economic performance during this period was also disappointing. Overall growth of the directly productive sectors of the economy (i.e., total GDP less government services) remained low, averaging only 1.5 percent per annum during 1974/75-1984/85, and real per capita income declined significantly.

2. The policies pursued during most of the period resulted in an over-extended public sector, as reflected in unsustainably large budgetary deficits, unsatisfactory public enterprise performance, and poorly designed and low-yielding development expenditures that did not focus sufficiently on key sectoral priorities. The productivity of government expenditure was hampered by the imbalance between wages and salaries, and funds available for equipment and supplies. These difficulties were compounded by exchange rate and pricing policies that took insufficient account of the high degree of openness of the economy and the need to provide appropriate incentives for stimulating domestic production and curbing consumption. During the past several years, in the context of a number of stabilisation programs (some of which were supported by the use of Fund resources), the Government took a number of important measures to address the situation. These included: a devaluation of the dalasi, adjustments in key prices (including groundnut producer prices), and measures to control the budget deficit and domestic credit expansion through restraints in fiscal outlays. However, these measures

^{1/} Fiscal year ended June 30.

were not sustained adequately, domestic and external confidence was not restored sufficiently, and the economic and financial situation remained extremely difficult.

3. In view of the serious and deep-rooted nature of these problems, in mid-1985, the Government adopted and began to implement a more comprehensive and far-reaching set of adjustment measures (outlined in the Government's Economic Recovery Programme) to help restore financial equilibrium and lay the basis for sustained economic growth. Key elements of these policies that have already been implemented during 1985/86 include: the introduction of a flexible exchange system (in January 1986) to permit market forces to determine the exchange rate for the dalasi; the removal of restrictions on the purchase of foreign exchange for all current transactions; decontrol of the retail price of rice and the liberalization of rice imports; sharp increases in producer prices (104 percent in the case of groundnuts); upward adjustments in other administered prices to ensure a pass-through of the depreciation of the exchange rate (which by end-July 1986, measured in local currency terms, amounted to about 125 percent, compared to the pre-January 1986 parity), including four increases in the price of gasoline during the first half of 1986 cumulatively amounting to 103 percent; abolition of the ceiling on interest rates on lending and an approximate doubling of administered interest rates; the issuance of termination notices to about 2,300 temporary government employees; actions to tighten customs revenue collections; and stricter control on government current expenditures. These measures are designed to create an incentive framework favorable to the growth of the productive sectors of the economy, to increase the overall economic efficiency of the public sector, and to address the prevailing difficulties of financial institutions.

4. The policy reforms implemented to date have begun to show positive results during 1985/86. Following some initial hesitancy by participants in the new exchange system, the differential between the official and parallel exchange rates has been virtually eliminated and foreign exchange inflows to the banking system have increased significantly. Also, rice supplies have increased markedly. During the second half of 1985/86, the overall budgetary position improved sharply while total domestic credit fell. Nevertheless, in part due to a sharp decline in world groundnut prices, the external financial situation has remained extremely difficult.

5. The Government is fully committed to pursuing vigorously, and over an extended period, the comprehensive adjustment effort begun in mid-1985. Thus, the Economic Recovery Programme has been extended for one year to embody a comprehensive economic and financial programme covering the three-year period 1986/87-1988/89. At the same time, the Government has adopted a financial programme for the fiscal year 1986/87, aimed at achieving a further reduction in the domestic and external financial disequilibria. In support of its adjustment efforts, the Government has requested the use of Fund resources (a one-year stand-by arrangement, a

purchase under the compensatory financing facility, and a loan from the Structural Adjustment Facility), as well as a Structural Adjustment Loan (SAL) from the World Bank.

II. Structural Policy Framework, 1986/87-1988/89

6. The Gambia faces major development constraints that are structural in nature and not amenable to rapid resolution. The first constraint is the country's heavy reliance upon a single commodity--groundnuts--which accounts for 85 percent of domestic export receipts and about 15 percent of GDP. Although there are good prospects for development of the country's fishing, tourism, and resource-based manufacturing potential, achieving a significant diversification of the country's productive base will take years. A second fundamental constraint is The Gambia's low level of human resource development, reflected in an estimated 20 percent literacy rate, low secondary school enrollment, and seasonal malnutrition. Increasing the long-term productive potential of the economy and raising the welfare of the population depends crucially upon the Government's ability to improve education, health and family planning services even during a period of severe public expenditure constraints.

7. To begin addressing these structural problems, the Economic Recovery Programme is designed to restore financial equilibrium and to lay the basis for sustained economic growth. The programme aims at maximizing the potential for increases in real output in the productive sectors. For the period immediately ahead, a substantial part of the adjustment effort will need to continue to be directed toward adjusting aggregate demand from the unsustainably high levels of recent years. The Government's strategy for the three-year period 1986/87-1988/89 aims at (i) raising output in the agricultural, small-scale manufacturing, and other resource-based sectors through the provision of appropriate price and other incentives, combined with the progressive reduction of direct government involvement in production; (ii) achieving greater efficiency in public sector operations through the streamlining and reform of the remaining public enterprises, civil service retrenchment and public administration reforms, and improvements in the quality and management of public investment; and (iii) reducing sharply the internal and external financial imbalances through the adoption of demand management and exchange rate, interest rate, and other pricing policies that adequately take into account the open nature of the Gambian economy and its resource constraints. The specific policies described below are expected to raise the real growth rate of the economy to 3.0-3.5 percent per annum over the next three years (implying a modest increase in real per capita income), while reducing the domestic rate of inflation from the current rate of 42 percent to below 10 percent. In the external sector, the current account deficit is likely to rise slightly in 1986/87 to SDR 35 million, as some recovery in groundnut exports will be offset by an increase in project-related imports from their exceptionally low level in 1985/86. By 1988/89, the current account deficit is targeted to decline to 21 percent of GDP, compared to

30 percent in 1986/87, and a further reduction (to about 15 percent of GDP) is envisaged by 1990/91. During the three-year programme period the objective is to make progress toward balance of payments viability by a significant reduction in reliance on exceptional financing, and a sharp reduction of existing external payments arrears with a view to their rapid elimination. While there would continue to be some need for exceptional financing and debt relief of existing debt after the programme period, new foreign borrowing will be serviced on schedule.

Sectoral policies to raise output

a. Agriculture

8. The agricultural sector is the key element in The Gambia's economic growth and export earning capability in the short term, and will remain the mainstay of the economy for the foreseeable future. The Government's programme aims at restoring marketed groundnut production to about 75,000 tons per year by 1988/89 from 48,000 tons in 1985/86, ^{1/} while simultaneously maintaining growth in food crops at about the rate of population growth (3 percent per annum). It is expected that agricultural output including fishing can be increased by 3.0-3.5 percent per annum. The Government's strategy to attain these objectives is centered on enhanced incentives to producers, with significant producer price increases and improvements in the efficiency of input distribution and output marketing; steps are also being taken to create a viable system of agricultural credit. Important policy actions have been taken in these areas during 1985/86 and further specific measures are planned for the programme period. In particular, with regard to input supplies, an improved system for the dissemination of high-yielding new seed varieties is being developed with donor assistance. Regarding agricultural credit, an action programme for a fundamental reform of the credit system will be drawn up by early 1987 in light of the results of a study currently being undertaken. The Government also intends during 1987 to reorganize and streamline the Ministry of Agriculture, and, in particular, to phase out the Ministry's involvement in operational activities which can be handled efficiently by the private sector.

b. Small-scale manufacturing

9. The Gambia's small manufacturing sector is largely natural-resource based and export oriented. The Government's medium-term strategy with regard to this sector is to promote export-oriented industrial investments and only such import substitution as is competitive without excessive trade protection. The recent exchange rate reform is expected to provide a major stimulus for the small-scale manufacturing sector as it will increase the profitability of export- and import-substituting

^{1/} The average level of marketed groundnut production during 1975-85 was about 90,000 tons per year and in years of good rainfall, marketed production has exceeded 120,000 tons.

activities and enhance the availability of foreign exchange through the banking system. In addition, the Investment Code is being revised and simplified with a view to enhancing its effectiveness as an investment incentive; the revised code, including administrative guidelines, will be adopted by early 1987. In addition, a comprehensive review of customs tariffs has been initiated with a view to rationalizing the tariff structure during 1987. The Government also intends to revise during 1986 the provisions of The Gambia Customs Tariff Act regarding duty drawbacks for certified exporters of manufactured goods with a view, *inter alia*, to ensuring that the system is available for all exports of "domestic origin", and is equitably administered.

c. Fishing

10. In order to provide increased incentives to the fishing sector and reverse its declining output trend, in July 1985 the Government removed all taxes on fish exports. This action, combined with the recent exchange reform, already appears to have had a significant favorable impact on production and investment in this sector. The Government has initiated steps to divest its shares in two enterprises in the fishing sector. Finally, during 1986/87, the Government intends to (i) increase fishing surveillance to prevent overfishing; (ii) encourage artisanal fishing through a project supported by the European Economic Community to improve infrastructure and credit facilities; and (iii) develop an overall resource management plan which will, *inter alia*, aim at increasing the income accruing to the economy from the fishing sector.

d. Tourism

11. Tourism has been the fastest-growing sector in the Gambian economy in recent years, and the value added generated by hotels and restaurants has tripled between 1981 and 1985. Despite this impressive growth, the overall financial position of the hotel sector remains precarious, and the country's net foreign exchange earnings from tourism could be increased. The Government's strategy to address these problems centers on (i) divestiture of government ownership (already under way in the largest hotels); (ii) rescheduling of the hotels' external debt; and (iii) a moratorium on government loan guarantees in this sector (except as agreed with the World Bank) to help ensure that future tourism projects are financially viable. In addition, a medium-term development strategy aimed at increasing the tourism sector's overall contribution to the economy will be adopted during 1986/87, in the light of the results of a study currently underway.

Improvements in public sector efficiency

a. Public investment

12. The Government recognizes that measures to increase the productivity of public investment are of critical importance for the success of the Economic Recovery Programme. To this end, the public investment

programme is being reviewed and redesigned with the assistance of World Bank staff. The review focuses on the need for adequate feasibility studies including estimates of recurrent costs. In order to achieve a sharp improvement in the overall productivity of public investment, for the initial two years of the Economic Recovery Programme the Government has established a stringent requirement that only projects with an economic rate of return of at least 15 percent (where calculable) will be undertaken. However, the need for this criterion will be reviewed with the World Bank for subsequent years of the program. Priority will be assigned to projects (a) with the highest economic rates of return, (b) with net foreign exchange generating or saving potential, (c) emphasizing the rehabilitation and maintenance of existing assets, and (d) involving long-term investments in human resource development and research. Beginning in 1986/87, the Government has adopted the concept of a "rolling" public investment programme, based on a three-year programming period, and with strengthened links to annual preparation of the recurrent budget. The three-year public investment programme for 1986/87-1988/89 will be finalized with the World Bank by December 31, 1986 and will establish target levels of investment for the Economic Recovery Programme period that are consistent with the need to limit aggregate demand pressures and to constrain borrowing in line with the economy's debt-servicing capacity, and will limit its total development expenditure outlays accordingly. In tandem with these actions the Government is taking steps to strengthen its investment programme evaluation capability with technical assistance from the UNDP.

d. Civil service reform

13. An important objective of the Government is to restore a better balance between expenditure on personal emoluments and expenditure on materials and supplies, as cutbacks in the latter have jeopardized the efficient functioning of government administration. Accordingly, the Economic Recovery Programme calls for a major retrenchment of government employment, with the resultant savings to be used on a priority basis for increased expenditure on materials and supplies in order to raise the overall productivity of government administration. Following a sharp reduction in the number of temporary/daily wage employees and of established posts during 1985/86, the Government will carry out a multi-year administrative reform programme beginning in 1986/87, involving further retrenchments, organizational changes, and pay and grading reforms, along the lines recommended by a recently completed U.K. Overseas Development Administration consultancy. In the first year, this involves a further cutback of at least 14 percent in the number of established posts to be fully implemented by October 31, 1986, and layoffs of an additional 340 temporary/daily workers with effect from end-August 1986. Moreover, beginning with the 1986/87 budget, controls over wage expenditures are being tightened considerably, and payments for wages will be made only to wage employees included in a certified and consolidated list. In view of the large number of individuals to be

affected by the reform program, the Government is instituting a programme to counsel those leaving government service on retraining and alternative income-earning opportunities.

e. Public enterprises

14. The unsatisfactory performance of the parastatal sector has placed serious strains on The Gambia's public finances. Since 1984, however, parastatal reform has been a high government priority, and the performance of several enterprises has begun to turn around through a combination of technical assistance, tariff adjustments, and deliberate efforts to reduce government involvement in enterprise management. Building upon the progress already achieved, the Government's medium-term strategy in this sector encompasses (i) a moratorium on the creation of new public enterprises (effective January 1, 1986); (ii) rationalisation of the sector through divestiture of holdings in a number of enterprises (beginning with the tourism and fishing sectors); and (iii) improvements in the performance of those enterprises that are to remain in the public sector, through the adoption of pricing policies aimed at enhanced cost recovery, increased supervisory powers for the National Investment Board (NIB), provision of increased technical assistance, and the use of performance contracts with the Government; in connection with the latter, contracts are to be signed with three major public enterprises (the Gambia Produce Marketing Board, the Gambia Utilities Corporation, and the Gambia Port Authority) by end-1986.

15. Under the Economic Recovery Programme, the Government has initiated measures to restructure the financial base and improve the management of the government-owned Gambian Commercial and Development Bank (GCDB), which is the largest bank and the sole source of term lending in the country. To strengthen the GCDB's financial base, the Government has (i) paid an overdue contribution to the GCDB's callable capital; and (ii) converted about one third of the GCDB's short- and medium-term debt to the central bank into a quasi-equity loan, the interest on which is being paid by the Government. In addition, in early 1987, outstanding GCDB government-guaranteed loans (many of which are nonperforming) are to be allocated to a government-held "managed fund" which would be reflected in an increase in central bank credit to government and a corresponding decline in credit to the private sector. To help ensure that domestic bank lending is undertaken on a viable commercial basis, the Government does not intend to extend any guarantees in respect of such lending during the Economic Recovery Programme period. In tandem with these measures, a major programme of internal corrective measures is being implemented by the GCDB, including technical assistance to all major departments.

Exchange rate and demand management policies

a. Exchange rate and pricing policies

16. A central element of the Government's adjustment strategy is the adoption of exchange rate and pricing policies that serve as a better guide to the allocation of resources within the economy. In this connection, the flexible exchange rate system introduced in early 1986, and which has been accompanied by the removal of exchange restrictions on all current transactions, has provided a clearer measure of the true scarcity value of foreign exchange and has led to increased foreign exchange transactions within the banking system. The Government has recently taken a number of steps to strengthen the system (including strict enforcement of foreign exchange surrender obligations on the part of public enterprises), and intends to monitor carefully the system's evolution during the period of the Economic Recovery Programme to ensure that the process of exchange rate determination is fully flexible.

17. The Government recognizes that the adoption of a more liberalized pricing policy is a vital element accompanying the exchange reform. The prices of certain key commodities (rice and fertilizer) have already been decontrolled, and the Government is fully committed to adjusting the only remaining administered prices (public utilities and transport tariffs and petroleum product prices) at least quarterly, so as to ensure a pass-through of any changes in the exchange rate.

b. Demand management policies

18. In order to bring aggregate demand in line with available resources, the Government is committed to pursuing tight demand management policies throughout the medium term. While the overall budgetary deficit (on a commitment basis and excluding grants) is expected to rise to about 17.5 percent of GDP in 1986/87 (largely reflecting a recovery in development expenditures from the exceptionally low level in 1985/86, and the need to provide temporary price support assistance to the groundnut sector), it is intended to achieve a progressive reduction in the overall deficit over the following two years (to a maximum of 9 percent of GDP by 1988/89). The deficits in each of the three years 1986/87-1988/89 would be financed entirely from external resources, and the stock of outstanding bank credit to Government is expected to decline sharply during this period. Also, the Government intends to take measures to prevent any re-emergence of domestic arrears, including arrears between the Government and the rest of the public sector.

19. With respect to revenue, the recent change from specific duties on imports to ad valorem duties, following the exchange rate reform, will have a substantial positive impact. This measure has been accompanied by a major strengthening of customs collection procedures beginning in early 1986, with U.K. technical assistance. While, given the structure of the economy, collections from international trade taxes will continue to remain the major source of budgetary revenue, the authorities intend

to place greater emphasis on seeking additional revenue from domestic taxes. To this end, by end-March 1987 proposals will be drawn up (including, possibly, the conversion of specific duties to an ad valorem basis and the introduction of a general sales tax) with a view to introducing specific measures at the time of the 1987/88 budget.

20. On the expenditure side, current expenditures will be sharply constrained through the above-mentioned cutbacks in government employment and the strengthening of budgetary preparation and expenditure-monitoring procedures. As noted above, in 1986/87, a temporary transfer (equivalent to about 9 percent of GDP) is being provided to the Gambia Produce Marketing Board (GPMB) partly in support of a producer price level competitive with that prevailing in the region, which is currently above world prices. The budgetary transfer is being financed partly by external assistance and partly by fiscal measures, including increases in import duties on rice and petroleum products. This policy stance has been adopted for 1986/87 in order to maximize foreign exchange earnings from official groundnut exports, in view of the difficulties the Government currently faces in meeting essential external payments. However, in view of the uncertain prospects for a significant upturn in world groundnut prices, during 1986/87, the Government will review its present price support policy for this sector as well as existing official marketing arrangements for groundnuts with a view to a sharp reduction in the potential budgetary transfer to the GPMB in 1987/88. It is hoped that the transfer will be essentially eliminated by 1988/89. In any event, the Government will be prepared, if necessary, to take additional fiscal measures (for instance, further cutbacks in government employment and/or increases in import duties on certain commodities) to ensure achievement of the programmed reduction in the overall budgetary deficit.

21. The envisaged reduction in the fiscal deficit over the three-year period will be accompanied by a prudent credit policy intended to ease pressures on the price level and to protect the balance of payments. In support of this credit policy stance, and in order to encourage domestic savings, the Government is pursuing a flexible interest rate policy intended to achieve positive real interest rates. To this end, the authorities recently introduced a tender system for Treasury bills (in mid-July) which was followed by a 5 percentage point increase in the Bank Rate to 20 percent and the abolition of concessional interest rates.

22. The Government will also pursue prudent external borrowing policies with a view to improving the profile of the public external debt and easing the annual debt service burden. In particular, the Government does not intend to contract or guarantee any nonconcessional foreign loans within the 1-12 year maturity range during the period of the Economic Recovery Programme.

III. External Financing Requirements, 1986/87-1988/89

23. In spite of the Government's comprehensive adjustment efforts, The Gambia's external payments position will remain difficult over a prolonged period. This is mainly due to the country's heavy debt service burden, a large part of which is not reschedulable, and highly uncertain world market prospects for groundnuts, on which the economy is still heavily dependent. Assuming that export growth averages some 7 percent in SDR terms during 1986/87-1988/89, and the value of imports increases by about 4 percent per year in nominal terms, the external current account deficit as a percent of GDP would decline from 30 percent in 1986/87 to 21 percent by 1988/89. However, taking into account only project-related aid inflows, there would be an annual external financing gap of SDR 26 million on average during the three-year period. Therefore, The Gambia will require significant external financing (including debt relief and other exceptional balance of payments support) for some time to come.

24. In 1986/87, apart from debt relief that will be requested in respect of end-June 1986 external arrears which are eligible for re-scheduling, the exceptional financing requirement (after taking into account settlement of overdue obligations to the Fund and scheduled Fund repurchases) is estimated at about SDR 42 million. This is expected to decline to SDR 19 million in 1987/88 and to SDR 16 million in 1988/89. These projections assume an annual buildup of international reserves and/or a cash reduction in nonreschedulable arrears of about SDR 5 million during the three-year period. For 1986/87, bilateral assistance in the form of commodity aid grants (including EC STABEX) amounting to about SDR 10 million has been secured, while disbursements from the first tranche of the World Bank under the proposed SAL (including joint financing from the Special Facility for Africa as well as cofinancing from the African Development Bank) are expected to amount to SDR 15 million. The residual financing need would be met largely through: (a) the use of Fund resources under the proposed stand-by arrangement and the drawing to be requested under the Structural Adjustment Facility, together with the purchase likely to be requested under the compensatory financing facility (totaling about SDR 12 million); and (b) debt relief (on a net basis) to be requested in respect of reschedulable debt service obligations falling due. For 1987/88, most of the anticipated external financing requirement would be met by disbursement of the second tranche of the World Bank SAL (including cofinancing and joint financing--about SDR 10 million), as well as further debt rescheduling. For 1988/89, the Government believes that whatever exceptional financing requirement is likely to remain could be largely met through a combination of continued debt relief and possible further assistance from multilateral institutions. The debt relief to be sought by the Government is expected to be on terms similar to those granted to countries in similar circumstances. It may also be noted that for 1987/88-1988/89, in support of its adjustment efforts, the Government intends to continue to seek further bilateral balance of payments assistance, the possibility of which has not been taken into account in

elaborating the above financing requirement estimates. It is hoped that economic policies and performance under the SAF will encourage donors to be forthcoming with such additional assistance.

25. The Government is determined to take the necessary steps to ensure that The Gambia meets fully its nonreschedulable external obligations (including those arising from rescheduling arrangements) falling due throughout the period of the Economic Recovery Programme, including, if the situation requires, purchases of foreign exchange by the central bank from the interbank market. Also, highest priority will be given to building up gross international reserves from their present critically low level, as well as seeking to achieve further reductions in external arrears beyond the amounts referred to above.

Table 1. The Gambia: Summary and Time Frame for Implementation of Macroeconomic Structural Adjustment Policies, 1986/87-1988/89

Issues	Objectives and Policies	Strategies and Measures	Phasing and Implementation
1. <u>Agricultural Policy</u>			
a. Producer prices*	Stimulate production and exports.	Adjust producer prices for groundnuts, in light of price trends in world markets and in neighboring countries.	Producer prices to be announced in time for agricultural season; increases already announced for 1986/87 season.
b. Consumer rice pricing	Stimulate efficient local cereals production.	Eliminate subsidies and raise duty on imported rice.	Duty raised from 23 percent to 30 percent from June 21, 1986. To be reviewed regularly.
c. Fertilizer and seeds*	Achieve economic pricing and efficient distribution of inputs. Accelerate development of improved seed varieties.	Maintain liberalized fertilizer distribution and pricing policy. Establish decentralized private sector system of seed multiplication.	Action plan for decentralized seed multiplication system to be developed by October 1986.
d. Reorganization of Ministry of Agriculture and Natural Resources (MANR)*	Increase efficiency of MANR.	Restructure MANR and effect necessary staff reductions.	Comprehensive study of MANR to be completed during FY 1986/87; restructuring to be implemented beginning in 1987.
e. Agricultural credit*	Expand credit availability and improve recovery.	Reform agricultural credit system.	Develop reform program by April 30, 1987, based on results of comprehensive agricultural credit study.
f. Produce marketing arrangements*	Minimize budgetary losses and maximize foreign exchange receipts.	Review existing official marketing arrangements for groundnuts.	Review to be carried out during 1986/87.

Note:

* Included in World Bank Structural Adjustment Loan.

** Agreed in context of World Bank Water Supply and Electricity Project.

Table 1. The Gambia: Summary and Time Frame for Implementation of Macroeconomic Structural Adjustment Policies, 1986/87-1988/89

Issues	Objectives and Policies	Strategies and Measures	Phasing and Implementation
2. <u>Other Sectoral Policies</u>			
a. Manufacturing*	Encourage private (foreign and domestic) investment in industry, especially for export.	Revise investment code. Adopt duty drawback system for qualified exporters.	Revised investment code and duty drawback system to be adopted by December 31, 1986.
b. Fishing*	Stimulate private investment in this sector and increase exports.	Increase supervision to prevent overfishing.	Supervision to be stepped up in FY 1986/87.
		Privatize the FPMC.	During FY 1986/87.
		Develop overall resource management plan for the sector.	Plan to be developed in FY 1987/88.
c. Tourism*	Encourage development of the sector and maximize its contribution to the Gambian economy.	Medium-term development strategy to be elaborated with World Bank assistance.	Strategy to be worked out by early March 1987.
		Divestiture of government holdings in hotels.	Over the program period.
		Rescheduling of hotels' external debt.	
3. <u>Public Investment</u>*			
	Increase productivity of public investment.	Review all ongoing projects and their status of execution, and update cost estimates.	Review to be completed by end-October 1986.
		Review and redesign all projects classified by Bank staff as "List B" projects and agree on necessary project modifications with donors.	Modifications to be agreed by end-December 1986.
		Consolidate updated data into public investment program for 1986/87-1988/89.	To be completed by end-December 1986.
*	Improve recurrent cost budgeting.	Effect ministry-by-ministry review of investment and related current expenditure in each sector.	Review of recurrent costs in four largest ministries (Agriculture, Health, Education, Public Works) to be completed by June 1987.

Table 1. The Gambia: Summary and Time Frame for Implementation of Macroeconomic Structural Adjustment Policies, 1986/87-1988/89

Issues	Objectives and Policies	Strategies and Measures	Phasing and Implementation
4. <u>Civil Service Reform</u> *	Streamline government service and increase productivity. Tighten budgetary control over personnel expenditure.	Carry out reorganization of public administration as recommended by the U.K. O.D.A. civil service study, including retrenchment of Established Posts and reduction in number of temporary/daily workers, and pay and grading reforms.	Further cutback of at least 14 per cent in Established Posts announced end-June 1986, involving suppression of 750 vacant posts (by end-August 1986) and of 750 currently filled posts (redundancy notices to be issued by end-August). Layoffs of additional 340 temporary workers to effected by end-August.
*		Progressively eliminate budget allocations for vacant Established Posts.	Retrenchment program to be fully implemented, and administrative reform program, including pay and grading reforms, to be prepared by by end-February 1987.
		Limit wage payments to workers on consolidated verified list.	Implemented beginning with 1986/87 budget. List completed and verified at end-July 1986.
		Set up job counseling and retraining program;	Program to be in place by December 1986.
5. <u>Public Enterprises</u> *	Reduce burden on the government budget by (i) reducing size of sector; and (ii) increasing efficiency of remaining public enterprises.	Privatization and rationalization of public enterprises.	Divestiture and rationalization plan for 1986/87-1988/89 to be prepared by December 31, 1986.
		Performance contracts with enterprises remaining in public sector.	Contracts with GPMB, GUC, and GPA, to be signed by December 31, 1986. Timetable for contracts with other enterprises to be established with World Bank staff by October 1, 1986.
**		Implement scheduled increases in utility tariffs under three-year tariff program of GUC.	Utility tariffs raised by 9-15 per cent July 1, 1986. Next tariff increase to be implemented January 1, 1987.

Table 1. The Gambia: Summary and Time Frame for Implementation of Macroeconomic Structural Adjustment Policies, 1986/87-1988/89

Issues	Objectives and Policies	Strategies and Measures	Phasing and Implementation
6. <u>Fiscal Policy</u>			
a. Expenditure control	Increase effectiveness of control and monitoring.	Strengthen overall expenditure monitoring procedures. Strengthen control over personnel expenditure as indicated in item 4.	Beginning in FY 1986/87.
b. Government sector wage policy	Contain personnel expenditure; improve balance between personnel and other current expenditure.	Exercise wage restraint.	No general wage increase in public sector in FY 1986/87 without prior consultation with Fund. Wage moderation in subsequent years.
c. Revenue	Increase budgetary revenue.	Strengthen collection procedures.	Over the program period.
	Reduce reliance on international trade taxes.	Increase revenue contribution from domestic taxes.	Elaborate proposals for increasing yield from domestic taxes by end-March 1987 for implementation in FY 1987/88.
d. Customs tariffs	Improvement in tariff structure.	Effect comprehensive reform of customs tariff structure.	Reform to be implemented during FY 1987/88.
e. Domestic arrears	Prevent accumulation of domestic arrears, including arrears between Government and the rest of the public sector.	Monitor domestic arrears by regularly updating arrears survey prepared with Fund technical assistance in May 1986.	Regular monitoring by the National Investment Board throughout the program period.
7. <u>Monetary and Financial Policy</u>			
	Stabilize domestic prices and the exchange rate; provide adequate returns on financial savings; and improve efficiency of financial sector intermediation.	Pursue prudent credit policies. Pursue flexible interest rate policy, following introduction of tender system for Treasury bills.	Over the program period. Tender system begun in July 1986, followed by increase in interest rates.
		Strengthen position of GCDB further by allocating certain outstanding government-guaranteed loans to a government-managed fund.	Managed fund to be set up in early 1987.

Table 1. The Gambia: Summary and Time Frame for Implementation of Macroeconomic Structural Adjustment Policies, 1986/87-1988.89

Issues	Objectives and Policies	Strategies and Measures	Phasing and Implementation
8. External Policies			
a. Exchange rate	Promote efficient resource allocation.	Maintain flexible exchange rate system introduced in January 1986. Monitor evolution of interbank market.	Over the program period.
b. Foreign exchange management	Promote maximum inflow of foreign exchange into the banking system.	Strictly limit parastatals' foreign exchange holdings and enforce working balance limits for commercial banks.	Over the program period.
	Increase availability of foreign exchange for pressing external obligations.	Based on foreign currency budget, set limits on government foreign exchange requirements from central bank sources or from the interbank market.	Limits to be established by end-October 1986.
c. External borrowing	Reduce debt service burden and improve profile of external public debt.	No new government or government-guaranteed external borrowing at nonconcessional terms in the 1-12 years maturity range. Limits on short-term debt.	Over the program period.
d. Relations with external creditors	Improve relations with external creditors with the ultimate objective of restoring normal debtor-creditor relations as The Gambia's debt servicing capacity improves.	Conclude rescheduling agreements with Paris Club (and other creditors) and remain current on nonreschedulable obligations.	In late 1986.
		Reduce nonreschedulable arrears/ gradually increase international reserves.	Minimum annual arrears reduction/ reserves buildup of SDR 5 million.

THE GAMBIA - Basic Data

Area, population, and GDP per capita

Area	10,360 square kilometers
Population: Total (1985)	745,000
Growth rate	3.5 percent
GDP per capita (1985/86)	SDR 200

	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u> Program
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Gross domestic product

GDP (at 1976/77 market prices) (millions of dalasis)	372.9	427.5	395.6	361.2	385.1	398.6
Of which (percent of total):						
agriculture	(30.0)	(31.8)	(26.6)	(27.5)	(29.9)	(...)
manufacturing	(6.5)	(6.0)	(6.4)	(6.2)	(6.0)	(...)
trade (excluding groundnut marketing)	(16.4)	(15.5)	(15.0)	(13.8)	(13.0)	(...)
GDP (in millions of dalasis at current market prices)	451.4	527.6	603.7	646.5	828.0	947.0
Gross domestic investment (as percent of GDP)	25.1	20.7	18.0	20.9	17.5	...
Gross domestic saving (as percent of GDP)	3.5	9.7	2.3	0.3	-9.7	...
Annual percentage change						
GDP at constant 1976/77 prices	9.6	14.6	-7.5	-8.7	6.6	3.5
GDP deflator	--	1.7	24.4	17.0	20.1	10.5
Consumer price index	8.0	9.3	15.6	22.8	41.8	15.0

Central government finance

(In millions of dalasis)

Recurrent revenue	91.4	105.5	127.6	146.0	207.7	297.0
Foreign grants	56.8	16.9	26.0	32.3	59.1	137.8
Expenditure and net lending	184.9	179.1	210.9	262.3	284.8	462.9
Recurrent	116.1	112.6	140.6	151.4	178.8	301.6
Development	68.8	66.5	70.3	109.1	91.1	165.0
Unallocated expenditure and net lending	--	--	--	1.8	14.9	-3.7
Overall deficit (-)						
Excluding grants	-93.5	-73.5	-83.3	-116.3	-77.1	-165.9
Including grants	-36.7	-56.6	-57.3	-84.0	-18.0	-28.1
Change in arrears (decrease -)	--	--	20.5	25.7	-33.2	--
Financing	36.7	56.6	36.8	58.3	51.2	28.1
Foreign (net)	34.7	31.2	21.2	38.0	7.1	161.1
Domestic (net)	2.1	25.4	15.6	20.3	44.1	-133.0
Of which: banking system	(-1.7)	(23.7)	(5.4)	(13.4)	(25.6)	(-138.0)

Money and credit

(Percent change)

Domestic credit	16.1	35.8	17.8	5.0	17.8	-15.0
Government	-8.8	47.5	32.7	18.3	15.7	-137.0
GPMB	101.5	90.6	9.4	-14.4	22.9	19.3
Other public enterprises	...	...	...	44.1	12.9	10.3
Private sector	9.5	12.6	16.3	0.4	18.2	18.3
Money and quasi-money	45.7	35.1	7.4	34.5	24.8	16.3

THE GAMBIA - Basic Data (concluded)

	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u> Prov.	<u>1986/87</u> Program
<u>Balance of payments</u>	(In millions of SDRs)					
Exports, f.o.b.	67.3	77.5	86.1	62.1	59.3	57.9
Imports, f.o.b.	-85.7	-81.7	-96.1	-74.9	-73.4	-72.4
Trade balance	-18.4	-4.2	-10.0	-12.8	-14.1	-14.5
Services and private transfers (net)	-25.9	-22.9	-26.4	-22.1	-19.1	-20.6
Current account (net)	-44.3	-27.1	-36.4	-35.0	-33.3	-35.1
Capital account (net)	29.8	-1.4	11.7	31.1	19.8	25.0
Official	54.0	34.5	32.4	33.8	24.3	34.3
Private	-24.2	-35.9	-20.7	-2.7	-4.5	-9.3
Overall surplus or deficit	-14.5	-28.5	-24.7	-3.8	-13.5	-10.0
Current account deficit (excluding official transfers) (as percent of GDP)	24.2	14.6	19.1	22.4	21.4	30.1
<u>Gross official foreign reserves</u> (end of period)						
Amount	4.3	2.6	5.2	3.8	1.3	6.9
In weeks of imports, f.o.b.	2.6	1.7	2.8	2.7	1.5	4.9
<u>External public debt</u>						
Committed (including undisbursed) (end of period) <u>1/</u>	203.8	224.9	253.1	265.2	270.0	272.1
<u>External public debt</u>						
Debt service as percent of domestic exports of goods and nonfactor services <u>2/</u>						
Including IMF	25.8	24.8	31.6	52.8	98.4	91.7
Excluding IMF	21.5	19.8	22.3	40.2	65.6	66.7

1/ Medium- and long-term public debt as recorded by IBRD. Does not include outstanding use of Fund credit or short-term debt.

2/ Includes debt service on medium- and long-term debt, interest on short-term debt, and IMF repurchases and charges.

The Gambia: Illustrative Medium-Term Balance of Payments Outlook,
1985/86-1990/91, Scenario A

(In millions of SDRs) 1/

	1985/86 Estimate	1986/87 Program	1987/88	1988/89	1989/90	1990/91
				Projections		
Exports, f.o.b.	59.27	57.93	61.97	66.43	71.35	76.09
Groundnuts 2/	8.51	7.78	9.16	10.78	12.69	14.25
Other domestic exports 3/	3.91	4.12	4.48	4.90	5.37	5.88
Total re-exports 3/	46.85	46.03	48.33	50.75	53.29	55.96
Imports, f.o.b.	-73.39	-72.43	-74.17	-77.72	-81.45	-85.36
Domestic consumption	-48.76	-46.57	-47.02	-49.21	-51.52	-53.93
Rice 4/	(-2.83)	(-2.78)	(-3.01)	(-3.25)	(-3.52)	(-3.80)
Petroleum	(-10.36)	(-5.59)	(-6.98)	(-7.33)	(-7.70)	(-8.08)
Other	(-35.57)	(-38.20)	(-37.03)	(-38.63)	(-40.30)	(-42.05)
Imports for re-export	-24.63	-25.86	-27.15	-28.51	-29.93	-31.43
Services (net)	-19.14	-20.57	-19.69	-18.93	-18.33	-17.70
Freight and insurance	-12.62	-12.46	-12.76	-13.37	-14.01	-14.68
Travel	20.60	21.60	22.78	24.15	25.60	27.13
Other	-27.12	-29.71	-29.71	-29.71	-29.92	-30.15
Technical assistance	(-10.92)	(-9.43)	(-10.75)	(-11.29)	(-11.85)	(-12.44)
Public interest 5/	(-12.20)	(-14.94)	(-14.80)	(-14.84)	(-15.32)	(-15.58)
Other	(-4.00)	(-5.34)	(-4.16)	(-3.58)	(-2.75)	(-2.13)
Current account	-32.26	-35.07	-31.89	-30.22	-28.43	-26.97
Capital account	12.07	14.63	22.15	23.01	24.50	27.00
Official loans and transfers (net)	16.55	23.91	26.15	26.01	27.50	30.00
Official transfers	21.14	21.81	24.31	25.53	26.81	28.15
Official loans	-4.59	2.10	1.84	0.48	0.69	1.85
Inflows	(6.59)	(12.00)	(12.60)	(13.23)	(13.89)	(14.59)
Amortization	(-11.18)	(-9.90)	(-10.76)	(-12.75)	(-13.20)	(-12.74)
Private capital (net)	-4.48	-9.28	-4.00	-3.00	-3.00	-3.00
Long-term	7.37	-1.00	--	--	--	--
Short-term, net foreign asset changes in commercial banks, and errors and omissions	-11.85	-8.28	-4.00	-3.00	-3.00	-3.00
Overall balance (before exceptional financing)	-21.19	-20.44	-9.74	-7.21	-3.93	0.03
Financing	21.19	20.44	9.74	7.21	3.91	-0.03
Net foreign assets/arrears (change)	14.24	-5.50	-5.50	-5.50	-7.00	-7.00
Repurchases from IMF	-9.12	-5.87	-4.21	-3.21	-3.48	-5.03
Arrears to the IMF (increase +)	8.38	-10.33	--	--	--	--
Exceptional financing	7.69	42.14	19.45	15.92	14.41	12.00
Commodity aid	(7.69)	(10.40)	(...)	(...)	(...)	(...)
World Bank SAL	(--)	(15.00)	(10.00)	(...)	(...)	(...)
Fund purchases	(--)	(11.90)	(0.94)	(--)	(--)	(--)
Other (including net debt relief)	(--)	(4.84)	(8.51)	(15.92)	(14.41)	(12.00)

Source: Data provided by The Gambia authorities; and staff estimates.

1/ Exchange rates used are D 5.459/SDR 1 for 1985/86, D 8.790/SDR 1 for 1986/87 and thereafter.

2/ Assumes 60,000 tons in 1986/87, rising by 10 percent a year in volume terms to a maximum of 83,500 tons in 1990/91; world prices are assumed to rise by 7 percent a year from 1987/88 onwards.

3/ Other domestic exports and re-exports are assumed to increase in value terms by 9 percent and 5 percent annually, respectively, from 1986/87.

4/ Imports are projected to rise in volume terms by an average annual rate of 3 percent from an estimated level of 25,000 in 1985/86; after a projected decline of 4 percent in 1986/87, unit prices are projected to increase by 5 percent annually.

5/ Includes interest on medium- and long-term debt (including new loans and on short-term debt and servicing of exceptional financing).

The Gambia--Relations with the Fund
(As of July 31, 1986)

I. Membership status

- (a) Date of membership: September 21, 1967
(b) Status: Article XIV

A. Financial Relations

II. General Department (General Resources Account)

- (a) Quota: SDR 17.10 million
(b) Fund holdings of Gambian dalasis: SDR 31.46 million
(184.00 percent of quota)

	<u>SDR</u> <u>million</u>	<u>Percent</u> <u>of quota</u>
(c) Fund holdings subject to repurchase and charges	14.39	84.18
Of which: compensatory		
financing facility	(--)	(--)
credit tranches	(5.82)	(34.02)
supplementary		
financing facility	(4.19)	(24.51)
enlarged access resources	(4.39)	(25.65)
(d) Reserve tranche position	SDR 38,614	

III. Previous stand-by arrangements and special facilities

- (a) Most recent stand-by arrangement:^{1/}
- (i) Duration: From April 23, 1984 to July 22, 1985
(ii) Amount: SDR 12.83 million

^{1/} The arrangement was cancelled on April 22, 1985.

The Gambia--Relations with the Fund (continued)

III. Previous Stand-By Arrangements and Special Facilities (concluded)

(iii) Utilization SDR 2.63 million
 (iv) Undrawn balance SDR 10.20 million

(b) Stand-by arrangements during the last ten years:

<u>Arrangement</u>	<u>Duration</u>	<u>Amount</u>	<u>Utilization</u>	<u>Undrawn balance</u>
<u>(In millions of SDRs)</u>				
Stand-by	4/23/84-7/22/85	12.83	2.63	10.20
Stand-by	2/22/82-2/21/83	16.90	16.90	--
Stand-by	5/18/78-5/17/79	15.00	15.00	--

(c) Special facilities

Compensatory financing facility 6/3/81
 SDR 9.0 million

IV. SDR Department

(a) Net cumulative allocation: SDR 5.12 million
 (b) Holdings: --

V. Administered accounts

(a) Trust Fund loans:

(i) Disbursed SDR 6.84 million
 (ii) Outstanding SDR 3.92 million

(b) SFF Subsidy Account:

(i) Donations to Fund --
 (ii) Loans to Fund --
 (iii) Payments by Fund SDR 0.37 million

(c) Structural adjustment facility:

(i) Disbursed --
 (ii) Outstanding --

VI. Overdue obligations to the Fund --

B. Nonfinancial Relations

The Gambia--Relations with the Fund (concluded)

VII. Exchange rate arrangement

Prior to January 20, 1986, the Gambian currency, the dalasi, was pegged to the pound sterling at a rate of D 5 = £1. The Gambia has exchange restrictions arising from external payments arrears which are subject to approval under Article VIII. On January 20, 1986 a flexible system was introduced under which the exchange rate is to be fully determined by market forces in an interbank market.

VIII. Article IV consultation

The 1985 Article IV consultation discussions with The Gambia were held in Banjul during the period June 24-July 10, 1985. The staff report (SM/85/244) was discussed by the Executive Board on September 20, 1985, and the decision was as follows:

1. The Fund takes this decision relating to The Gambia's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1985 Article XIV consultation with The Gambia, in the light of the 1985 Article IV consultation with The Gambia conducted under Decision No. 5392(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Gambia's exchange system contains restrictions on payments and transfers for current international transactions, involving restrictions giving rise to external payments arrears, and a multiple currency practice, as described in SM/85/244, which are subject to approval under Article VIII. The Fund urges the authorities to remove these restrictions as soon as possible.

The Gambia is on the standard 12-month cycle for consultations.

IX. Technical assistance

CBD: Three members of the CBD panel of experts are currently assigned to the Central Bank of The Gambia as Economic Advisor, Foreign Exchange Advisor, and Advisor in Bank Supervision, respectively.

The Gambia: World Bank Lending Operations
As of May 31, 1986

(In millions of U.S. dollars)

	Total	Disbursed <u>1/</u>	Undisbursed <u>1/</u>
IDA			
Agricultural projects	15.45	6.84	8.61
Urban development projects	15.26	5.49	9.77
Transport projects <u>2/</u>	21.83	13.58	8.25
Infrastructure and tourism	4.00	4.00	--
Energy project	1.41	1.07	0.34
Education project	5.50	5.50	--
Total	<u>63.45</u>	<u>36.48</u>	<u>26.97</u>
Repayments	0.32		
Total outstanding (including undis- bursed) <u>3/</u>	63.13		
IFC investment	2.90	2.90	--

Source: IBRD.

1/ Beginning in 1981, credits have been denominated in special drawing rights. The dollar figures in these columns represent the dollar equivalents at the time of payment for the "Disbursed" amounts and the dollar equivalents as of May 1986 for the "Undisbursed" amounts.

2/ Includes Cr. 1682-GM (Second Highway Maintenance) for US\$5.8 million equivalent not yet effective.

3/ Prior to exchange rate adjustments.

The Gambia--Statistical Issues

1. Outstanding statistical issues

a. Prices

The weights of the consumer price index (CPI) are based on a family expenditure survey of 1968/1969 and are outdated. The authorities may consider constructing a new CPI based on a new household expenditure survey.

b. Government finance

The 1985 GFS Yearbook provides data on consolidated central government transactions through 1977/78. A technical assistance mission which visited Banjul in January 1986 laid the groundwork for compilation by national officials of government finance statistics suitable for economic analysis and monitoring within the framework of a Fund program and for publication in the GFS Yearbook, and data on that basis will be provided shortly for fiscal years 1980/81 and 1982/83.

c. Monetary accounts

The present reporting system for commercial banks needed improvement; the data appeared to be unreliable, and the Central Bank has experienced increasing difficulty in compiling and classifying data appropriately. A staff member of the Bureau of Statistics participated in the recent consultation mission and assisted the authorities in developing an improved reporting system for monetary data.

d. Balance of payments

The Gambia has not reported balance of payments data since 1981. The report of a 1985 technical assistance mission was sent to the authorities on March 6, 1986.

The Gambia - Statistical Issues (concluded)

2. Coverage, currentness, and reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for The Gambia in the August 1986 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of The Gambia, which during the past year have been provided on a timely basis; however, the currentness of the data could be improved in certain areas.

	<u>Status of IFS Data</u>	<u>Latest Data in August 1986 IFS</u>
Real Sector	- National Accounts	1982 (GDP only)
	- Prices	February 1986
	- Production	n.a. <u>1/</u>
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	n.a.
	- Financing	n.a.
	- Debt	n.a.
Monetary Accounts	- Monetary Authorities	May 1986
	- Deposit Money Banks	May 1986
	- Other Financial Institutions	March 1986
Interest Rates	- Discount Rate	May 1986
	- Deposit Rate	May 1986
	- Lending Rate	January 1986
	- Government Bond Yield	n.a.
External Sector	- Merchandise Trade Values	October 1985
	- Prices: unit value for groundnuts	Q2 1985
	- Balance of Payments	1981
	- International Reserves	May 1986
	- Exchange Rates	June 1986

1/ Data on unshelled groundnut production are reported on an annual basis; the latest data refer to 1984.

