

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBS/86/189
Supplement 3

CONFIDENTIAL

September 22, 1986

To: Members of the Executive Board
From: The Secretary
Subject: The Gambia - Structural Adjustment Arrangement

Attached for the records of the Executive Directors is the text of the structural adjustment arrangement for The Gambia agreed at Executive Board Meeting 86/158, September 17, 1986.

Att: (1)

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 September 17, 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.

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of Macroeconomic Structural Adjustment Policies, 1986/87-1988.89

Issues	Objectives and Policies	Strategies and Measures	Phasing and Implementation
8. <u>External Policies</u>			
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.	Over the program period. 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 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.