AGENCY FOR INTERNATIONAL DEVELOPMENT

THE GAMBIA

ECONOMIC AND FINANCIAL POLICY ANALYSES PROJECT 635-0225

PROJECT PAPER
JUNE, 1984

Authorized: June 18, 1984
Amount: $2,000,000

ECONOMIC AND FINANCIAL POLICY ANALYSES

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AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)

Amendment Number:

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: The Gambia

3. PROJECT NUMBER: 635-0225

4. BUREAU/OFFICE: Africa 06

5. PROJECT TITLE (maximum 40 characters): Economic and Financial Policy Analyses

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 88

7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4)

A. Initial FY 84 B. Quarter 3 C. Final FY 84

8. COSTS ($000 ~~OR EQUIVALENT $1 =~~)

A. FUNDING SOURCE	FIRST FY 84 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	1817	183	2000	1817	183	2000
(Grant)	(1817)	(183)	(2000)	(1817)	(183)	(2000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country		440	440		440	440
Other Donor(s)						
TOTALS	1817	623	2440	1817	623	2440

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) SDP	660	710		0		2000		2000	
(2)									
(3)									
(4)									
TOTALS				0		2000		2000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 650 | 660 | 720

11. SECONDARY PURPOSE CODE: 700

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code							
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

To increase the ability of Ministry of Finance and Trade staff to organize, conduct and disseminate sound economic and financial analyses for national policy consideration and implementation.

14. SCHEDULED EVALUATIONS

Interim MM 08 YY 86 | MM YY | Final MM 04 YY 88

15. SOURCE/ORIGIN OF GOODS AND SERVICES

[X] 000 [X] 941 [X] Local [ ] Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

Clearance: M.R. Bradley, Controller M. R. Bradley

17. APPROVED BY

Signature: Byron Bahl

Title: Byron H. Bahl
AID Representative

Date Signed: MM 06 DD 09 YY 84

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

PROJECT AUTHORIZATION
COUNTRY: THE GAMBIA
PROJECT: ECONOMIC AND FINANCIAL POLICY ANALYSES
PROJECT NO: 635-0225

Pursuant to Part I, Chapter 1, Section 121 of the Foreign Assistance Act of 1961, as amended, and the authority delegated to me under Africa Bureau Delegation of Authority No. 140, Revised, I hereby autnorize a Grant to the Government of The Republic of The Gambia, the "Cooperating Country", of not to exceed Two Million United States Dollars ($2,000,000) to assist in financing certain foreign exchange and local currency costs of goods and services required for the Project as described in the following paragraph. The PACD is September 30, 1988.

The Project will increase the ability of the staff of the Ministry of Finance and Trade ("MOFT") to organize, conduct and disseminate sound economic and financial analyses for national policy consideration and implementation. In particular, the Project will give assistance to the Statistics and Special Studies Unit within the MOFT so as to enhance its management of information flows and policy studies. The Project will accomplish the above by providing technical assistance, long and short-term training, training workshops and seminars, commodities and equipment, and support for local operations.

I hereby authorize the initiation of negotiation and the execution of the Project Agreement by the Officer to whom such authority has been delegated in accordance with A.I.D. regulations, subject to the following essential terms and covenants, together with such other terms and conditions as A.I.D. may deem appropriate.

A. <u>Source and Origin of Goods and Services</u>

Goods, services and ocean shipping, financed by A.I.D. under the Project, shall have their source and origin in the Cooperating Country and in countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing.

B. <u>Covenants</u>

1. The Cooperating Country agrees to maintain the position, salary, and benefits of each participant trainee financed under this Grant throughout the duration of his/her training.

2. The Cooperating Country agrees to provide A.I.D. prior to each participant's departure for training an agreement signed by such participant trainee with the Cooperating Country that he/she shall return to The Gambia immediately upon completing his/her studies to work for the Cooperating Country for a minimum of two (2) years for every one (1) year of training received/financed hereunder.

3. The Cooperating Country agrees to give those participants who successfully complete their long-term training: (a) strong preference in filling positions in the Statistics and Special Studies Unit of the MOFT and, at a minimum, employment in some other division of the MOFT; and (b) immediate employment and salary at a Grade 13 level or higher.

C. Waiver

The purchase for the Project of 2 vehicles of non-U.S. manufacture from A.I.D. Code 935 sources and origin per Annex F of the Project Paper is hereby authorized.

Concurred in by:

ABIDJAN 10267
Laurance W. Bond
Director, REDSO/WCA

Date: JUNE 15, 1984

Thomas R. Mahoney
Acting AID Representative
to The Gambia

Date: June 18, 1984

PROJECT RATIONALE AND DESCRIPTION

Background and Problem

The Gambia, a small, densely populated country with approximately 700,000 inhabitants, is classified by the UN as a least developed country. Its economy is predominantly agricultural (58 percent of GDP) with groundnuts the major product, comprising between 30 and 40 percent of GDP and providing 90 percent of the country's export earnings. Subsistence cropping consists primarily of millet, sorghum, rice and maize. Local production provides only 70 percent of the population's food requirements and about 30,000 tons of rice are imported commercially each year. Trade and transport are also important elements of the economy which is reflective of the country's role as a major port for Senegal and other countries in West Africa. Tourism has emerged as a factor, contributing 6 percent of GDP and employing 3,000 persons. Industrial activity is limited to two groundnut oil mills, a brewery, a soft drink factory, and a shoe manufacturer.

The Gambia's second Five-Year Development Plan (1981/2 - 1985/6) gives high priority to the development of agriculture, and especially: (1) increasing food production so as to raise nutritional levels and reduce imports; (2) achieving speedy recovery in the production of groundnuts in order to increase foreign exchange earnings and farmers' incomes; (3) rural development and reduction of urban-rural income disparities; and (4) diversifying food and export crop production. Equivalent importance is attached to cereals and groundnut production increases; and goals are to be achieved by (1) improving farmers' support services including extension and (2) more efficient operation of the Gambia Produce Marketing Board and like agencies. The Plan charges the nation's financial agencies with promoting development while maintaining financial discipline.

In the longer run, The Gambia, like nearly all LDC's, faces difficult choices in programming its development so as to create employment opportunities for a rapidly growing population, keep its balance of payments deficit to a level that can be covered by planned capital inflow, and finance an expansion of public services commensurate with popular aspirations. One choice would be massive government intervention in resource allocation and production, promoting industrialization via import substitution with heavy reliance on public enterprises and controlling the balance of payments through import licensing. This approach, chosen heretofore by the majority of African countries, has its attractions. Given the Gambia's small size and limited market, however, such a strategy could not be sustained here. The challenge therefore is to design and implement a policy mix that will enable The Gambia to take advantage of the international division of labor, keep its production costs competitive, and attract foreign investment to produce for the world market, as it improves the productivity and incomes in its agricultural sector. (Illustrative analytical approaches to this challenge are presented in Annex K).

A major feature of this challenge is to protect The Gambia's interests while carrying out the commitment of the country's leadership to controlled economic integration with Senegal. While aware of the limitations of The Gambia's small domestic market, Gambians recognize that the Senegalese market, featuring a population of about 6 million with a per capita GDP not exceeding $300, has considerable drawbacks. Senegal's own progress depends on moving towards a set of policies that enable it to take much more advantage of the European market than it has done heretofore. In negotiating its economic association with Senegal, The Gambia faces considerable risks. One is in the direction of acquiescing in unequal arrangements which enable Senegalese producers to dominate the Gambian market while maintaining de facto barriers against movement of Gambian goods to Senegal. A second risk lies in sacrificing its access to a much wider world market which any small LDC must have if it is to benefit from the economies of scale that underline successful commercial production.

The challenge is made more difficult by the precariousness of The Gambia's immediate financial position, which must first be stabilized if its long-term objectives are to be met. This position features prolonged shortages of foreign exchange and local currency income necessary to sustain development activities, trade, and public services at current levels. It results from a program, commenced in the mid-1970's, of high budgetary expenditures, expanded credit, and input subsidies for promotion of agricultural exports, irrigated rice for local consumption, and tourism. These activities failed to create the broad-based, sustained increases in production that would allow continued high levels of investment or even meet recurrent costs. Among the main causes of this failure were disincentives to agriculture (mainly through an over-valued exchange rate), a heavy emphasis on infrastructure development during the first five-year plan, and management and operational shortcomings. Oil price shocks, reduction in foreign aid levels, an attempted coup, and failure to take early corrective measures exacerbated the situation. Ultimately, foreign exchange crises caused the government to turn to the IMF for relief under two standby arrangements, one in 1982 and a second in 1984. In return, the IMF is demanding cutbacks in expenditures, tighter credit, and reduced subsidies as well as a program of price incentives to production.

While the President and his Cabinet set policy, the Ministry of Finance and Trade (MOFT), the Gambia Produce Marketing Board (GPMB), and the Central Bank implement it. These are the three main agents responsible for carrying out retrenchment and policy redirection required under the standby. These entities are attempting to cut back and redirect but (i) the dynamics of many competing agencies struggling to carry out their individual programs and (ii) the momentum built up by past expenditures, arrears, and subsidies hinder these efforts. Personnel costs, Senegambia expenditures, and debt service are the main components of increased government spending. Government agencies have been able to force up their budgets by means of fourth quarter supplementary allocations, which - after three quarters of spending faster than the approved annual rate - the MOFT must agree to or see government operations disrupted. The Central Bank (through loans) and the GPMB (through special contributions) are then required to help cover the expenditures at the expense of other objectives including their own financial stability.

These conflicting forces have placed severe strain on each of the three policy agents. Regarding expenditures, the MOFT is continuously left with the above choice between supplementary allocations and disrupted government operations. Regarding revenues, it is able to collect only fifty to sixty percent of the taxes and fees due it. Over fifty percent of the loans from parastatal credit institutions are uncollectible. The credit structure remains intact because the Central Bank knows it is fruitless to call in its overdue loans. The strain on the credit system is increased by its sensitivity to the actions of the GPMB which has borrowed in excess of D100 million (D3.61=$1) to maintain current operations and is in arrears on its taxes.

The pressure on the MOFT, the GPMB, and the credit system limits the government's ability to promote production and curtails farm income. The most striking example is the case of groundnuts in 1983/84. While production decreased by over 25 percent from 1982/83 the total value of the crop on the world market increased by nearly forty percent because of a ninety percent increase in the world market price (from D798 to D1,513). Nevertheless, the precarious financial position of the GPMB led to a reduction of the producer price from D520 a metric ton in January 1983 to D450 in January 1984. Peanut farmers suffer doubly because the groundnut export tax (of 10 percent on the f.o.b. price) is actually a 30-40 percent tax on their net incomes. Similar, though not so dramatic or far reaching, situations prevail in pricing structures for cotton, swamp rice, and cattle. Further, the budgetary problems listed above have meant deterioration of existing infrastructure and decreasing operational resources; thus staff productivity also declines. Finally, across the board rather than selective expenditure cuts and continued losses by several enterprises give rise to doubt that scarce resources are being channeled into only the most productive investments.

The GOTG has taken several initial steps to stop further deterioration of the balance of payments situation and the government's budgetary position as well as to restore the financial positions of the major institutions. These include taking measures to reduce expenditures, reducing and eliminating subsidies, devaluing its currency and increasing interest rates. The primary area for additional, major early improvements is revenue collection - the government currently is restructuring its revenue collection procedures and reviewing areas of taxation reform. Outstanding issues remain regarding financial stabilization, recovery of institutional financial strength, and promotion of economic growth. These issues require decisions on: undertaking additional devaluations; selecting new measures for eliminating supplementary allocations; increasing revenues; freezing wages and hiring; GPMB responsibilities (including transfer of responsibility for subsidies back to the GOTG); and increasing the efficiency of budgetary allocations. Resolution of these issues in the interest of policy coherence and flexibility requires continuous analysis to evaluate impact. Devaluation, for instance, will not be successful in resolving foreign exchange problems if its real effects are not sustained through budgetary and credit restraint.

Of the policy execution arms of the government, the MOFT is clearly senior. In addition to the implementation responsibilities mentioned above, it is responsible for formulating fiscal, monetary, and pricing policies (including exchange rates, agriculture producer prices and consumer food prices) and submitting them to Cabinet for approval. The MOFT also has supervisory responsibilities over both the GPMB and other parastatal corporations as well as the banking system. It is the government's responsible financial agent for financial, technical, and professional relations with international and other overseas financial and trade organizations including the IMF.

In view of the MOFT's importance in directing and controlling The Gambia's financial processes, its central role in forming government economic policy, and current crisis conditions, its need for specialized staff and appropriate working arrangements is crucial. Over the years, the government has taken several steps toward creating the working groups, procedures, and organizational entities necessary to manage a sophisticated development effort. Comparatively, it has made much less progress in securing the needed professional skills. Most of the technical staff possess the bookkeeping and accounting skills more suitable to an earlier time when the Ministry's role was more limited. Only a few of the Ministry's staff have acquired extensive training in economics, finance, and budgeting necessary to give policy guidance to a complex development effort (such guidance must also satisfy simultaneously a wide variety of financial and economic performance criteria). These persons were put in senior administrative positions on receipt of their training. (See Institutional Analysis annex for review of MOFT).

The Project, as described below, will address these problems through provision of long and short-term technical assistance and training and thereby support the MOFT in its efforts to address immediate policy issues, strengthen its institutional capability and improve the country's macroeconomic situation.

AID/Banjul's Strategy

As discussed in the CDSS and reaffirmed in the FY 1985 Annual Budget Submission, FY 85 Priorities Paper and FY 86 CDSS update, a fundamental element of AID/Banjul's strategy in The Gambia is to help the

GOTG stabilize its balance of payments situation while simultaneously assisting to strengthen its economic policy framework. The Project will respond directly to that strategy by assisting the MOFT in increasing its ability to organize, conduct and utilize sound economic and financial analyses. The Project also is consistent with other AID activities in The Gambia in that it builds upon AID's short-term economic advisory assistance provided to the MOFT in late 1983 and early 1984 and directly complements the proposed PL 480 Title II Section 206 Food for Development Program. That is, Section 206 self-help measures are being developed in conjunction with the design of this project and, further, those improvements effected by this project in macroeconomic policy formulation will enable the GOTG to make more effective use of local currency generated from the Title II food sales. Similarly, rationalized pricing policies and other policy measures sought under this project will encourage increased private investment in agricultural production as well as the production mix that meets both domestic consumption and export needs. Such policies are very important, and possibly crucial, to the success of the research and promotion activities envisaged under the Research and Diversification Project (635-0219). The success of these projects ultimately depends on the agricultural policy of The Gambia, the effectiveness of which is determined by macroeconomic policy. It is being recognized increasingly that these macroeconomic factors have a greater impact on agriculture than all of the projects undertaken by the Ministry of Agriculture.

The Project:

The goal of the 4-year Project is the promotion of sound macroeconomic policy decisions, thereby enhancing the development of The Gambia. In order to achieve this, the Project's purpose will be to increase MOFT staff ability to organize, conduct and disseminate sound economic and financial analyses for national policy consideration and implementation. The outputs necessary at the end of the Project to attain that purpose are:

1) MOFT personnel with improved analytical, technical and managerial skills; 2) an organized system for producing policy studies and efficiently organizing and managing the flow of information for use by decisionmakers; 3) policy studies for consideration by decisionmakers and use as models for MOFT research; and 4) a greater appreciation on the part of MOFT and other GOTG decisionmakers of the cost of non-economic objectives in official policies and the economic ramifications of their policy decisions. As fully described below, the Project will provide the following: 1) one technical advisor for 3.5 years plus the equivalent of 3 years of short-term consultancies; 2) 8 academic years of long-term training in U.S., 3 person-years of short-term training in U.S. and third countries, and training courses, workshops and seminars in The Gambia; 3) commodities and equipment, e.g., handheld calculators/computers, in-country training supplies, vehicle, office equipment and supplies, etc.; 4) local support, e.g., administrative/secretarial assistance, fuel, and vehicle maintenance; 5) other costs, e.g., evaluation, audit, contingency and inflation.

A. Technical Assistance

The first of the two major thrusts of the Project will be the provision of technical assistance to deal with immediate policy needs and promote regular, long-term institutional development activities. The long-term advisor (Ph.D. economist with a minimum of 3 years experience as an economist in LDCs) will undertake the following: 1) in conjunction with short-term consultants and MOFT personnel, conduct substantive analyses of specific policy issues as requested by the MOFT (see Annex I for illustrative list and discussion of likely policy topics)*; 2) assist the MOFT in organizing more effective development and management of information flows and policy studies; (Crucial to this task will be the effective operation of the recently-formed Statistics and Special Studies Unit within the MOFT. Special policy development task forces also will be developed as needed to address separate issues. The Unit and task forces must make full use of the newly-acquired skills of returned participants while providing job satisfaction and sufficient remuneration for their retention within the Ministry - see Conditions and Covenants.); 3) advise MOFT officials on the identification of tasks to be assigned to short-term consultants, draft corresponding scopes of work and assist these consultants in fulfilling their assignments; 4) coordinate with the contractor's home office to identify short-term consultant candidates for consideration by the Ministry; 5) play an important role in staff development by collaborating with and involving MOFT personnel in their day-to-day work, and ensuring the transmission of analytical techniques and experiences; 6) coordinate the selection and placement of participant trainees by serving as liaison between MOFT and the contractor who will be responsible for all aspects of participant training; 7) work with the MOFT to organize and conduct local training courses, workshops and seminars on special topics; 8) to the extent possible, ensure that personnel who undertake long-term training programs reenter jobs in the MOFT's Statistics and Special Studies Unit with assignments that emphasize practical application of the techniques and concepts they have learned; and 9) as the contractor's representative, provide all necessary support for successful implementation of the Project.

The Project also will provide short-term technical assistance to address short-run adjustment policies and long-run development strategies. In view of the present economic crisis and required adherence to stringent economic performance criteria set by the IMF standby agreement, the GOTG is having to make critical short-run policy decisions that will achieve rapid economic adjustment. How the economy adjusts and who bears the cost of this adjustment is important for both economic and political reasons, with significant implications for the longer-term growth of the Gambian economy.

Given the high priority that now must be attached to formulation of short-run adjustment policies, coupled with the problem of limited local capacity to analyze policy alternatives, the short-term consultants will study these adjustment issues and give advice on longer-run development strategies (see Annex I for illustrative list of studies).* Moreover, since the heart of the Project is to build local capacity for policy analysis, the short-term consultants will be utilized to conduct in-country training courses, workshops and seminars.

*Also see Annex K for potential impacts from policy studies.

B. Training

The second major thrust of the Project will be the enhancement, through long and short-term training, of the capability within the MOFT to organize and conduct analytical studies and make policy recommendations.

The Ministry and consultants have identified the following areas where staff capacity must be enhanced to permit the Ministry to perform its required role in formulating and implementing policy: 1) basic techniques of project appraisal to guide evaluation and advise on proposed public investments; 2) knowledge of macroeconomic theory and analytical tools to be able to conceptualize research programs and formulate policy interventions necessary to manage the government's short-run monetary and fiscal affairs; 3) techniques of cost-effectiveness analysis in departments responsible for budgetary matters, so as to, inter alia, substitute selective cuts made on cost-effective basis for arbitrary, across-the-board cuts; 4) tax incidence and tax administration to advise on reform of a severely outdated income tax structure which has to be modified to raise revenues to meet IMF conditions on The Gambia's standby loan and to finance development; 5) economic issues (e.g., international trade policies and how they relate to industrial competitiveness, integration and custom union issues in theory and practice) to, inter alia, guide work on the important matters of the Senegambian confederation; and 6) the doctrine of export-led growth and policies which have enabled the most successful LDCs to attract foreign investment and break into world markets.

To address these problems, it is essential that careful attention be paid not only to how the formal and informal training component of the Project is accomplished but also to maximizing the training investment after participants have returned to work. In the first case, importance will be attached to: 1) minimizing the burden on existing MOFT capabilities by carefully scheduling personnel leaving for training courses; 2) selection of qualified candidates for Masters degrees and short-term training courses; 3) choice of suitable training institutions; and 4) planning the proper mix of educational fields to fit the Ministry's needs for qualified personnel. Toward this end, the Ministry has completed a survey of levels of education attained by MOFT staff and identified future personnel requirements (see Annex H).

Secondly, once training is completed and in order to reap maximum returns from this investment, the long-term advisor and Ministry officials will pay particular attention to placing returned participants in positions which make full use of their newly-acquired skills and, in the longer-run, to retaining these people in the MOFT through proper job motivation and remuneration. With these necessary conditions in mind, the most efficient use of those trained at the Masters level will be to place them in the Ministry's recently-established Statistics and Special Studies Unit or on special task forces with a charge to organize, conduct and report on policy studies. The Unit will be a focal point of the Project and an essential component for Project success (see Conditions and Covenants).

As an element to maximizing the training investment, the long-term participants returning to the Unit will be given higher civil service grades (i.e., grade 13 or higher; see Conditions and Covenants) to reduce the likelihood that employment opportunities outside the Ministry will entice them to leave. (The grades for professional staff in the newly-formed unit range from 13 to 18 which is equivalent to a Deputy Permanent Secretary's grade.) Further, a bonding arrangement will be established to discourage returned participants from seeking and accepting alternative employment. AID/Banjul is currently in the process of negotiating an across-the-board participant bonding agreement with the GOTG which calls for two years of relevant government service for each year of training. A covenant to each trainee's departure will be submitted evidence of the individual's bonding agreement with the government.

Notwithstanding the enactment of the above and careful planning, the most important element for successful use and retention of returned students will be the work of the long-term advisor and short-term consultants. Their contribution will be to assist these people in putting their skills to work on practical, applied policy problems, and to create an exciting and challenging work environment, while providing on-the-job training.

The Project will finance up to 8 acadmeic years of training in economics, business administration or related fields at the MA/MBA level or equivalent (including preparatory training at the Boulder Institute or similar program) and 36 person-months of short-term training in areas such as project appraisal, program budgeting, taxation, computer programming and data processing, public enterprise management, and commodity agreement and contract negotiation. The training will be offered primarily to MOFT staff, although candidates from other agencies will be eligible on the certification by the Ministry officials that their future assignments would relate closely to the intents of the Project. Discussions with the Ministry indicate that graduate level training in the following fields will be needed to staff the Special Studies Unit with 4 professionals: trade and balance of payments, tax incidence and administration, financial analysis and project appraisal, macroeconomics, computer sciences and statistical analysis.

C. Commodities

The MOFT has an NCR office computer with capacity presently exceeding the demands and skills of the Ministry. As noted above, training in computer programming is required to upgrade the skills of the MOFT staff who already have received introductory training. In order to supplement the data processing capabilities of the Ministry staff, however, the Project will provide, as determined by the long and short-term advisors personal calculators/computers for first-stage data analysis.

The Project will fund, in addition to what MOFT provides, all equipment and supplies necessary to conduct the in-country training courses, workshops and seminars. A provision also is made for office equipment and supplies to supplement those provided by the MOFT for the technical assistance team. Lastly, one project vehicle will be provided for the long-term advisor with an allowance for a replacement vehicle in the unlikely case that the predominantly urban-used vehicle becomes irreparable before the Project Assistance Completion Date.

D. Local Support

In view of limited qualified staff at all levels within the Ministry and the anticipated demands of the long and short-term advisors, a provision has been made for locally hiring through informal competitive procedures an administrative/secretarial assistant. The individual will be employed by the contractor for up to 3.5 years, i.e., the term of the long-term advisor.

The U.S. Embassy/Banjul currently supplies duty-free petrol for project and contractor vehicles. Consequently, the budget includes funds for the contractor to pay for Project-related fuel expenses as well as vehicle maintenance and repair.

E. Other Costs

During the life of the Project, two evaluations will be conducted. The first will occur approximately midway through the Project while the second will take place some six months before the PACD (see Evaluation Plan for details). An audit will be conducted near the end of the Project by an independent public accounting firm.

SUMMARY COST ESTIMATE AND FINANCIAL PLAN

($000)

Inputs	AID FX	AID LC	GOTG LC	TOTAL FX	TOTAL LC
Technical Assistance					
Long-term Advisor 3.5 py @ $150/yr.	525	-	-	525	-
Short-term Consultants 36 pm @ $13/pm	468	-	-	468	-
Training					
Long-term (U.S.) 8 academic years @ $30/yr.	240	-	35	240	35
Short-term (U.S. & 3rd country) 36 pm @ $5/pm	144	-	10	144	10
In-country	-	36	15	-	51
Commodities					
Handheld calculators/computers	10	-	50	10	50
Training materials/supplies	10	5	2	10	7
Office equipment/supplies[1]	10	10	10	10	20
Vehicles (2)[1]	20	-	-	20	-
Local Support					
Administrative/secretarial assistant	-	15	8	-	23
Vehicle fuel/maintenance/repair	-	15	-	-	15
GOTG staff salaries and facilities (in kind)	-	-	310	-	310
Other Costs					
Evaluation	15	-	-	15	-
Audit	15	-	-	15	
Contingency (15%)	190	41	-	190	41
Inflation (15%)[2]	170	61	-	170	61
Totals	1,817	183	440	1,817	623

[1]Due to foreign exchange problems in The Gambia, many local suppliers are requiring payment in Dollars or Sterling.

[2]Disproportionate percentage of inflationary allowance provided for The Gambia in view of present low inflationary rate in U.S.

Projection of Expenditures By Fiscal Year
($000)

FY	AID	GOTG	TOTAL
84	10.0	60.0	70.0
85	298.9	100.9	399.8
86	456.7	100.1	556.8
87	454.2	101.1	555.3
88	318.2	77.9	396.1
Contingency (15%)	231.0	-	231.0
Inflation (15%)	231.0	-	231.0
Totals	2,000.0	440.0	2,440.0

IMPLEMENTATION AND MONITORING PLAN

As detailed in the project description section and summarized below, AID/Banjul in conjunction with REDSO/WCA will contract with a U.S. educational institution to provide virtually all components of the Project. After reviewing possible alternatives, AID/Banjul and the MOFT have determined that the required skills and institutional support for the Project would be provided best by a U.S. university. Consequently, AID/Banjul through AID/Washington will publicize in the Commerce Business Daily its intention to negotiate on a competitive sources selection basis only with educational institutions. This notice will precede by at least 15 calendar days the issuance of the Request for Technical Proposals (RFTP) solicitation document which will be prepared by AID/Banjul and MOFT with assistance from REDSO/WCA. After 60 days, an evaluation committee comprised of appropriate representatives from the MOFT, AID/Banjul and REDSO/WCA will review the proposals and conduct interviews, if deemed necessary. The committee then will prepare a selection memorandum which will be forwarded to the REDSO contracts office for contract negotiation and signing (see Implementation Schedule, Annex E).

Funds for vehicle procurement, evaluations, audit, contingencies and inflation will be outside the direct AID contract and managed by AID/Banjul in conjunction with the MOFT.

Input	Responsible Agencies	Method of Financing	Cost $000
Technical Assistance	AID and U.S. University	Direct Letter of Commitment or FRLC	993
Training	"	"	420
Commodities	"	" and Direct Payment	65
Local Support	"	DLC or FRLC	30
Other Costs	AID/GOTG	Direct Payment	30
		Sub-Total	1,538
		Contingency and inflation	4
		Total	2,000

The contractor will be responsible for the full support of the long-term advisor (e.g., shipment of household effects and personal vehicle, international travel, housing, furniture and appliances, utilities, etc.) and all necessary support for the consultants. The long-term advisor will be entitled to all allowances given to U.S. Government direct-hire employees (e.g., post differential, duty-free petrol, Embassy health services, educational allowance, R and R, home leave etc.). The consultants will be entitled to the prevailing per diem during international travel and while in The Gambia.

All aspects of the placement, monitoring and return of trainees will be the responsibility of the contractor in conjunction with the GOTG. To the extent possible, AID/Banjul's Training Office will assist the contractor representatives.

Lastly, the contractor will be responsible for all commodity procurement except the project vehicle. The limited amount of commodities will be procured in the U.S., e.g., handheld calculators/computer with 220 V/50 hz capabilities and some of the training materials, or "off-the-shelf" in The Gambia, e.g., office equipment (for maintenance and repair reasons) and general supplies. One vehicle, with a provision for a replacement if the need arises, will be procured by AID/Banjul (see Annex F for source/origin vehicle procurement waiver).

The Project will commence in June/July 1984 and will be completed by September 30, 1988. The 4-year plus LOP will enable all long-term participants whose training will be phased to return to The Gambia and get re-established within the MOFT prior to the departure of the long-term advisor. This project life also will allow a sensible scheduling of the short-term consultants so that the MOFT staff and long-term advisor may utilize fully the consultants' time.

The AID/Banjul Project Development Office will be the responsible AID representative for all aspects of the Project. Any additional support not available within the Mission (e.g., legal and contracting) will be requested from REDSO/WCA. See Annex E for detailed Implementation Schedule.

SUMMARY OF ANALYSES

As discussed in the Project Rationale and Description section and detailed in Annexes I, J and K, there is a real and pressing need to enhance the analytical and managerial skills of the MOFT staff and to deal with immediate policy issues. In view of the Ministry's important role in controlling GOTG financial processes and its central role in the formulation of economic policy, it is imperative for the MOFT to improve both the quality of policy analyses undertaken and the effectiveness with which the results are used.

The Ministry, however, has only a few staff who have acquired extensive training in economics, finance, and budgeting to attain reasonable levels of technical competence. To address this problem of inadequate staff analytical capacity and thereby strengthen the MOFT's ability to fulfill its required role in financial stabilization and economic structural adjustment efforts, the Ministry has requested AID to assist with a program of staff training and technical advisory assistance. The Project's aim will be to build the MOFT's capability to analyze economic problems relevant to each of its operating divisions and strengthen staff capacity in day-to-day management of monetary and fiscal affairs. The Ministry also requires technical assistance to organize more efficiently administrative processes and information networks in order to make more informed and timely policy decisions. Frequently, available information and analyses are not gathered in an orderly and timely fashion to be utilized by decisionmakers. This problem is compounded when several ministries are involved in the decision process.

Currently, technical assistance and training are being provided to the MOFT by the IMF, World Bank, FAO and CFTC. However, all of the technicians function as on-line staff or bolster technical field operations. The majority of these advisors assist in strengthening such related but non-policymaking operations as statistical and auditing services, revenue administration, budget preparation, and monitoring of the IMF standby agreement. It is expected that the technical assistance provided by these other advisors will complement the Project.

The financial costs of the Project, which will address the problem through long and short-term training, policy advice and policy studies, can be stated precisely while the economic costs can be estimated and the economic benefits can be expressed with even less precision. In the range of probable outcomes, the financial benefits will be significant, with the actual benefits realized depending on the particular policy decisions influenced by the Project. Calculations of the potential financial impact of policy changes resulting from Project activities show that they will have large financial benefits (e.g. policy changes in the areas of expenditure control, monetary and balance of payments policy, tax administration and collection, GOTG maintenance budget, macro policies affecting farmers, and improved financial management of parastatal organizations).

Therefore, while it is difficult to determine precisely the net financial benefits of the Project, it is relatively easy to show that because of the national economic significance of the issues the training and policy-related work will influence, the potential net financial benefits of the Project are large. The main reason is that at present the MOFT does not have the staff with the analytical and managerial capacity to efficiently and effectively handle all of the tasks for which it is responsible. Hence, there are relatively large financial returns from any systematic effort which alleviates these capacity constraints.

In view of the nature of the Project, its economic costs and returns only can be estimated. The Gambian contribution to the Project is so small (i.e., $130,000 since $310,000 in staff salaries and facilities would be incurred without the Project) that there is little point in adjusting each project component to reflect its social opportunity cost. For AID, the economic cost of the Project is the alternatives foregone by not allocating the $2 million to other projects in The Gambia. Judged in these terms, the opportunity cost of the resources devoted to the Project is low. Conversely, the opportunity cost of funds diverted from the Project to other AID activities such as the Mixed Farming, the Agriculture Research and Diversification, and the Title II Section 206 Projects is high. The main reason is that the ultimate success of these other projects depends on the types of policy changes and policy issues that are dealt with by the MOFT. There is clear evidence that in most developing countries the macro-policies adopted by central authorities are usually more important for the advancement of agricultural development than the total of all agricultural projects. Hence, if the maximum potential benefits are to be achieved from the various AID projects in the agricultural sector, the training and policy-related work at the MOFT has to be undertaken.

While the size of the Project is about the maximum the MOFT can accommodate at this stage, particularly in view of its limited staff, the case for reducing the Project's size and transferring the funds to other projects is weak. Indeed, without this project AID's other activities in The Gambia would be seriously endangered.

As detailed in the project description section, the immediate beneficiaries of the Project will be those Gambian civil servants who will receive long and short-term training in the U.S., third countries or The Gambia. These individuals, particularly the long-term participants, likely will receive larger salaries and more responsible positions as a consequence of their training. In fact, a covenant to the Project Grant Agreement will be that the returned long-term trainees receive remuneration befitting the position they hold within the MOFT (see Conditions and Covenants section). The benefits derived by the 25 or more participants, however, will be paled by the impact the Project may have upon the entire Gambian population through just one sound macroeconomic decision. One example will illustrate this point. If Project activities are instrumental in income tax reform and improved administration (especially the widening of the tax base, curtailment of incentives provided by the Development Act of 1973 and acceleration of tax collection), then substantial funds could be available for neglected or reduced national development and infrastructure maintenance activities. For example, the collection of taxes and charges owed by the country's hotels would provide the GOTG with D3 million in arrears and approximately D2 million per annum, that is, over $3 million by the PACD!

Similar calculations of the potential impact of policy changes resulting from the Project's training and policy-related activities in the areas of expenditure control, monetary and balance of payments policy, macro-policies affecting farmers (such as the groundnut export tax and the overvalued exchange rate), and improved financial management, particularly of the parastatal organizations, show that they also could provide major benefits to all Gambians.

An initial Environmental Examination which recommended a negative threshold decision was included in the approved Project Identification Document.

CONDITIONS AND COVENANTS

Conditions Precedent

Prior to the first disbursement, the GOTG will submit to AID the following:

A. an opinion of counsel that the signed Project Grant Agreement constitutes a valid and legally binding obligation of the GOTG; and

B. a statement of the names of those individuals who may act on behalf of the GOTG and specimen signatures.

Covenants

In order to maximize the training, it is essential for the MOFT to retain the returned participants within the Ministry. There are three covenants which will increase this likelihood:

A. the GOTG must agree to maintain the position, salary and benefits of of each participant trainee financed under the Project throughout the duration of the individual's training;

B. the GOTG must agree to provide to AID before each participant's departure for training a copy of a signed agreement between the GOTG and trainee that he/she will return to The Gambia upon completion of his/her studies for a minimum of two years for each year of training received. AID/Banjul already is negotiating with the government an across-the-board participant bonding agreement which stipulates this two for one arrangement; and

C. the GOTG must agree to give those participants who successfully complete their long-term training the following: 1) a strong preference in placing them in positions within the Statistics and Special Studies Unit of the MOFT or, at a minimum, a relevant position in another division of the Ministry; and 2) immediate employment and salary at a Grade 13 level or higher.

The GOTG also must agree to establish in conjunction with AID an evaluation program as illustratively laid out in the Evaluation Plan. The program will provide for: an evaluation of the progress towards achieving the objectives of the Project; the identification and evaluation of problem areas or constraints that may inhibit attaining these objectives; an assessment of how such information may be used to help overcome any such problems; an assessment of the need for any follow-on assistance from AID; and, to the extent possible, an overall impact evaluation of the Project.

EVALUATION PLAN

During the life of the Project, two evaluations will be undertaken. The first will occur at approximately the 26th month when all major Project components will have identifiable accomplishments, such as the return of the first long-term participant. The purpose of this evaluation will be to compare PP expectations with achievements and recommend to AID/Banjul and the MOFT any necessary corrective measures.

The second evaluation will occur in approximately the 45th month of implementation. Its purpose will be to review Project accomplishments against anticipated outputs and EOPS (end of project status) and assess whether a second phase is necessary to fulfill the institutional development intent of the Project. If a second phase is deemed necessary, sufficient time will be available to amend the Project and extend the technical assistance contract.

The evaluations will be conducted by REDSO/WCA and/or AID/Washington staff in conjunction with AID/Banjul and MOFT personnel. Funds for these evaluations will be controlled by AID/Banjul and outside the technical assistance contract. The detailed scopes of work will be prepared by AID/Banjul in conjunction with the MOFT.

LIST OF ANNEXES

A. PID approval and PP guidance cables

B. Logframe

C. Country and Project Checklists

D. Government of The Gambia request for assistance

E. Implementation Schedule

F. Source/Origin Vehicle Procurement Waiver

G. Organogram of the Ministry of Finance and Trade

H. Staff development plan for Ministry of Finance and Trade

I. Institutional Analysis

J. Economic and Financial Analysis

K. Analytical Report on the Technical Assistance
   Project for Ministry of Finance and Trade, The Gambia

ANNEX A

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BT
UNCLAS STATE 050965

E.O. 12356: N/A
TAGS:
SUBJECT: THE GAMBIA ECONOMIC AND FINANCIAL POLICY ANALYSIS (635-0225) PID

REF(A) 83 ST 309036 (B) 83 BANJUL 4065 (C) 83 ST 362319 (D) BANJUL 316

1. AN ECPR FOR THE SUBJECT PROJECT WAS HELD ON DECEMBER 15, 1983. APPROVAL OF THE PID WAS DEFERRED PENDING CLARIFICATION OF ISSUES RAISED IN REF (C). AS A RESULT OF YOUR RESPONSE REF (D) AID/W IS NOW PREPARED TO APPROVE THE PID WITH ALL REFTELS TO BE AN ADDENDUM TO THE PID.

2. THE SUBJECT PID IS HEREBY APPROVED. PP GUIDANCE FOLLOWS SEPTEL. SHULTZ
BT
#0965

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BT
UNCLAS STATE 082932

AIDAC, ABIDJAN FOR REDSO/WCA

E.O. 12356: N/A
TAGS:
SUBJECT: THE GAMBIA - ECONOMIC AND FINANCIAL POLICY ANALYSIS (635-0225) - PP GUIDANCE

BANJUL

REF A) 83 ST 309336 (B) 83 BANJUL 4065 (C) 83 STATE 362319 (D) BANJUL 316 (E) ST 50965

1. AID/W REGRETS DELAY INPROVIDING FOLLOWING ADVICE. NOW THAT THE PID HAS BEEN APPROVED (REF E), OAR/BANJUL IS AUTHORIZED TO PROCEED WITH DEVELOPING THE PROJECT PAPER (PP)SUBJECT TO THE FOLLOWING GUIDANCE:

A. THE PROJECT GOAL IS INSTITUTION BUILDING WITH THE SPECIFIC OBJECTIVE OF INCREASING THE CAPACITY OF THE MINISTRY OF FINANCE TO CONDUCT AND MAKE USE OF POLICY-ORIENTED MACRO-ANALYSES. THE MEANS OF ACHIEVING THIS OBJECTIVE ARE TO PROVIDE TRAINING TO PERSONNEL AND PROVIDE TECHNICAL ASSISTANCE. IT IS CRITICAL THAT THE PROJECT NOT BE CONSTRUED TO REPRESENT THE SUBSTITUTION OF U.S. EXPERTISE FOR GAPS EXISTING IN THE GOTG, I.E. THE TA PROVIDED SHOULD NOT BE USED TO PRODUCE REPORTS INDEPENDENTLY BUT RATHER PROVIDE ASSISTANCE TO A UNIT WITHIN THE MINISTRY WITH EXPLICIT RESPONSIBILITIES FOR THIS WORK. THEREFORE, THE PP SHOULD BE WRITTEN IN THE

ABOVE MANNER AND PRESENT AN ANALYSIS OF THE MINISTRY WHICH INDICATES THAT THE INSTITUTIONAL STRUCTURE IS IN PLACE AND INDICATE THE LINKAGE THAT WILL BRING THE RESULTS OF THE WORK INTO PLAY IN GOVERNMENT DECISION-MAKING.

B. WITH THE WORLD BANK AND IMF PRESENT, IT IS ESSENTIAL THAT THE PP DEMONSTRATE THAT THERE EXIST NO OVERLAP AND THAT INSTITUTIONALLY THE PRESENCE OF TECHNICAL ASSISTANCE FROM THE U.S. IS SUPPORTIVE OF AND COORDINATED WITH THAT PROVIDED BY OTHER DONORS.

C. THE PP SHOULD ALSO DESCRIBE THE LINKAGES WITH THE OTHER AID PROJECTS IN THE GAMBIA AND ANY OF THE RELEVANT REGIONAL PROJECTS.

D. THE ROLE OF AID IN THE MANAGEMENT AND MONITORING OF THIS PROJECT SHOULD BE CLEARLY LAID OUT.

E. THE SUGGESTED APPROACH FOR A SUITABLE TYPE ECONOMIC ANALYSIS SHOULD DISCUSS THE LIKELY ECONOMIC IMPACT OF THE PROJECT ON THE ECONOMY AND ON THE AGRICULTURAL SECTOR RESULTING FROM MORE RATIONAL PRICING, TAXING, AND OTHER ECONOMIC POLICIES THAT MIGHT BE EXPECTED FROM THIS PROJECT.

F. ALL CONCERNS AND ISSUES
RAISED TO THE MISSION (REF A AND C) AND OAR/BANJUL RESPONSES (REF B AND D) SHOULD BE INCORPORATED INTO THE PP.

2. PER REF B, PARA 4C - LOGFRAME: THE PRIMARY ASSUMPTIONS OF THE LOGFRAME ARE SOUND. ITEMS 4 AND 5 OF PARA 4C WERE OMITTED IN REFTEL. THE OUTPUTS AND INPUTS OF THE LOGFRAME SHOULD BE ADJUSTED ACCORDING TO ANY CHANGES DETERMINED NECESSARY IN THE PP DESIGN.

3. CONTRACTONG MODE - THE PP SHOULD DISCUSS VARIOUS ISSUES INVOLVED IN SELECTING THE CONTRACTING MODE FOR THIS PROJECT.

4. PP CAN BE APPROVED IN THE FIELD WITH REDSO/WCA CONCURRENCE. SHULTZ
BT
#2932

NNNN

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LOGICAL FRAMEWORK

Project Title & Number: Economic and Financial Policy Analyses (635-0225)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal:	**Measures of Goal Achievements:**		Assumptions for achieving goal targets:
The promotion of sound macroeconomic policy decisions, thereby enhancing the development of The Gambia	GOTG policy decision-makers consider the micro and macroeconomic implications of each course of action before making policy decisions.	- Stated policies - Economic policies implemented.	MOFT economic and financial analyses are utilized by GOTG decision-makers

ANNEX B

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Purpose:	**Conditions that will indicate purpose has been achieved: End-of-Project status.**		**Assumptions for achieving purpose:**
To increase Ministry of Finance and Trade (MOFT) staff ability to organize, conduct and disseminate sound economic and financial analyses for national policy consideration and implementation.	1. Special studies unit capable of conducting analytical studies. 2. Policy studies undertaken were reviewed by decision-makers and incorporated in national policy.	- MOFT staffing pattern - MOFT budget allocations - GOTG budget submissions - Reports by Gambian analysts - Cabinet decisions - IMF reports and positions - AID evaluations	MOFT will retain returned participants through adequate remuneration, professional responsibilities and bonding agreements.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Outputs:	Magnitude of Outputs:		Assumptions for achieving Outputs:
1. Functioning MOFT special studies unit and, as required, special task forces. 2. Trained MOFT staff to run and support special studies unit. 3. Policy studies for consideration by decision-makers and use as models for further research.	1. Special studies unit staffed by returned participants. 2. (A) 4 MOFT staff trained at MA/MBA level in U.S. (B) 20 to 30 MOFT and other GOTG staff receive short-term training in U.S., third countries or The Gambia. 3. 10 to 12 pre-identified policy studies conducted by short-term consultants in conjunction with MOFT staff.	- Training records - MOFT staffing pattern - Contractor quarterly reports - MOFT reports - Interviews	- MOFT has sufficient numbers and adequately trained staff to receive further training. - MOFT/GOTG commitment to human resource development.

NARRATIVE SUMMARY		OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Inputs:		Implementation Target(Type & Quantity)		Assumptions for providing Inputs:
AID:	$000	Approved project budget.	Project Grant Agreement signed.	- Congressional Notification accepted. - FY 84 funds available.
Technical asst.	993			
Training	420			
Commodities	65			
Local support	30			
Other costs	30			
Contingency & Inflation	462			
	2,000			
GOTG				
Training	60			
Commodities	62			
Local support	318			
	440			
Total	2,440			

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBLITY

1. FAA Sec. 481. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

   No

2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

   a) No

   b) No

3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? — No

4. PAA Sec. 532(c), 620(a), 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver? — a) No b) No c) No

5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981. — N/A

6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property? — No

7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC?	No
8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?	No
(b) If so, has any deduction required by the Fishermen's Protective Act been made?	
9. FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more ~~than~~ six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds?	a) No, only grants to The Gambia b) No
10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into	N/A

Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)	
11. <u>FAA Sec. 620(t)</u>. Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	No
12. <u>FAA Sec. 620(u)</u>. What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)	Payments are current
13. <u>FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520</u>. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or	a) No b) No

abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No

15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

a) No

b) No

16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed

No

to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

17. ISDCA of 1981 Sec. 721. See special requirements for assistance to Haiti. — N/A

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? — No

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest? — N/A

b. <u>ISDCA of 1981, Sec. 725(b)</u>. If ESF is to be furnished to Argentina, has the President certified that (1) the Govt. of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interests of the U.S.?	N/A
c. <u>ISDCA of 1981, Sec. 726(b)</u>. If ESF assistance is to be furnished to Chile, has the President certified that (1) the Govt. of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Govt. of Chile is <u>not</u> aiding international terrorism and has taken steps to bring to justice those indicted in connection with the murder of Orlando Letelier?	N/A

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance Funds, B.2. applies to projects funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

a) Yes

b) Yes

A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

   (a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that amount)?

   a) Congressional Presentation (FY 85) an Congressional Notification

   b) Yes

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $100,00, will there be

(a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

a) Yes

b) Yes

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

N/A

4. FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973? (See AID Handbook 3 for new guidelines.)

N/A

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

N/A

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

   a) No
   b) N/A
   c) Assistance will not encourage regional development programs

7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

   a) National policy decisions influenced by our assistance to Ministry of Finance may have an effect.
   b) Possibly
   c) Possibly
   d) Not likely
   e) Likely
   f) Not likely

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

   Changes in current national policies due to project's analytical assistance and studies may have a positive influence.

9. FAA Sec. 612(b), 636(h); FY 1982 Appropriation Act Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

a) Government will provide recurrent cost and in-kind support as detailed in Project Grant Agreement.

b) N/A

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes

12. FY 1982 Appropriation Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

N/A

13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16? Does

a) Yes

b) N/A

the project or program take into consideration the problem of the destruction of tropical forests?

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?

Yes

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and

a) Policy decisions influenced by project activities may have national effects such as these.

b) Policy decisions may change and improve current cooperative movements and local government institutions.

otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

c) Likely

d) Likely

e) Not likely

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?

Yes

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

N/A

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activitiy with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

The Gambia is a relatively least developed country.

e. <u>FAA Sec. 110(b)</u>. Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than $100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character.	No
f. <u>FAA Sec. 122(b)</u>. Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes
g. <u>FAA Sec. 281(b)</u>. Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage	The Project will promote sound macroeconomic policy decisions which will enhance overall country development and, consequently, address the needs and desires of the people. The Project will provide, <u>inter alia</u> advanced training for critical staff in Minister of Finance (MOF) and thereby assist in the institutional development of the most important government ministry, i.e. MOF.

institutional development; and supports civil education and training in skills required for effective participation in governmental processes esential to self-government.

2. Development Assistance Project Criteria (Loans Only) — N/A

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

c. ISDCA of 1981, Sec. 724 (c) and (d). If for Nicaragua, does the loan agreement require that the funds be used to the maximum extent possible for the private sector? Does the project provide for monitoring under FAA Sec. 624(g)?

3. Economic Support Fund Project Criteria — N/A

a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102?

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

c. FAA Sec. 534. Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

ANNEX D

THE REPUBLIC OF THE GAMBIA

Ministry of Finance & Trade,
The Quadrangle,
Banjul, The Gambia.

Ref. No. MF/(C)/3/(2) 30th May, 1984.

Dear Mr. Bahl,

Request for Assistance - Economic and Financial Policy Analyses Project

This is to request formally from the U. S. Agency for International Development grant assistance in the amount of U.S. Dollars 2,000,000 in support of the Economic and Financial Policy Analyses Project. As detailed in the Project Paper, the Project will increase the ability of the Ministry of Finance and Trade Staff to organize, conduct and disseminate sound economic and financial analyses for policy consideration and implementation.

2. The Government of The Gambia in support of the Project will contribute the equivalent of U.S. Dollars 440,000 in cash and in kind.

Yours sincerely,

S. S. Sisay

(S. S. SISAY).
Minister of Finance & Trade.

Mr. Byron H. Bahl,
AID Representative,
Buckle Street,
Banjul.

ANNEX E

Implementation Schedule

Month	Activity
0 (June 1984)	Signing of Project Grant Agreement.
1	PIL #1 issued. CBD notice published. CPs to disbursement satisfied.
2	RFTP forwarded to educational institutions. MOFT/AID begin identifying candidates for long-term training.
3	AID/Banjul initiates vehicle procurement process.
4	Closing for receipt of technical proposals. Evaluation of technical proposals.
5	Cost proposal requested from highest ranked firm. Project evaluation program established.
7	Contract negotiated and signed.
9	Long-term advisor arrives. Administrative/secretarial assistant hired.
10	Equipment and supplies procured. Participant placement process begun.
11	First consultant arrives to undertake study and develop in-country training program. 1
12	First short-term trainee begins course in U.S. or third country. 1 and 2
13	First in-country course, workshop or seminar conducted. 1 First 2 long-term trainees begin MA/MBA preparatory training at Boulder Institute or similar program. 2
15 (Sept. 1985)	First 2 long-term trainees begin 1 to 2 year MA/MBA programs.
25	Second group of 2 long-term trainees begin training at Boulder Institute or similar program. First long-term trainee returns to MOFT.
26	Mid-term evaluation conducted.
27 (Sept. 1986)	Second group of 2 long-term trainees begin 1 to 1.5 year MA/MBA programs.

Month	Activity
37	Second and third long-term trainees return to MOFT.
42	Last long-term trainee returns to MOFT.
45	Mission assessment of need for second phase.
46	Project audit conducted.
51 (Sept. 30, 1988)	PACD Long-term advisor departs.

[1] The following occur throughout the life of the Project:

(A) consultants arrive for conducting studies and in-country training programs;

(B) short-term trainees attend course in U.S. and third countries; and

(C) courses, workshops or seminars held in The Gambia.

[2] The covenant that all participant trainees sign a bonding agreement with the GOTG will be satisfied by each participant prior to departure from The Gambia.

Source/Origin Vehicle Procurement Waiver

Problem: A source/origin vehicle procurement waiver from AID Geographic Code 000 (U.S. only) to Geographic Code 935 (Special Free World) is required.

a)	Cooperating Country:	The Gambia
b)	Authorizing Document:	Project Grant Agreement
c)	Project: Economic and Financial Policy Analyses (635-0225)	
d)	Nature of Funding:	Grant
e)	Description of Commodities:	Two (2) 4-door sedans
f)	Approximate Value:	$20,000
g)	Probable Origin:	France
h)	Probable Source:	The Gambia

Discussion: Section 636(i) of the Foreign Assistance Act (FAA) states that motor vehicles must be of U.S. manufacture unless special circumstances exist which would permit procurement of non-U.S. manufactured vehicles. Also, AID Handbook 1B, Section 4C2d states that circumstances which may merit waiving the requirement include "present or projected lack of adequate service facilities and supply of spare parts for U.S. manufactured vehicles". This special circumstance exists in The Gambia. It is virtually impossible to obtain spare parts or service for U.S. manufactured vehicles.

The subject project will be providing an advisor for four years to the Ministry of Finance and Trade and the equivalent of three years of short-term consultants. One vehicle will be provided for the long-term advisor for project-related work and for use by the short-term consultants. Budgetary provisions have been made for a replacement vehicle in the unlikely case that the predominantly urban-used vehicle becomes irreparable before the PACD. Hence, this waiver request for two vehicles.

As documented in other vehicle waivers, there are no American vehicle dealerships in The Gambia nor any resident expertise to repair American vehicles. The one General Motors dealership in The Gambia has gone out of business.

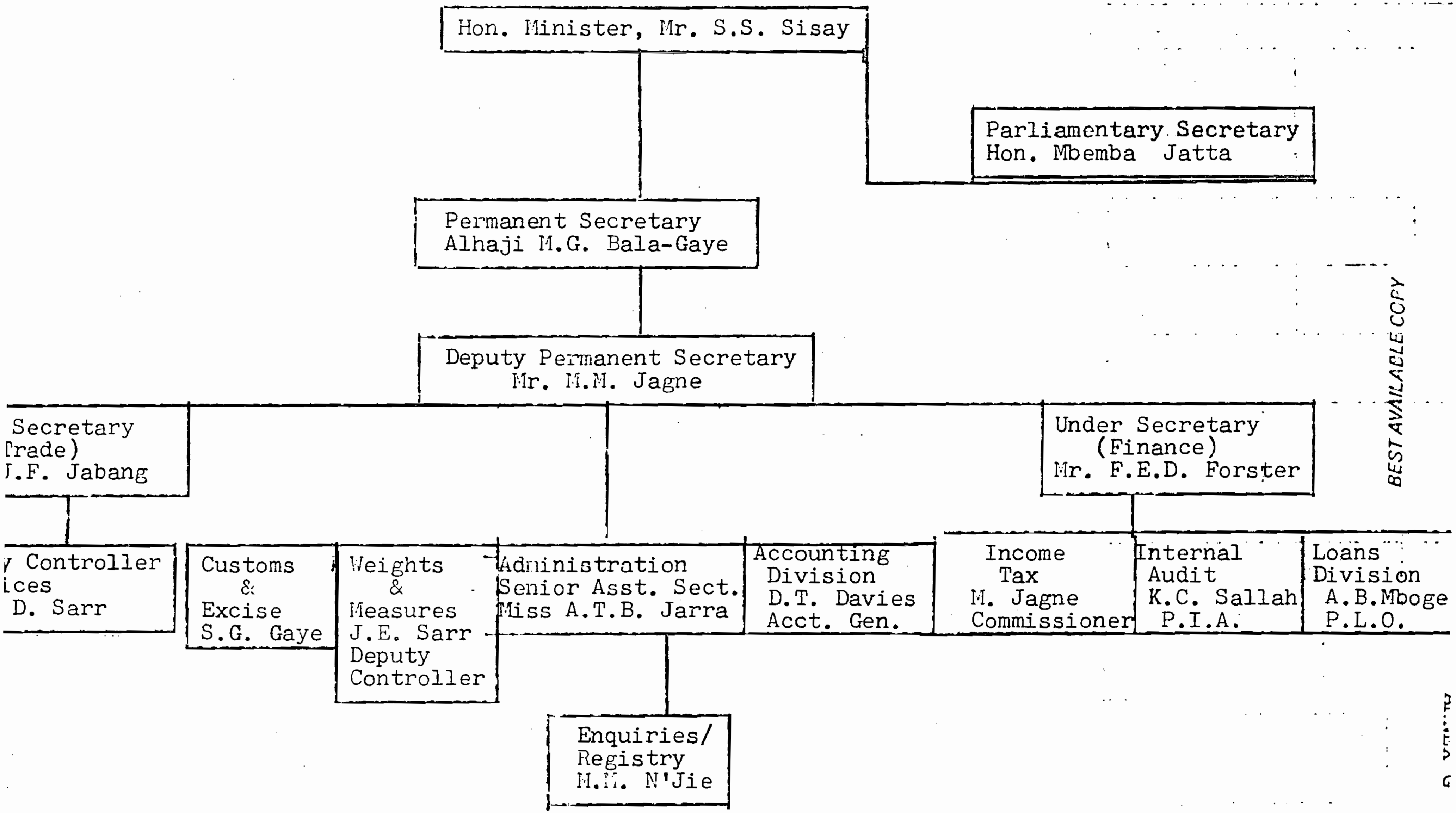
Based on Handbook 1B, Section 5B4a(6) and on the current non-availability of spare parts and maintenance facilities for U.S. vehicles, it is felt that the objectives of the foreign assistance program would best be met by permitting the local procurement of non-U.S. vehicles. The necessary maintenance and repair facilities are available in Banjul for other foreign-made vehicles.

Recommendation: That the AID Representative:

1) approve a change in the authorized Geographic Code from Code 000 (U.S. only) to Code 935 (Special Free World) to permit the procurement of two 4-door sedans; 2) certify that exclusion of procurement from

Free World countries other than the cooperating country and Code 941 countries would seriously impede attainment of U.S. foreign assistance program; and 3) certify that special circumstances exist to waive the requirement of Section 636(i) of the FAA to permit this procurement.

ORGANOGRAM OF THE MINISTRY OF FINANCE AND TRADE



GOVERNMENT OF THE GAMBIA - MINISTRY OF FINANCE AND TRADE

A SUMMARY OF RETURNS OF PROFESSIONAL STAFF DEVELOPMENT QUESTIONNAIRE, 28TH MARCH, 1983

Org. Unit in Ministry of Finance and Trade Name of Officer	Position Title	Nature of Duties	Month of Entry Civil Servant	Ministry of Finance & Trade	AGE AS of 4/83	Married	Single	Ages of Children	Post-Secondary Education	Previous employment History	Training interest (if indicated)
ADMINISTRATION UNIT											
Aminatta Jarra	Senior Assistant Secretary	Form. & impl. of Fin. Sect. pols. & plans, budg. measures, project appraisal	1/78	6/79	28		S	-	U/Dakar (Fr. lang. & Letter) 73/74; U/Besançon, France (same) 74-77, 2 licences; Glasgow Coll. Tech. 80/81 Dipl. Pub. Admin.	1978/79 Cadet Adm. Officer, Estab. Office; 1979/83 Asst. Secretary, Ministry of Finance, tendering and monitoring government contracts	M/Phil. Devel. Studies, U/Cambridge (1 year) or Inst. of Social Studies, The Hague (18 months).
AHMED T. [illegible]	ASST. SECT.	Tender Board, Ministry correspondence	7/73	2/81	35	M		5, 13	Long Island University (Finance) 65-70, BSc	73-77 Government Auditor	Yes - max. 13 months (no preference specified)
Sulayman [illegible]	Asst. Sect.	Tender Board, eval. Cabinet papers, prg. appraisal	2/77	1/83	35		S		Lewis & Clark College, (in. rels.) 73-76, B.A.; John Hopkins (SAIS), 80-82, M.A.	77-78 Asst. Sect., Ministry of External Affairs, 76-80 Gambia Embassy, Jeddah	IBRD/EDI, IMF Institute, ec. devel., fin. mgt. prg. appraisal.
[illegible]	Cadet Economist	Monitor and Control Government expend.	8/82	8/82	26	M	1½		Edwardes Coll., Pakistan (Commerce) 7[illegible]-78, dipl.; Gomal University, (Commerce) 78-80? B. Com. (2nd)	Teacher of Business subjects, St. Augustines High School	Finance Management, Business Management, [illegible]

.........../2

ANNEX H

BEST AVAILABLE COPY

ORG. UNIT IN MINISTRY OF FINANCE AND TRADE / NAME OF OFFICER	Position Title	Nature of Duties	Month of Entry: [illegible] Civil Servant	Month of Entry: Ministry of Finance and Trade	Age As of 4/83	Married	Single	Ages of Children	Post-Secondary Education	Previous employment History	Training interest (If indicated)
FINANCE DIVISION											
Felix E.D. Forster	Under Secretary	(Head of Division)	9/79	5/80	33		S	-	S.W. London College, (Banking) 73-75, AIB; U/Lancaster (econ., accting, Fin.) 75-78, B.A. (Hons.) Economics	79/80 Cadet Econ. M.E.P.I.D.; 80/81 Cadet Economist, M.F.&.T.; 81/82 Senior Economist M.F.&.T.	(Nominated by M.F.T. for IMF Institute Course
A[illegible]	Ag. Principal Economist		2/80	2/80	31	M		-	Hanover College, U.S.A. (general) 70/71; Royalton College, USA (F (Econ.) 71/72; U/Vermont (econ.) 75-78, B.A.	80-81 Cadet Economist, MFT; personnel department, I[illegible], Vt. USA and other jobs in U.S.A.	[illegible] Finance, [illegible] months, [illegible]
KARAF[illegible]	Fiscal Officer	Preparation of Warrants, checking and compilation of rec. Revenue, and expenditure	3/80	7/82	31	M		[illegible],3,5,7	Two Correspondence courses in UK (4 and 5 months) 1980 and 1981	1970 unqual. teacher; 73-80 billing clerk, [illegible]; 80-82 accts clerk	Diploma, degree Budgeting and Finance, Revenue Management, Public Administration, U.K. or U.S.A.
[illegible]	Cadet Economist		9/82	9/82	[illegible]	M		[illegible]	Stockholm U. (Business Adm. and Econ.) [illegible]; Uppsala U. (same) 79-81 BSc	-	[illegible]

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Org. Unit in Ministry of Finance and Trade Name of Officer	Position Title	Nature of Duties	Month of Entry: Civil Servant	Month of Entry: Ministry of Finance & Trade	Age as of 4/83	Married	Single	Ages of Children	Post-Secondary Education	Previous employment History	Training interest (if indicated)
LOANS UNIT Alfred B. Mboge	Principal Loans Officer	Loan Administration	7/63	1973	38	[illegible]		[illegible],2,4,6,8,	South Devon Tech. Coll. (public admin.) 70-71, IDSA; Indus Soc. U.K. (pers. mgt.) 77-78; Georgetown U. Int. Law Inst. (int. procur. and contr. adm.) 1983	Customs Officer; Accountant, Executive Officer, President's Office; Senior Financial Inspector, Ministry of Finance and Trade	Degree prog. Econ. and Finance, 3-4 years, U/Swan or Georgetown U.
Jailand Newlands	Trainee Loans Officer	Preparing Loan disbursement request, payment reconciliations project stat.	11/82	11/82	[illegible]		S	-	Secondary School Grade 1982 (A-level)	..	BSc Accounting, Econ., 3-4 yrs in W. Africa, or any U.K. Accountancy Course
Dabocarr Jallow	Trainee Loans Officer	Maintaining Accounts Loan disbursements Quarterly statements, Budgets, ests. of loan receipts, and debt payments, etc.	2/80	7/80	2[illegible]		S	-	Secondary School Grade, 1979 A Level)	Trainee Information Asst. (1980)	Economics 4 years, U.K. Accounting 2 years U.K.
[illegible]DOU JARJOU	Trainee Loans Officer	Execution of [illegible]	2/80	[illegible]	24		S	-	Clerical School 78/[illegible] and [illegible] School [illegible], certif.	75-78 [illegible] Primary School Teacher 78-[illegible] Assistant Audit Examiner	[illegible]

BEST AVAILABLE COPY

Or. Unit in Ministry of Finance and Trade Name of Officer	Position Title	Nature of Duties	Month of Entry Civil Servant	 Ministry of Finance & Trade	Ages as of 4/83	Married	Single	Ages of Children	Post-Secondary Education	Previous employment History	Training Interest (if indicated)
TRADE DIVISION Juka Jabang	Under Secretary	Admin. Trade Division ectd 1980, and for. Trade and ex. earning. It is in the process of b building up a viable information and consultative system of the benefit of Government importers, exporters, consumers and domestic trade.	9/76	9/76		M		1 year 10 months	Fourah Bay College (Eng. lang. and lit.) 70-75, B.A (Hons) IDP Institute 1979 (pub. fin.); Glasgow Coll. Tech. (pub. and Dev. adm) 1979/80 dipl.	1976 Assistant Secretary, 1980 Senior Assistant Secretary	GATT Commercial policy course; M.A., econ. overseas not exceeding 1 year.
TAMSIR M. [illegible]	Cadet Economist	Trade Policy Formulation and planning, market and international trade promotion, market studies export development, duty waiver.	3/73	3/81	30	M		None	Howard U. (econ.) 75-79 B.A.	Account Clerk, Ministry of Agriculture	[illegible]A, International business 2 years U.S.A.
[illegible]	Cadet Economist		1982	1982	32		S		Slippery Rock St. Collg. (Pa.) (Management) 75-79 [illegible] Jackson St. U. (Marketing) 1979-81 MBA	73-74 unqual. Jr. [illegible] School Teacher	Industrial Project Research International Trade Marketing, Trade Fairs, Trade Policy, [illegible] Planning [illegible], Trade Promotion 1-3 years, [illegible]

Org. Unit in Ministry of Finance and Trade Name of Officer	Position Title	Nature of Duties	Month of Entry Civil Servant	 Ministry of Finance	Ages as of 4/83	Married	Single	Ages of Children	Post-Secondary Education	Previous employment History	Training Interest (If indicated)
PRICE CONTROL UNIT											
Momodou F. Jarr	Deputy Controller of Prices		8/62	1974	[illegible]	M		9,10,13, 16,17	Attachment to Ghana Prices and Income Bd. 1975	62-63 Clerk, Ministry of Finance; 63-74 Customs Officer; 74-77 Price Control Inspector	Any course on pricing policy in an Anglophone country.
Malang K. Sawo	Price Control Officer Grade 10		11/74	11/74	25	M		1 mo. 3	Secondary School Grade 1974 (O'Level)	Entered P.C. Unit as Trainee 1974	Accountancy with reference to cost and management
S. S. Saho	P.C. Inspector Grade 13		11/72	11/72	43	M		1-17 yrs	Attachment to Ghana Prices and Inc. Bd. 1975	62-72 Clerk and Storekeeper, UAC; with P.C. Unit since 11/74	Price Control Administration

........./5

Org. Unit in Ministry of Finance & Trade / Name of Officer	Position Title	Nature of Duties	Month of Entry		Ages as of 4/[illegible]	Married	Single	Ages of Children	Post-Secondary Education	Previous employment History	Training interest (if indicated)
			Civil Servant	Ministry of Finance							
WEIGHTS AND [illegible] UNIT Joseph E. Sarr	Deputy Controller of Weights and Measures		1977	1977	[illegible]	[illegible]		2,3,7	N.W. Polytech London (Bio-Chemist) 71-7[illegible], not completed Indian Institute of Legal Metrology, 1978 (dipl.)	Entered [illegible] Unit as Trainee 1977	Standard[illegible] [illegible] Metrology, quality [illegible]
[illegible]	Senior Weights and Measures Inspector	Inspection, Verification and Stamping of Weights and Measures	197[illegible]	[illegible]/77	[illegible]		3		2-week Commonwealth Science Council Council Course, Freetown	197[illegible] Bank Clerk	Legal Metrology
Josephine Cowe	Weights and Measures Inspector	Inspection, Verification and Stamping of Weights and Measures	197[illegible]	1 [illegible]	[illegible]		[illegible]	2	Secondary School Grade 197[illegible] ([illegible])		Legal [illegible]

Org. Unit in Ministry of Finance & Trade Name of Officer	Position Title	Nature of Duties	Month of Entry: Civil Servant	Month of Entry: Ministry of Finance	Ages as of 1/83	Married	Single	Ages of Children	Post-Secondary Education	Previous employment History	Training Interest (if indicated)
Customs and Excise Department											
Mustapha M. Mbun	Senior Collector	Estab., Valuation Branch in Customs and Excise Department	1960	1960	45	M		2months 18 years	U/Ghana (Statistics, Economics), no degree	81/82 Collector in charge, Yundum Airport	Senior Customs Officers Training, Vienna, Austria
G.F.F. Mai	Collector	Final Checking of Customs charges	1959	1961	42			1-13 years	1977 Customs Administrative, Austria	Entered Customs 1961	Customs Administration, Commerce, max. 3 months.
Fatima Tourey	Collector	Officer in charge, Banjul Wharf	2/62	2/62	40		S		Secondary School Grade, 1961 (O'Level)	Entered Customs, 1962	Customs formalities in In General, and Customs Administration in any country
Ousman Mboge	Assistant Collector	In charge Statistics, Finance, Entertainment Tax and Valuation	11/68	11/68	37			4,7,10	Government Clerical School 1967; 12 International Course in Customs Administration, 1978	Entered Customs, 1968	Tariff, Valuation and Customs Administration, as required
[illegible]	Assistant Collector		1958	[illegible]	[illegible]			3-12 years	Secondary School Grade [illegible]	Clerk, Government [illegible] Office	Customs and [illegible]

Org. Unit in Ministry of Finance & Trade / Name of Officer	Position Title	Nature of Duties	Month of Entry: Civil Servant	Month of Entry: Ministry of Finance	Ages as of 4/83	Married	Single	Ages of Children	Post-Secondary Education	Previous employment History	Training (Interest If Indicated)
Income Tax Department [illegible] Jagne	Commissioner	Head of Department	1959	1973	44	M		2,7,10, 15	U/London, Sir John Cass Coll. (Maths). 62-65 BSc (Hons.); U/Hull (teacher ed.) [illegible]-66 dipl. Kingston College of Further Education (Income Tax) 74-7[illegible], certif.	[illegible]-68 maths teacher GHS; 68-69 lecturer in maths, Yundum Teachers college; 69-73 Vice Principal Yundum College; 73-77 Deputy Commissioner of Income Tax.	Income Tax reform and administration including double taxation treaties. 1 year, Harvard Law School, U/Southern California.
[illegible] Ceesay	Deputy Commissioner	General administrative, exam. accounts and tax assessments	1/57	[illegible]/58	[illegible]	M		4-21 years	Tax School, Ghana Income Tax Department, 1961 (assistant Tax inspector course); Overseas Tax Off., London 64/65	57-62 trainee survey asst., clerk	[illegible] in tax law Harvard, [illegible]
Samba Saye	Senior Commissioner	Assessments of traders etc.	6/65	6/65	57	M		2-16 years	Overseas Territories Income Tax Course; Institute of Admin. U/Ife (certificate)	Entered Income Tax Department 1965	Income Tax Administration, Anywhere, any no. of years.
[illegible] Savage	Assistant Commissioner	Assessment of traders and Government employees	2/62	2/62	4[illegible]	M		1,3	CTITP, London 1971 (certificate); Institute of Administration, U/Ife (tax admin) [illegible], diploma	Entered Income Tax Department 1962	Income Tax Administration, Anywhere, any no. of years.
[illegible] Ceesay	Senior Inspector	Assessment of Tax Survey, Spot Collection	1964	[illegible]	40	[illegible]			CTITP, London [illegible] (certificate)	[illegible]-64 Clerk commercial inspector, [illegible]	Income Tax [illegible] admin., tax accountant [illegible]

INSTITUTIONAL ANALYSIS

The Ministry of Finance and Trade: Role and Position in The Gambia Policy Process

The Ministry of Finance and Trade (MOFT) is the Government of The Gambia's (GOTG) senior agency in formulating and implementing economic policy. Its authority encompasses macroeconomic and sectoral matters spanning issues of monetary, fiscal, and exchange controls to supervision of the country's parastatal corporations. In recent years, the Ministry's preeminence has been progressively strengthened by measures adopted by Cabinet to deal with a growing balance of payments crisis, retrenchment of the economy, and recovery from the abortive coup of 1981. The restraints, controls, and targets specified in a January 1984 standby agreement with the International Monetary Fund (IMF) have added even further to this growing authority, as the MOFT acts on behalf of the GOTG in both negotiation and implementation of the loan to secure compliance with the requirements of the Fund's performance criteria.

Today, the MOFT maintains primary responsibility at the macro level for key economic variables such as government budgetary allocations for both recurrent and development expenditures, the money supply and domestic credit, foreign exchange rates, fiscal and international trade duties, domestic interest rates, and wage levels for public employment. The Ministry exercises these responsibilities through its operating divisions -- Trade, Price Control, Loans, Customs and Excise, Income Tax, Administration and Accounting, and Audit (see organogram of the Ministry, Annex G)-- which oversee and direct the country's banks (Central Bank, Commercial and Development Bank and the Agricultural Bank) and monitor adherence with specified ceilings on budget expenditures and borrowing of other ministries on a quarterly basis. The Ministry is also the GOTG's responsible agent for financial, technical and professional relations with international financial and trade organizations and, in this capacity, has full responsibility for negotiation of matters pertaining to the Senegambia confederation.
At the sectoral level, MOFT's authority includes statutory control over smallholder credit policies, prices of agricultural commodities and inputs, and energy prices, as it exercises direct supervision of state-owned enterprises like the Gambia Produce Marketing Board (GPMB) and Gambia Utilities Corporation. Similarly, the Ministry influences all sectoral development investment allocations derived from agreements with external funding agencies, owing to the regulation that any flow of external funds requires prior approval of MOFT. The Ministry monitors compliance with guidelines specifying that project implementation

must be matched by external financing and new development projects must be scrutinized for their impact on recurrent costs. Particularly in this period of economic hardship and stabilization measures negotiated with the IMF, there is no substantial autonomus economic policymaking authority in the GOTG which escapes the MOFT's network of supervision and evaluation nor, since the Permanent Secretary of Finance is the senior member of a variety of interagency committees (The National Investment Board, The National Development Council, The Economic Advisory Committee, and The National Projects Monitoring Committee) its influence on economic and social policy.

Other important government agencies in The Gambia--The Ministry of Economic Planning and Industrial Development (MEPID) and the Ministry of Agriculture--hold potential influence over public policy, but the roles of these entities are clearly subordinate to the MOFT. MEPID's major responsibility is to oversee planning and technical aspects of industrial development projects. It also coordinates development assistance in The Gambia, reviewing project proposals to ensure they address priorities identified in the Five Year Development Plan and follow technical design standards. Following this review, proposals are submitted to MOFT for final evaluation and approval. The GOTG's Program Planning and Monitoring Unit (PPMU), a nascent organization providing planning and monitoring services for both the Ministry of Agriculture and the Ministry of Water Resources, could be a potential instrument through which the Ministry of Agriculture might affect government policy decisions; however, to date this agency has had no involvement in matters of public policy. All government Ministries, nevertheless, participate to some degree in the GOTG's policymaking process through their membership on various committees and task forces and as a consequence of their vote at cabinet sessions. Moreover, ways do exist for these agencies to initiate policy proposals. The procedure is simply to draft a proposal, submit it to the appropriate interagency review committee which in turn will send the proposed policy change for final approval to MOFT and Cabinet. In both the specialized review committee and Cabinet, the policy proposal would be scrutinized in light of policy guidelines established by MOFT.

<u>MOFT Capacity for Economic Analysis and Management of the Economy</u>

Considering its importance in controlling GOTG financial processes and its central role in the formulation of economic policy, the need for highly qualified staff possessing both analytical and managerial skills is crucial in the MOFT. Yet only a handful of the Ministry's personnel have acquired the necessary training (three at the postgraduate level) in economics, accounting, budgeting, and administration (see Annex H for a survey of educational levels attained by MOFT personnel) to attain minimum levels of technical competence. As evidence, the Ministry and consultants have identified the following areas where staff capacity and understanding must be enhanced to permit the MOFT to perform its required tasks in formulating and implementing policy:

i) basic techniques of project appraisal to guide evaluation and advise on proposed public investments;

ii) working knowledge of macroeconomic theory and analytical tools to be able to conceptualize research programs and formulate policy interventions necessary to manage the government's short-run monetary and fiscal affairs;

iii) techniques of cost-effectiveness analysis in departments responsible for budgetary matters, so as to, inter alia substitute selective cuts based on cost effectiveness for arbitrary, across-the-board cuts;

iv) tax incidence and tax administration to advise on reform of a severely outdated income tax structure which has to be modified to raise revenues to meet IMF conditions on The Gambia's standby loan and to finance development,

v) economic issues (e.g. international trade policies and how they relate to industrial competitiveness, integration, and custom union issues in theory and practice) to, inter alia, guide work on the important matters of Senegambian confederation; and

vi) the doctrine of export-led growth and policies which have enabled the most successful LDCs to attract foreign investment and break into world markets.

To address this problem of inadequate staff analytical expertise and thereby strengthen the Ministry's ability to play a more forceful and knowledgeable role in future economic stabilization and structural adjustment matters, including the important issues involved in a mutually beneficial confederation with Senegal, the Minister of Finance feels that a program of staff training and technical advisory assistance is needed. Such a program would aim at building the Ministry's capability to analyze economic problems relevant to each of its operating divisions (foreign trade, taxes, macroeconomic policy, management of parastatals, and pricing and subsidy issues) and strengthen staff capacity in day-to-day management of monetary and fiscal affairs. In addition, the GOTG and MOFT as its senior Ministry, require technical assistance to more efficiently organize administrative processes and information networks to make more informed and timely policy decisions. Frequently, available information and analysis is not marshaled in an orderly and timely fashion to be usable when important policy decisions are taken. This problem is multiplied when several Ministries are involved in the decision process. The predominant mechanism in the GOTG for dissemination of information and analytical studies is the regularly convened meetings of permanent secretaries of economic ministries and authorities. The Permanent Secretary of MOFT being the senior member of these gatherings is responsible for convening the sessions, establishing the agenda, and guiding the presentation of materials. One of the functions of a technical advisor in the Ministry will be to assist the Permanent Secretary in developing an organized system for producing policy studies and more efficiently managing the flow of information for use in current policy deliberations. With this in mind, the Ministry has formed a research unit responsible to the Deputy Permanent Secretary, with a major charge to undertake research on pressing policy issues. Project training and technical assistance will focus on building capacity in this unit.

Currently, technical advisory assistance and training in The Gambia is being provided by IMF, World Bank, FAO, and CFTC, however, all of the experts assigned to these projects function as on-line Ministry staff or bolster technical field operations. The majority of these advisors assist in strengthening such related but non-policymaking operations as statistical and auditing services, revenue administration, budget preparation, and monitoring of the IMF standby agreement. Several experts provide technical services to MEPID on matters pertaining to the feasibility of various industrial projects. Only in the Trade Division of the MOFT is there an advisor, provided by the Commonwealth Secretariat, who works on policy issues. So far his job has been narrowly circumscribed to technical issues surrounding the revision of tariff levels and harmonization of trade policies in the event of a Senegambian confederation. It is expected that the technical expertise provided by these other advisory personnel will complement the Economic and Financial Policy Analyses Project.

Project Implementation

The goal of this project is to develop institutional capability in the MOFT to more effectively formulate and implement economic and financial policies to initiate stabilization and structural adjustment of the Gambian economy. This objective will be accomplished by a mix of: 1) University and short-course formal education and on-the-job training to upgrade the analytical and managerial skills of Ministry personnel; 2) long-term advisory assistance on economic policy issues and organization and management of administrative process and information networks to enhance timing and quality of GOTG policy deliberations; and 3) short-term consultants to analyze high-priority economic matters and investigate alternative longer-run development strategies. Specific achievements of this project will be: 1) more consistent and rational economic policies and a wider range of well researched alternative long-run development strategies to assist authorities in the stabilization and structural adjustment of the economy; 2) a more efficiently organized and managed information system in GOTG for making policy decisions; 3) MOFT personnel with enhanced analytic, technical, and management skills organized to bring these qualities to bear on policy matters; 4) a high-quality set of policy studies for policy deliberations of MOFT and for use as conceptual models for future research by Ministry personnel; and 5) a greater appreciation by MOFT officials and other GOTG authorities of the cost of non-economic objectives in official policies and, more generally, the economic ramifications of their decisions.

The Contractor

The institutional contractor will mobilize, as both long and short-term advisors, professional economists with experience working in LDCs, preferably Africa, and with academic and research qualifications in micro and macro-economic development problems. This institution will have in-house capability from which it can select professionals to provide a reasonable proportion of the advisory tasks, as well as wide ranging contacts with other similarly qualified institutions from which it can recruit economic advisors for consideration by the MOFT, enlisting them under personal contracts upon Ministry approval. The contractor will also coordinate long and short-term formal participant training, involving assessment of candidates, placement in appropriate educational institutions and courses, and monitoring student progress. Additionally, the contractor will organize in-country training courses and workshops on special topics in economic and financial management.

The Long-Term Advisor

The long-term advisor will act as a permanent liaison between the contractor, the MOFT, and USAID. This Ph.D economist, with a minimum of 3 years experience working as a professional economist in LDCs, will: 1) conduct substantive analyses of specific policy issues as requested by the MOFT; 2) assist the Ministry in organizing more effective management of information flows for policy deliberation; and 3) advise MOFT officials regarding the identification of tasks to be assigned to short-term consultants, draft terms of reference for such assignments, assist these consultants in undertaking their assignments, and coordinate with the contractor's home office to identify short-term consultant candidates for nomination to the Ministry. The long-term advisor will also play an important role in staff development by collaborating with MOFT and GOTG personnel through involving them in his or her day-to-day work, and ensuring that analytical techniques and approaches are transmitted as work proceeds. This advisor will also coordinate the selection and placement of participant trainees by serving as as liaison between MOFT and the training division of the contractor's home office, and, in the case of scholarships financed outside the project, scholarship donors. Further, the long-term advisor will work with the MOFT to organize local training courses and workshops on special topics. Finally, and of considerable importance, the long-term advisor should be in place long enough to ensure that personnel who complete formal training programs abroad reenter jobs at MOFT with assignments that emphasize practical application of the techniques and concepts they have learned. The Ministry's research unit will be staffed by returning MA students trained by this project and be the focus of technical assistance by the long-term advisor.

Short-term Consultants

Particularly at this time of economic crisis and required adherence to stringent economic performance criteria set by the IMF standby agreement, GOTG is forced by necessity to make critical short-run policy decisions that will effect rapid adjustment of the economy. How the economy adjusts and who pays for this rapid adjustment is important for both economic and political reasons, with ensuing implications for long-run growth of the Gambian economy and equitable distribution of the gains from this development. Given the high priority that now must be attached to formulation of short-run adjustment policies, coupled with the problem of limited local capacity to analyze policy alternatives, short-term consultants will be needed for several years to study these adjustment issues and to give advice on longer-run development strategies. Moreover, since the heart of the Project is to build local capacity for policy analysis, short-term consultants will be utilized to conduct in-country training courses. Discussions with MOFT officials and several short-term advisors that have worked in the MOFT during initial AID-financed consultancies in 1983 and 1984 indicate that the following list of in-country training courses and research topics should be programmed into project activities.

In-Country Training courses:

(i) analytical methods in economics and finance;

(ii) programming, budgeting, and control and financing of recurrent costs;

(iii) research methodologies;

(iv) using computers, computer programming and data processing; and

(v) separate workshops on concepts and problems in: taxation and tax administration, macroeconomic impacts of state-owned enterprises, problems in stabilization and structural adjustment of LDC economies, and issues in food policy analysis.

Research Topics for the long-term advisor and short-term consultants:

(i) Income tax reform - Updating of tax schedules and exemptions; closing of loopholes with regard to nonpecuniary benefits; introduction of pay-as-you-earn (withholding) outside the service; bases for determination of presumptive income for certain categories of businesses and professions; and adequacy of legislative authority for enforcement/collection and current procedures for applying it;

(ii) Overall tax administration - How to enhance efficiency in collection of taxes currently administered by the MOFT and outside the Ministry by other authorities;

(iii) Expenditure control - Basic cost-effectiveness analysis of Ministry activities; calculation and comparison of recurrent cost coefficients of different activities; reform of project aid procedures to minimize donor pressure on behalf of projects with unaffordable recurrent cost implications; and budgetary implications of civil service recruitment policy;

(iv) Fiscal and balance of payments implications of agriculture policy - Analysis of trade-off between increment in budget deficit and imports associated with input (especially fertilizer) subsides and/or producer payments, and increment in net return to farmers with its impact on production, exports and rural employment;

(v) Consultancy for the analysis of GPMB operations - This study has four objectives: (a) to analyze the economic efficiency of all the GPMB's operations in The Gambia; (b) to examine GPMB's internal management and budgeting procedures and recommend improvements where applicable; (c) to develop business plans which reflect both the short-term (up to five years) and longer-term (ten to fifteen years) strategies of the Board taking into account the Board's short-term financial constraints and longer term opportunities for modifying its operations; and (d) to make explicit the cost of the non-economic objectives of the GPMB so that clear objective criteria for judging the Board's business operations may be set by Government for which to hold GPMB accountable. And, in addition, to study the possibilities for different types of operating arrangements between GOTG and GPMB (e.g. a contract between the government and GPMB similar to the Senegalese arrangement with state-owned enterprises);

(vi) Macroeconomic impact of public enterprise operations - Measurement of net fiscal, monetary and balance of payments impact of operations of public enterprises, compared with alternative modes of business organization (e.g. applying the methodology newly issued by IMF, Departmental Memorandum/83/83);

(vii) Industrialization and export promotion - What regime of tax incentives, subsidies, export bonuses, protection from foreign and domestic competition, guarantees to foreign investors, and exchange rate management will give the most effective impetus toward industrialization;

(viii) Senegambian Confederation - (a) Trade issues: what form of Free Trade Area, subject to what safeguards, will best ensure a regime of balanced trade such that Gambian producers will not be swamped by the Senegalese in the domestic market and can sell to Senegal. What concessions can The Gambia safely offer Senegal on the re-export trade, without depressing government revenues. How to ensure that trade arrangement with Senegal does not impede The Gambia's penetration of wider international markets; and (b) Monetary issues: assuming The Gambia retains monetary autonomy, what scope is there for coordination of monetary policy with Senegal, given present ties to sterling and the franc, respectively, and Senegalese membership in the BCEAO;

(ix) Credit and monetary policy - Development of MOFT perspective on these issues, with particular reference to determining a permissable level of government and public enterprise borrowing from the banking system and appropriate interest rate structure. Examination of feasibility of stimulating informal money market to intermediate between banking system and small entrepreneurs, including farmers;

(x) IMF/IBRD-supported stabilization programs - Analysis of macro-economic parameters as a basis for negotiating acceptable ceilings on budget deficit, overall credit expansion and credit to government, revenue and expenditure performance; and

(xi) Taxation of Agriculture - Impacts of macro-prices (exchange rates, interest rates, tariffs and import taxes, export duties, etc.) on the agricultural sector with implications for food policy and exports.

Participant Training

Training, both formal and informal, will be a key element in developing institutional capability in MOFT to more ably formulate and implement policy. Hence, it is vital for project success that careful attention be paid not only to how the training phase of the program is accomplished, but to maximizing the returns to this training investment after trainees have returned. In the first case, importance will be attached to: 1) minimizing the burden on existing capacity in the Ministry by carefully scheduling personnel leaving for training courses; 2) selection of qualified candidates for MA and short-term training courses; 3) choice of suitable training institutions; and 4) planning the proper mix of educational fields to fit the Ministry's needs for qualified personnel. Toward this end, the Ministry has completed a survey of levels of education attained by MOFT staff and planned its needs for future trained personnel (see Annex H).

Secondly, once training is completed to reap maximum rewards from this investment, project leadership and Ministry officials must pay particular attention to placing returned trainees in positions making full use of their newly attained skills and, in the longer run, to retaining these people in the MOFT. It has been recommended to the Ministry , with these problems in mind, that the most efficient use of those trained at the MA level will be to place them in the Ministry's research unit, responsible to the Deputy Permanent Secretary, with a charge to study current policy issues. The unit will be the main focal point for technical assistance from the long-term advisor and short-term consultants. Gambian staff in the unit will be given higher civil service grades (13 to 18) to reduce the possibility that employment opportunities outside the Ministry will entice them to leave. A two or three year bond, which must be paid if a returned trainee wishes to seek alternative employment, is also recommended. Notwithstanding enactment of these recommendations and careful planning, most important to successful use and retention of returned trainees will be the work of the long-term advisor and short-term consultants. Their contribution will be to assist returned trainees to put their skills to work on practical, applied policy problems, and to create an exciting and challenging work environment, while providing on-the-job training.

The project will finance 8 academic years of training in economics, business administration and related fields at the MA/MBA level or equivalent, and 36 person-months of short-term training in areas such as project appraisal, program budgeting, taxation, computer programming and data processing, public enterprise, and commodity agreement and contract negotiation. The training will be offered primarily to MOFT staff, although candidates from other agencies would be eligible on the certification of Ministry officials that their future assignments would relate closely to national economic and financial policy formulation. Discussions with the Ministry indicate that graduate training in the following areas will be needed to adequately staff the research unit with 4 or 5 professionals: trade and balance of payments, tax incidence and administration, financial analysis and project appraisal, macroeconomics, computer sciences and statistical analysis.

Economic and Financial Analysis

The financial costs of this project, which aims to improve analytical and managerial capacity and strengthen the policy-making framework through long-and short-term training, policy advice and policy studies, can be stated precisely; the economic costs can be estimated (though with less precision than the financial costs); and economic benefits can be expressed even less precisely but nevertheless conclusively.

The direct financial cost of the Economic and Financial Analyses Project to USAID, over its four year's duration, will be $2 million dollars allocated as follows:

Item	Year 1	Year 2	Year 3	Year 4	Total
Technical Assistance:					
Long-term Advisor	75	150	150	150	525
Short-term Consultants	78	156	156	78	468
Training:					
Long-term	-	60	120	60	240
Short-term	30	60	60	30	180
Commodities:					
Calculators/Computer	10				10
Office Equipment	15				15
Vehicles	10			10	20
Supplies/Materials	5	5	5	5	20
Local Support:					
Administrative/Secretarial	3	4	4	4	15
Vehicle (Fuel/Maintenance)	2	3	5	5	15
Other Costs:					
Evaluation/Audit		15		15	30
Contingency	51	60	60	60	231
Inflation	51	60	60	60	231
Totals	330	573	620	477	2,000

Approximately one-third of the long-term advisor's time and one-half of the short-term consultants' time will be devoted to training. Consequently, this is the largest component of the project accounting for $420 thousand directly and approximately $410 thousand indirectly. This expenditure is consistent with project's emphasis on enhancing the analytical and managerial capacity of the staff of the Ministry of Finance and Trade to improve both the quality of the policy analyses undertaken and the effectiveness with which their results are used.

In addition to the cost of the advisor, consultants and training, $65 thousand will be spent on commodity purchases, $30 thousand for local costs, and an allowance of $491 thousand is provided for evaluation and audit, contingencies, and inflation. The anticipated contribution by the Gambian Government to the project will be $60 thousand in local costs for training, $62 thousand for commodities, and $318 thousand for staff salaries and facilities. All these costs will be incurred in local currency. However, since $310 thousand would have been incurred on staff and benefits without the project, the additional cash cost of the project to the Government will only be $130 thousand.

Therefore, an assessment of the financial benefits of the project should be based on the $2 million cost to USAID and the $130 thousand incremental cost to the Gambian Government. Because precise figures are not possible, only broad orders of magnitude will be given. At one extreme, the project could yield no financial benefits. For this to occur, all the training and policy-related work of the advisor and consultants would have to be completely ineffective. This possibility is highly unlikely, since even if the policy work is ineffective over the life of the project, local experience with training programs indicate that their financial returns at least cover the training costs. Hence at a minimum, the financial benefits of the project would be $830 thousand, in which case the net financial benefit to USAID would be -$1.17 million while for The Gambia it would be $.7 million ($.83 million minus their contribution of $.13 million). That is, under the worst case scenario, the project will have a negative net financial return for USAID but a large positive net return for The Gambia.

In the range of probable outcomes, the financial benefits will be significant, with the actual benefits realized depending directly on the particular policy issues those engaged in the project influence. Two examples will illustrate. If those associated with the project are instrumental in having the Ministry of Finance and Trade collect the taxes and charges owed by the hotels, the additional revenue to the Government would be D3 million in arrears and approximately D2 million per annum. At the current exchange rate, this is $3 million, well in excess of the project's cost. Similarly, the project would have a substantial effect if those involved could help increase the allocation in the government Budget for maintenance. Since 1980/81, the maintenance expenditure has declined in real terms despite an explicit government undertaking in the second Five-Year Plan to improve the maintenance of its capital stock. The annual maintenance on the approximately D130 million (in 1974/75 prices) of Government capital stock is on the order of D41 million in current prices. However, the total allocation for maintenance in the 1983/84 Budget was only D8 million. This total is inadequate and, following expenditures of D8.7 million in 1982/83 and D12.6 million in 1981/82, has led to an acceleration in the rate of deterioration of the capital stock. For the project to yield a 25 percent financial return, the allocation for maintenance in the Budget would only have to increase by less than D1 million or 13 percent per year over the life of the project.

Similar calculations of the potential financial impact of policy changes resulting from the project's training and policy-related activities in the areas of expenditure control, monetary and balance of payments policy, tax administration, macro-policies affecting farmers (such as the groundnut export tax and the overvalued exchange rate), reducing revenue leakage through tax breaks, and improved financial management particularly of the parastatal organizations show that they, too, have large financial benefits. For instance, on the last point, if the efficiency of the Gambia Produce Marketing Board can be improved by as little as 2 percent per year (as a result of the study of its economic impact and financial management included in the project) the net return over the life of the project would be D4.9 million based on the GPMB's performance of 1982/83. At current exchange rates, this is equivalent to $1.4 million. Hence, if the only results to emerge from the project are the training and the improvement in the operational efficiency of the GPMB, its net financial benefit to USAID would be $.2 million (a rate of return of 10 percent). For The Gambia the return would be $2.2 million or almost 1600 percent.

Finally, a policy initiative that is directly related to AID operations is the incentives farmers have to expand production, particularly groundnut farmers. Because of the precarious financial position of the GPMB, the producer price of groundnuts was lowered from D520 to D450 per metric ton in late 1983. Not only has this resulted in a direct loss of income to the groundnut producers (of D6.6 million on sales of 94 thousand MT) but it has distorted the price of groundnuts relative to other agricultural commodities. Since farmers have less incentive to plant groundnuts (and hence produce the commodity for which The Gambia has an international comparative advantage) the efficiency of agricultural production will decline and the potential contribution to export revenue of the sector will continue to be eroded. Hence, those involved with the project could make a major impact if they could determine ways of stabilizing the financial situation of the GPMB so that the producer price of groundnuts could be raised.

Therefore, while it is difficult to determine precisely the net financial benefits of the project, it is relatively easy to show that because of the national economic significance of the issues the training and policy-related work will influence, the potential net financial benefits of the project are large. The main reason is that at present the Ministry of Finance and Trade does not have the staff with the analytical and managerial capacity to efficiently and effectively handle all of the tasks for which it is responsible. Hence, there are relatively large financial returns from any systematic effort which alleviates these capacity constraints.

From the nature of the project, its economic costs and returns can at best be suggestive. The Gambian contribution to the project is so small ($.13 million) that there is little point adjusting each project component to reflect its social opportunity cost. To illustrate, the $62 thousand for commodities could be reduced by 24 percent (the average rate of import duties) but increased by 10.5 percent (the premium over the official rate for dollars on the parallel market). This would make the real resource cost to the Gambian Government or commodity purchases for the project $52 thousand. The remaining $70 thousand (for local costs of long and short-term training and administrative assistance) can be assumed to represent the real costs to the economy. It consists mainly of staff time necessary to support the project activities; their time could be employed as productively elsewhere.

For USAID, the economic cost of the project is the alternatives foregone by not allocating $2 million to other projects in The Gambia.

(This focus allows us to pass over having to estimate the real opportunity cost of AID funds generally.) Judged on these terms, the opportunity cost of the resources devoted to the Economic and Financial Analyses project is low. Conversely, the opportunity cost of funds diverted from the project to other AID initiatives such as the Mixed Farming Project, the Agriculture Research and Diversification Project, and the Title II, Section 206 (Food for Development) program is high. The main reason is that the ultimate success of these other projects depends on the types of policy changes and policy issues that are dealt with by the Ministry of Finance and Trade.

There is clear evidence that in most developing countries, the macro-policies adopted by the central authorities are usually more important for the promotion of agricultural development than all the agricultural projects combined. Too often, those who are responsible for implementing agricultural projects have found that the hoped-for effects resulting from their research, or promotion of new techniques, or improved access to factor supplies and markets have been negated by adverse macro incentives associated with an over-valued exchange rate, excessive agricultural taxation, or ineffective credit programs.

As shown by the perennial attempts by Ministry of Agriculture and GPMB officials to promote cotton production through subsidized fertilizer and chemicals, high prices, and active discouragement of maize production despite the higher net returns to farmers of maize, and the disincentive effect of the over-valued exchange rate for groundnut production, similar experience is available in The Gambia. Hence, if the maximum potential benefits are to be achieved from the various AID initiatives in the agricultural sector, the training and policy-related work in the Ministry of Finance and Trade has to be undertaken. But, while the projects are broadly complementary, there still may be some advantage from shifting resources among the projects. Because of staff availability within the Ministry, the current size of the Economic and Financial Policy Analyses Project, with one long-term advisor and 4 long-term trainees, is as large as the Ministry can absorb. (As the project progresses and the capacity of the staff increases, the overall effort could be expanded. The decision to do so should only be taken after the mid-term review of the project.) Thus, any reallocation of resources would involve reducing the size of the project.

Suppose for purposes of illustration, that 12 months of short-term consulting, and two long-term trainees are dropped from the project. This would release $.28 million which could be transferred to other AID projects. The cost of the Agriculture Research and Diversification Project is $16 million over 8 years and the Title II program is $10 million over 3 years. The transfer of $.28 million would have an insignificant impact on both of them. This point is even stronger when the uses of the transferred funds are considered. In the Agriculture Research and Diversification project, the major activity will be adaptive research, the returns of which will only accrue over the long term; in the Title II project, the most likely use of funds will be to stabilize the groundnut marketing fund of the GPMB.

Therefore, while the size of the Economic and Financial Analyses project is about the maximum the Ministry of Finance and Trade can accommodate at this stage, the case for reducing its size and transferring the funds saved to other AID projects is weak. Indeed, without a vigorous Economic and Financial Policy Analyses project, AID's other activities in The Gambia will be seriously endangered.

The economic benefits of the projects, like the financial benefits, will depend on the type of policy issues addressed by the advisor, consultants and trainees (both short and long term). The relevant issues, from USAID's perspective, are those which have a direct impact on the agricultural sector. Three will be mentioned here: the exchange rate, tax administration, and the relation between the Government and the parastatal organizations.

Despite the recent devaluation, the exchange rate is probably still over-valued by a significant margin. (This can be demonstrated formally through the calculation of effective exchange rates, and practically by the existence of a parallel market in foreign exchange.) Under these circumstances, groundnut farmers continue to be taxed and the profitability of the GPMB is reduced (rather, over recent years, its loss is increased). Furthermore, the overvalued exchange rate helps sustain a level of imports which continues the severe pressure on the balance of payments. Hence, an important contribution of the project would be to help Ministry officials determine the merits and demerits of alternative exchange rates. In this way, the implicit taxation of agriculture which increased in severity from the mid-1970's can be revealed and perhaps redressed.

The administration of taxation and other revenue measures is highly fragmented. Over 21 departments in 11 different ministries and the Office of the President collect about 10 percent of total revenue. (The remainder is collected by the Income Tax Division and the Customs and Excise Administration, both of which are part of the Ministry of Finance and Trade.) The revenue collection performance of many of these departments is poor and the whole system requires re-organization. But to do this will require the establishment of a new Department in the Ministry to consolidate the collection of many of these revenue items and undertake statistical and policy-related analyses to determine which taxes and charges should be dropped, which should be transferred to another agency, and how the items for which large arrears exist can be enforced. The potential macro-economic impact of this re-organization is large, for any net addition to government revenue will reduce the level of deficit financing and ease the pressure of both the domestic price level and the balance of payments. In doing so, it will reduce the degree of over-valuation of the exchange rate and hence the implicit taxation on groundnut farmers.

Finally, the relation between the parastatals and the government is a pressing issue. Because this relationship has never been properly defined, the parastatal organizations have no basis on which to seek the support of the government if the need arises or to reject government interference if this is deemed necessary. The most seriously affected organization in this respect has been the GPMB which the government has required to subsidize rice (from 1971), fertilizer (from 1973), make contributions to the Development Fund (from 1973) and begin activities that were not within the competence of a groundnut processing and marketing organization (e.g. citrus products). This interference led to the dissipation of GPMB's financial reserve (which reached a peak of D106 million in 1977/78) on subsidies and grants that were unrelated to the Board's operations in groundnuts. At present, the Board is in severe financial difficulties; and as noted earlier it cut the groundnut price from D520 to D450 per tonne last year to reduce its losses. Thus, groundnut farmers find themselves doubly disadvantaged. The reserve fund which was accumulated through their contributions has been used for other purposes; moreover, to prevent the GPMB from financial collapse, the groundnut price had to be cut. Therefore, any positive impact the project could have on rationalizing the relationship between the government and the GPMB can only help the groundnut farmers. Moreover, because the GPMB has borrowed heavily from domestic banks any improvement in its financial position would have a significant impact on the rest of the economy by reducing the strain on the price level, the balance of payments and the exchange rate.

ANALYTICAL REPORT ON THE TECHNICAL ASSISTANCE PROJECT FOR MINISTRY OF FINANCE AND TRADE, THE GAMBIA

Submitted to USAID/BANJUL by

Malcolm F. McPherson

January 7,1984

Terms of Reference

This analytical Report is guided by the following terms of reference:

1. To show how the Policy Decisions derived from the ten (10) topic areas (attached) contribute as a group to the development of The Gambia based on its international comparative advantage.
2. To describe illustrative Policy Decisions in the topic areas.
3. To analyze the contribution of these Policy Decisions to agricultural and agricultural-based industrial production.
4. To estimate the potential impact of these Policy Decisions on the incomes of specific groups, particularly farmers.
5. To show how improved Policy Decisions (resulting from the project) would affect: (a) the efficient use of resources; and (b) the government budget deficit. (These should be illustrated with examples of efforts to intensify agricultural production using relative prices which do not imply unsustainable budget deficits and a comparison of the net benefits of irrigated and swamp rice production.)

Comments on the Terms of Reference

Several points concerning these terms of reference are worth noting for they shape the analysis in this Report. Item 1 indicates that the Policy Decisions derived from the topic areas should as a group contribute to a consistent policy mix. The concern here will be the dynamic consistency or economic sustainability of the policies. For example, a dynamically inconsistent policy has been the Government's requirement that the Gambia Produce Marketing Board (GPMB) subsidize rice, fertilizer and other commodities. As recent evernts have shown (and data below bear out) this policy has undermined the financial position of the GPMB. Yet, it should be recognized that the Government did not set out to undermine the GPMB's financial position. This was an unforeseen dynamic consequence of the policy. It reminds us that many of the potential outcomes of policy decisions cannot be anticipated and that while consistency over time may be an important feature of policy decisions it is less important than the flexibility to change the policies as new circumstances arise. Furthermore, the notion of consistency in policy formation cannot be pushed too far because all policy decisions reflect varying degrees of concern about efficiency, equity, and effectiveness. (Efficiency refers to the achievement of the policy's objectives at the lowest resource cost; equity refers to the impact of the policy on the welfare of particular groups in the economy; and effectiveness relates to the correspondence between the intended and actual effect of the policy.) Any policy decision involves trade-offs among the three so that inconsistencies in policies over time can emerge because of changes in the way each dimension is emphasized and/or the trade-offs among them become more apparent as the implementation of a policy proceeds. The example of the GPMB is instructive. The subsidy payments were not related to the income generating activities of the organization and thus represented a potential threat to its financial viability. This threat was disguised while the GPMB had large reserves.

While a consistent policy mix will help The Gambia take "advantage of the international division of labour, keeping its production costs competitive, and attracting foreign investment to manufacture for the world market," a distinction has to be made between desirable and feasible policy mixes for both the short and long term. At present, the Gambian economy has severe economic constraints, four of which are large foreign payment arrears; stagnant real national income (over the last five years average per capita income has declined by at least 10 percent); the financial system is strained and some of the parastatal organizations are technically bankrupt; and inflation has recently accelerated. Consequently, the immediate options available to the Government are limited, and they are likely to be limited further by IMF (or World Bank) conditions imposed when "stabilization" support is negotiated. Moreover, the idea that The Gambia has the potential to attract foreign investment to "manufacture for the world market" has to be kept in perspective. The Gambia has neither the locational advantage nor the supply of skilled workers required for export-oriented "manufacturing" on a significant scale. However, The Gambia does have an international comparative advantage in three or possibly four areas. These are groundnut production and groundnut processing; cattle production with some processing of cattle products for export; the winter tourist industry (for which The Gambia's location is an advantage); and the re-export trade which depends on the skills and knowledge of Gambian traders.

Finally, the terms of reference requires that the analysis deal with how the topic areas "as a group" contribute to timely Policy Decisions. They do this "as a group" by improving the capacity of the personnel of the Ministry of Finance and Trade to better fulfill their three principal responsibilities in: (a) budget and fiscal affairs; (b) economic and development policy; and (c) oversight, review and control. The ten topic areas relate to these responsibilities in the following ways.

Income Tax Reform and Tax Administration (topics 1 and 2) influence Budget revenue through the coverage of the tax base and the efficiency with which taxes are collected. Credit and Monetary Policy (topic 9) indirectly affect the Budget through their impact on financial development and the opportunities it provides for the Government to raise some of its resources through financial instruments. Also, Credit and Monetary Policy affect the rate of domestic inflation and hence the cost pressures on the Budget. Expenditure Control and the Fiscal Effects of Agricultural Subsidies (topics 3 and 4) directly relate to Budget outlays through subsidy payments to agricultural producers and indirectly through the dynamic effect of "excessive" levels of subsidies on net domestic credit creation and the rate of domestic inflation. Similarly, the Promotion of Industrialization and Exports (topic 7) increases Budget outlays through subsidies to qualified enterprises and reduces Budget revenue through relief on import duties, tax holidays and so on. (Here, this topic area overlaps with that of Income Tax Reform because the Development Act of 1973 has been the principal means of promoting industrialization. As suggested below the net social benefits of this Act to date should be analyzed in detail.)

Topic areas related to the Ministry's second set of responsibilities, economic and development policy, are the Fiscal and Balance of Payments effects of Agricultural Subsidies (topic 4), the Macro-economic Impact of Public Enterprises (topics 5 and 6), Senegambian Confederation (topic 8), Credit and Monetary Policy (topic 9), and the IMF/IBRD Stabilization Programs (topic 10). For this sub-group, issues of short term stabilization, for which Topics 9 and 10 are the most pertinent, should be distinguished from the long term development efforts which are concerned with strategies to industrialize and the degree and rate at which the Gambian economy should be integrated with the economy of Senegal. Given the current economic situation in The Gambia, the principal priority over the next year or so should be short term stabilization and not the longer term issues of the most desirable types of development and how the Gambian and Senegalese economies should be integrated. For, without a stabilization program which systematically reduces the foreign exchange arrears, improves the viability of the major financial institutions, and begins to reverse the decline in development spending, the Gambian economy will de facto integrate with the Sengalese economy. (Indeed, for reasons discussed in detail below the process is probably accelerating.)

The Ministry's third set of reponsibilities is oversight, review, and control of government institutions and public enterprises. Its main concern is their longer term financial viability and the economic and social effects of their operations. It has no mandate to monitor or control their normal day-to-day operations. In this area, the most pressing issue confronting the Ministry is how to deal with the generally poor financial performance of the public enterprises particularly now that the Government is in no position to cover their accumulated losses. (As pointed out later, the net losses of the twelve largest public enterprises exceeded D 27 million in 1982-83.) Consequently, the planned review of their macro-economic impact is a timely and useful exercise.

As the most important government enterprise in The Gambia, the GPMB has the potential to generate large both large net benefits or large net costs. Until recently,it was a financially sound organization that had accumulated large reserves with which it subsidized rice imports, contributed to the Government's development budget (in the form of Development Grants), and subsidized the distribution of fertilizer to farmers. But, since 1980-81 the financial position of the GPMB has deteriorated dramatically. To illustrate, the Table below compares the GPMB's profit and loss position in 1977-78 (the year its Reserve Account peaked) and 1981-82 (the most recent year for which corresponding data are available).

Table:Gambia Produce Marketing Board Profit/Loss 1977-78 and 1981-82

Item	1977-78	1981-82
	(Millions of Dalasis)	
1.Groundut Trading	12.4	(13.2)
2.Rice Trading	.3	(2.2)
3.Other Activity	1.1	(0.2)
TOTAL Profit/(Loss)	13.8	(15.6)
4.Interest Charges and Overhead	(3.1)	6.2
5.Grants and Other Expenditure	9.3	(1.0)
6.Subsidies Paid/(Received)	2.7	(4.6)
NET Profit/(Loss)	4.9	(27.4)
RESERVE ACCOUNT Surplus/(Deficit)	106.5	(22.0)

Source:CENTRAL BANK OF THE GAMBIA BULLETIN Quarterly 1,January-March 1983,Table 25

Some idea of the GPMB's contribution to the economy is evident from these data. It used to be highly profitable, had substantial reserves, and had provided large amounts in grants and subsidies. These grants reached a peak of D12.5 million in 1976-77 and totalled D40.5 million between 1974-75 and 1981-82. The subsidies on rice, other food commodities and fertilizers reached a peak of D4.8 in 1979-80 and amounted to D17.9 between 1974-75 and 1980-81. Parenthetically,one item that could be considered in Topic 1 on Income Tax Reform is whether the GPMB (and other public enterprises) should be subject to Company Tax or some other regular payments based on their financial performance. One of the initial justifications for requiring the GPMB to make grants and subsidies was that because it did not pay Company Tax, it should contribute to the development effort significantly but voluntarily. But, as the Government's financial position worsened from the mid-1970s, this rationale seems to have been forgotten and its demands on the GPMB's resources became increasingly burdensome. In retrospect, the GPMB would have been better off financially had it been subject to Company Tax.

Although the grants and subsidies tended to weaken the GPMB's financial position, the factor which undermined it was the change the Board made (at the urging of the World Bank) in the way it computed the producer price of groundnuts. Following long established marketing Board practice, the GPMB derived the producer price as a residual after subtracting from an estimate of the expected groundnut export price all processing, marketing, and transport charges and allowing for additions to (or subtractions from a reserve account). A major objective of the GPMB from the time it was established has been to provide a stable and steadily increasing producer price, and it had successfully done this from the mid-1960s up to the last crop seas However, the GPMB does not have the resources to maintain this practice with the result that a large decline in the producer price is anticipated over the next few years irrespective of what happens to the world price of groundnuts. The Table uses data from 1971 to show how the GPMB used to compute the producer price.

Table: Computation of the Groundnut Producer Price--GPMB 1971
(Dalasis per Imperial ton)

Item	Dalasis
1.Producer Price	170.0
2.Buying Agents' Allowance	13.8
3.Traders' Allowance	16.4
4.Zonal Freight/Transit Handling	18.1
5.Pest Control/Inspection/Seed Improvement	1.8
6.Crop Finance/Crop Insurance	.6
BASIC INSTORE COST	220.7
7.Milling Overhead	5.5
8.Bags	5.5
9.Office/Workshop Overhead	1.9
10.Grant (Agriculture Dept.)/Fees	3.1
Sub-total	236.6
DECORTICATED BASIS (Divide by .71)	333.5
11.Sales Tax	27.2
12.Harbour Dues	1.3
13.Other Allowances	2.4
F.O.B. COST BANJUL	364.2
EXPORT PRICE	476.8
GPMB NET PROFIT	112.6

Source:APPRAISAL OF AN AGRICULTURAL DEVELOPMENT PROJECT THE GAMBIA,World Bank Agricultural Projects Dept. Report No.PA-142a(Aug.8.1972) Washington D.C.

Since 1981-82, the producer price has been derived by increasing the previous year's price by an amount that both the World Bank and the IMF determined would help to "improve productivity and price relationships in the agricultural sector" (International Monetary Fund EBS/82/17 January 26,1982 p.12). With this method, the price increases were 8.7 percent in 1981-82 and 4 percent in 1982-83 which resulted in a 1982-83 producer price of D540 per tonne. When converted to a de-corticated basis, this was within 1 percent of the average f.o.b. price (of D766 per tonne) the GPMB received for groundnuts. This pricing policy, which was intended to maintain incentives for groundnut producers, effectively wiped out the GPMB's marketing, transport and processing margin and as is clear from the Table left the Board in a precarious financial position.

Because of these developments, the Ministry of Finance has good reason to be concerned about the financial viability of the GPMB and this is fully reflected in the fifth topic area. The Ministry's interest in the macro-economic impact of the operations of all of the public enterprises is an obvious extension of the analysis of the economic effects of the GPMB. Therefore,taken together, topic areas 5 and 6 will help the Ministry gain some detailed insights into the overall effects of the organizations for which it is responsible and by doing so begin to institutionalize the oversight and review procedures within the Ministry.

Illustrative Policy Decisions:Description and Analysis.

Since description and analysis are intimately connected by the analytical framework through which we view the world, I shall set out a simple model which guides the following discussion. The model is designed to capture the principal macro-economic interactions in the Gambian economy.

The basic starting point in specifying any macro-economic model is a system of accounting identities which have to hold (by definition) in any period. For example, SAVING equals INCOME minus CONSUMPTION since by definition all income that is not consumed is saved. The next step is to specify a reasonable set of behavioural, technical and/or institutional relations which broadly reflect the way the particular economy operates. This step identifies the variables which for the purposes of policy analysis are endogenous to the system, i.e. they are determined by the way the economy "works," and those which are exogenous, i.e. they are determined outside the "system". For the Gambian economy, the former include national income, agricultural employment, and the demand for money; the latter include the nominal foreign exchange rate (which was last changed by the Government in March 1973), the weather, and as emphasized in the model below, the level of Government expenditure. (Of course, what is endogenous and what is exogenous depends on both the purposes of the analysis and the time periods involved. Therefore, when using any model, including the one below, it is important to ask whether the assumptions about what is endogenous/exogenous are relevant to the particular set of policies being considered.)

In the model used here, the principal policy instruments (i.e. exogenous variables over which the Government has some control) are the effective exchange rate (the nominal foreign exchange rate adjusted for taxes, subsidies, and the ratio of international to domestic prices) and the level of Government expenditure. These appear to be about the only two that the Government has the power to change significantly in the short term.

The Model

(1) $dMS = F + dNDC$

(2) $F = E - M + K$

(3) $dNDC = g[G* - T]$

(4) $M = g[e, G*, Y-G*]$

(5) $dP = g[dPm, dMS, dy]$

(6) $MD = g[y, P, i]$

(7) $MS = dMS + MS(-1)$

(8) $i = r + tc - dP/P(-1)$

(9) $P = dP + P(-1)$

(10) $Y = C + G* + IP + E - M$

(11) $S = Y - C - T$

(12) $T = g[M, Y]$

(13) $y = Y/P$

(14) $dy = y - y(-1)$

For convenience, the pre-fix 'd' denotes period to period changes in a variable, each of which is measured at the current time period unless indicated by the lag, (-1).

Identity (1) gives the change in the Money Supply (MS) as the change in net foreign assets of the banking system (F) plus the change in net domestic credit (dNDC). Identity (2) defines the change in net foreign assets as Exports (E) minus Imports (M) plus net capital inflow (K).

Equation (3) relates the change in net domestic credit to the Government deficit (G*-T) where G* is total government expenditure on both recurrent and capital account and T is total Government revenue (mainly taxation). Equation (4) relates the level of imports to the real exchange rate (e), the level of Government expenditure, and the level of non-government expenditure (Y-G*). Here, Y is aggregate income and to simplify the discussion we assume that national income (i.e. GNP) equals domestic income (i.e. GDP).

Equation (5) treats the change in domestic prices (dP) as a function of the change in the import price index (dPm), the change in the Money Supply, and the change in real national income (dy). Equation (6) relates the demand for money (MD) to real income (y), the price level (P), and the opportunity cost of holding money (i). Identity (7) defines the level of the Money Supply. Identity (8) measures the real opportunity cost of holding money balances as the nominal interest rate in the regulated financial sector (r), plus any transactions costs (tc) involved in substituting for money balances minus the rate of domestic inflation (dP/P(-1)). Identity (9) gives the price level. Identity (10) defines aggregate national/domestic income (GNP/GDP) as the sum of Private Consumption (C), Government recurrent and capital expenditure (G*), Private Investment (IP), and exports (E) minus imports (M). Identity (11) defines aggregate Saving (S) as aggregate income minus private consumption and taxes. Equation (12) relates total taxes to imports and national income. Finally, identities (13) and (14) respectively define the level of real national income (y) and its change (dy).

Thus the model uses five behavioural equations (3,4,5,6, and 12), nine identities, 9 exogenous variables (E,K,G*,e,dPm,r,tc,C, and IP) and 3 "pre-determined" variables (MS(-1),P(-1), and y(-1)) to determine 14 endogenous variables (dMS,F,dNDC,M,dP,MD,MS,i,P,Y,S,T,y,and dy).

The essence of policy analysis using the model is to determine the impact of changes in the policy instruments on the main endogenous variables such as the money supply, real income, the balance of payments, and the rate of inflation. We shall briefly consider what policy instruments could be used in The Gambia. The Government has little direct control over exports especially over short periods because of the the weather is a major determinant of the volume of groundnut production. (However, as brought out in topic 7 over longer periods Government incentives could increase groundnut exports and expand the range of export products.) Similarly,the Government has little control over short term capital inflows since a large part of it is development assistance, the volume of which depends more upon the concerns and priorities of the international assistance community (including the IMF and World Bank). Borrowing on the international financial markets on a scale that would change short term capital flows is not an option for the Government. The next three variables Government expenditure, the real exchange rate, and the nominal rate of interest are subject to Government control. Changes in import prices are determined elsewhere in the world economy. The transactions costs associated with holding money (and other financial assets) depends on the structure of the financial system and its degree of financial development both of which cannot be dramatically modified to serve short term policy purposes. Finally, there is not a great deal the Government can about private consumption or investment in the short term.

From this review, the Government's principal short term policy instruments are its own expenditure, the effective exchange rate and the structure of interest rates in the regulated financial sector. Furthermore, because the impact of changes in both the exchange rate and interest rates are indirect and relatively slow, the main element of Government policy is its own expenditure. Therefore, the following discussion will tend to emphasize this variable although others such as changes in the exchange rate and interest rates which tend to reniforce the effects of changed in Government expenditure will be dealt with.

For policy makers and policy analysts in the Ministry of Finance and Trade, the main advantage of having an explicit model (even a simple one like the one above) is that it provides a systematic way of keeping track of the short term interactions between the principal economic aggregates in the Gambian economy. It is also a useful starting point for the analysis of the impact of the major <u>macro</u> policy instruments on the agricultural sector. As Timmer, Falcon and Pearson emphasized in their recent book <u>Food Policy Analysis</u>, the effects of the foreign exchange rate and interest rate policies and taxes and subsidies which determined outside the Ministry of Agriculture are often critical for agricultural development. (Indeed, they argue that these macro policies frequently have a greater impact on agriculture than all of the projects undertaken by the Ministry of Agriculture.) This point is discussed below. Furthermore, since the model is a consistent macro-economic framework, it can be easily expanded to analyze the impact of the policy instruments on variables such as agricultural employment and the public enterprise sector which are not included in the basic model above.

To illustrate various Policy Decisions and their potential impact the following material systematically works through the ten topic areas contained in the proposed PID (and attached). The discussion is purposefully focussed on short term issues because of the nature of The Gambia's present economic problems.

1. Income Tax Reform.
The principal initial effect of income tax reform, especially if it widens the tax base, curtails the incentives provided by the Development Act of 1973, and accelerates tax collection will be to increase the total amount of taxes collected. In the model, this w[illegible] increase total Taxes (T) and would be evident empirically as an increase in the coefficient on the income term (Y) in equation (12). This increase in taxes (dT) works through the model as follows. Through equation (3), it reduces the government deficit [G*-T] which reduces the change in net domestic credit (dNDC), and through identity (1) reduces the increase in the money supply (dMS). This would through equation (5), reduce the change in domestic prices (dP) which then has both a direct and an indirect effect on the demand for money balances. The direct effect occurs through the opportunity cost of holding money (relative to other assets such as livestock or inventories of imported commodities). The indirect effect occurs through the relative increase in the level of real income (through

identity (13)) and the increased demand for real money balances (MD/P).
Simultaneously the change in total taxes results in a second effect--through identity (11) it increases the level of aggregate saving in the economy. Although the initial impact of this change is not likely to be large, its longer term effects may be as domestic investment increases. (It should be noted that a detailed examination of these longer term effects requires a growth model which more carefully specifies the dynamic relations among the economic variables than those set out in the basic model above. This is not attempted here.) The potential importance of these longer term effects is a useful reminder that because of the inter-relations among variables in the system the initial impact of the change in tax revenue resulting from income tax reform (or other policy changes) have "multiplier" effects which can also be traced through the model for subsequent periods.

2. Overall Tax Administration.
The performance of agencies other than the Ministry of Finance and Trade in tax collection is shown by the data which relate to the period until May in the financial year 1982-83.

Table:Expected and Actual Tax Collections
To May 1982-83 (D million)

Ministry/Department	Expected Amount	Actual Amount	Percent
Interior	2.02	1.53	76
Works and Communications	1.47	.87	59
Lands Office	.32	.07	22
Information and Tourism	1.47	.42	29
Fisheries	.46	.29	63
Justice	.51	.03	6
Accountant General	.37	.21	57
TOTAL	6.62	3.42	.52

Source: J. Haughton "Report on the Collection of Finances Outside the Ministry of Finance" mimeo June 26,1983 Table 1.

While this performance does not appear to be too effective, the Ministry of Finance seems to have had similar problems. For instance during the same period the Ministry collected respectively 52, 51, and 56 percent of the National Development Levy, Personal Income Tax and Company Income Tax. That is, most agencies outside the Ministry of Finance appear to be little different in the efficiency with which they collect the taxes and fees they administer. Hence, in considering ways of improving the overall administration of tax collection two questions should have priority. One is whether the revenue yield of the various taxes offsets the resource costs of collection (e.g. wages, stationery, and administrative overhead) and their associated efficiency losses(compliance costs, and changes in economic behaviour because of the taxes). The second question is whether the costs of the bureaucratic battles over "turf" associated with consolidating all taxing power in the Ministry of Finance and Trade are offset by the potential efficiency gains. The above data show that the Ministry of Finance and Trade does not have an obvious comparative advantage in tax collection that initially at least justifies consolidation.
Perhaps the first question that should be addressed under this topic area is how can the Ministry of Finance improve the efficiency with

which it collects the taxes for which it is responsible.
In the model, improvements in the efficiency of tax collection would show up as an increase in the total taxes (T), the consequences of which have already been described.

3. Expenditure Controls.
As a means of implementing a wide-ranging system of expenditure controls, the Ministry of Finance should begin to systematically review its own budgetting procedures in addition to the arrangements through which other Ministries and government agencies gain access to government resources. This task will take time and possibly should be done in stages. In the interim, the Ministry has required all government departments to submit quarterly statements of expenditure. This has imposed additional burdens on each department as well as the Ministry itself, but so far it has helped reduce the extent of the "coercive deficits" which have characterized the budgetting process in The Gambia since the mid-1970s. (A "coercive deficit" describes the behaviour of government departments which intentionally accelerate the expenditure of their annual budget allotments knowing that when they run short of funds before the end of the financial year, the Government will be forced to provide them with additional funds to avoid disruptions of their operations.) These deficits, typical of the Budget cycle in The Gambia, are usually covered by Supplementary Appropriations before the end of each financial year. They have effectively undermined the budgetting process. Parenthetically, it should be noted that this is a general problem in The Gambia which affects other areas of financial planning. For example, because the Second Five-Year Plan (Five Year Plan for Economic and Social Development 1981/82-1985/86 Banjul:Government Printer 1983) has not included the Gambia River Bridge/Barrage project in its estimates it too will be subject some large supplementary appropriations when the project eventually begins. In the process it will will undermine the assumptions upon which the Plan is based. Much the same thing occurred during the First Five-Year Plan (see in particular the review of the First Plan experience in ibid.Chapter 2). This point raises the broader question, which should also be considered under this topic area, of whether the Ministry of Finance can achieve the types of expenditure controls it requires if similar control is not exercised in other Ministries e.g. in Planning and Economic Development.
If the Ministry of Finance can exert a greater degree of expenditure control, the principal indicator of its success will be the rate of growth of total government expenditure (G*). From the model, a decline in the growth of G*, through equation (3), reduces the change in net domestic credit and, through identity (1), the change in the money supply (with all of the consequences described above). In addition, the decline in government expenditure, through equation (4), reduces the growth of imports which, through identity (2), improves the balance of payments. This improvement, in turn, feeds back through identitiy (1), on the change in the money supply partially offsetting some of the change resulting from the reduction in the growth of net domestic credit. A futher effect which works through the decline in imports is the reduction in tax revenue (in equation (12)) which through identity (11) increases aggregate savings and ultimately investment expenditure. Another effect of the decline in G* works through both nominal and real income (identities (10) and (13)). These changes then feed back through equations (4),(5), and (6).

While the most likely effects of expenditure controls (particularly in the short term) will be to reduce the growth of government expenditure an associated effect will be to improve the efficiency with which government resources are used. This can be described using the model by presuming that a given level of government nominal expenditure has a greater real impact. To illustrate, consider the national income accounting identity (10). Increased efficiency in government spending effectively increases national income (Y) which raises real national income (y) which through equations (5) and (6) reduces the change in domestic prices and increases the real demand for money. These changes in turn lead to the changes already described. Another effect of improving the efficiency with which government resources are used is to reduce the level of imports which, through identity (2), improves the balance of payments.

In practice, a successful system of expenditure controls will have both effects. In the initial stages of the program, there are likely to be obvious changes which can cut expenditure as well as improve efficiency. For example, the Government could reduce its subsidized credit programs which are rarely effective in addition to being inefficient and inequitable. However it should be recognized they the controls have their costs and and that care has to be taken to ensure that the distortions introduced by the controls do not offset the effects of any improvements that are achieved. Also, the more stringent the controls become the more apparent are the trade-offs between efficiency, equity and efffectiveness discussed above. The point is that there are limits to the extent to which controls can be used. The issue is not one of achieving maximum efficiency in the Ministry's operations but rather one of determining the net benefits of reducing the degree of inefficiency.

4. Fiscal and Balance of Payments Implications of Agricultural Subsidies.

The broader trade-off between increases in government subsidies (and hence the government budget deficit) and the balance of payments can be readily analyzed within the framework of the basic model above. However, to begin to deal with the micro-economic forces underlying this macro-economic trade-off requires that the model be expanded. One way of doing this is with a simple model of the way farmers can be expected to behave as the relative prices they face change and to then link it to the broader model.

The model of farmer behaviour is based on two premises: (i) we expect farmers to want more profit rather than less and to behave in ways that achieve this; and (ii) we expect that most farmers are risk-averse, that is, they will avoid circumstances which offer fair bets or worse. The first premise rules out economically irrational behaviour in the sense that farmers do not intentionally try to make themselves worse off through their production decisions. They may be worse off after production has occurred but this was no their intention. The second premise means in practice that a Gambian farmer will not be indifferent between receiving (say) D 100 with certainty--for example by placing his/her assets in some informal financial market which he/she knows from experience to be safe--and a chance at a net return of D 200 and D 0 both with a probability of 50 percent. A risk-averse farmer requires some premium for taking the risk (of getting nothing).

Based on these two premises, the following model of farmer behaviour can be specified. Define:

p the price of agricultural output
w the cost of the principal input used to produce this output
x the level of the input used in production
f[.] the "production function" relating the input to the output
PR net profits in the agricultural enterprise
E{.} the Expectation operator
V{.} the Variance operator
a the measure of the farmer's degree of risk-aversion.

The farmer's expected net profits can be written as:

(101) E{PR} = p.E{f[x]} - w.x

which states that expected net profits from the output is the difference between the expected gross output, i.e. price (p) times the expected quantity produced (E{f[x]}), and the expected costs of the input (w.x). Taking small changes of this relation gives

(102) dE{PR} = p.dE{f[x]} - w.dx

From the first premise, the farmer will continue to increase his/her use of the input (i.e.dx >0) so long as the expected net profit is positive, which implies:

(103) dE{PR} > 0

And, from the second premise, the relationship between changes in the expected value of profits and the variance of profits (taken as a measure of risk) has to be positive as well. That is:

(104) dE{PR}/dV{PR} > 0

Or, using the measure of the farmer's risk aversion (a), this can be written as:

(105) dE{PR} = a.dV{PR}

Combining the two equalities for the change in the expected value of profits,namely (102) and (105), gives:

(106) p.dE{f[x]} = w.dx + a.dV{PR}

Dividing through by the change in the input (dx) yields:

(107) p.dE{f[x]}/dx = w + a.dV{PR}/dx

The economic interpretation of this relationship is that the farmer will continue to increase the use of particular inputs so long as the expected value of the increase in output from using the input (the left hand side of (107)) exceeds the cost of the input (w) plus some allowance for risk which takes into account both the farmer's attitude to risk (measured through the parameter 'a') and the impact of the change in the input on the variance of profits (the right hand side of (106)).

To illustrate how the relationship can guide policy we shall briefly discuss how changes in relative prices, changes in techniques of production, and changes in the institutional setting in which farmer operate affect the farmer's output and labour use. These changes wi then be linked to the macro-economic variables of exports (and imports), the balance of payments, Government subsidies and agricultural employment. The variables which have the greatest economic relevance to the farmer are p.dE{f[x]} and w.dx. The former is the expected value of the marginal (or incremental) product, that is the gross value to the farmer of the additional output resulting from his/her use of the additional input (represented by dx). The latter is the additional cost of the actually using the additional input to produce the additional output. Both of these variables consist of several components. The most obvious are the input and output prices (w and p), the expected change in output and the change in the input. To determine the impact of changes in relative prices on a farmer's economic behaviour all of these elements have to be considered. In particular, it should be remembered that from a policy perspective the relevant prices are those actually received and paid by the farmer. In general, this means that the market price of output (i.e. the price policy maker's influence) to the farmer will be lower by transport, storage, and other costs he/she incurs in getting the product to the point of sale. Similarly, the cost of the input to the farmer has to be increased by any costs the he/she incurs in moving the input from the point of delivery to the place and time it is used. Therefore, in general the <u>net</u> price farmers receive for their output is less than the "market" price and vice-versa for the <u>net</u> input price. Thus, without even without allowing for the effects of uncertainty it should be noted that relative market prices do not provide the degree of incentive for each farmer that the market spread would indicate. Nevertheless, from the first premise of the model above it can be inferred that an increase in the gap between market output and market input prices provides a positive inducement for farmers to expand their output.

The other elements of the incremental returns and costs, namely dE{f[x]} and dx, respectively measure any technical changes associated with the use of the additional input and the actual availability of the input. The latter point is a useful reminder that it cannot be presumed (as agricultural planners often do) that promoting the use of productivity increasing inputs such as fertilizer and ox plowing, will (somehow) give farmers access to them. If planners and policy makers do not want the net price of the inputs they wish to encourage to be prohibitively expensive for individual farmer's they have to be concerned with having the appropriate inputs available (as agricultural scientists continually remind us) at the right place, in the right amounts, and at the right time. The difficult task is that because each farmer's circumstances differ, fulfilling these requirements for large number of them can be administratively demanding (and hence expensive). With respect to the point on the technical changes associated with the using the input, it is useful to recognize that technical change can change the incentive effect of any set of relative prices. This point can be demonstrated by considering how the relationship between incremental returns and incremental costs changes in the equation (106) when both p and w are fixed but the expected marginal product (dE{f[x]}) is allowed to change.

The basic factors which determine the types of technological changes that occur in the agricultural sector (and the rate at which they occur) are embedded in the historical, social, economic, and political setting in which different groups of farmers operate. Most economists recognize this point (in theory at least), yet they represent the impact of shifts in technology through changes in the production function (i.e. the technical relations of production). While this is a useful short term approximation, in The Gambia, it is a mistake to assume that the production relations on a "typical" farm can be represented by the type function (f[x]) used above. At a minimum, a typical Gambian farm consists of two interacting farming sub-systems--one for the husband and one for the wife (or in polygamous households, wives). This means that some measure of the farm's output (food crops, cash crops, cattle and other

livestock)--denoted by q--would be represented by:
(108) $q = Q\{f_m[x_m];f_w[x_w]\}$
where the two sub-production functions subscripted m (man) and w (woman) interact to determine the production function Q{..} for the total farming system. Viewing Gambian farms this way is useful as a continual reminder that women, who have generally been neglected in agricultural policy formation, are fundamental to the sector. This reminder is necessary so that policy makers can recognize that some of the agricultural changes they have encouraged, for instance in cash crops such as cotton and irrigated rice and the mechanization of plowing, have frequently worsened the access of women to agricultural resources and increased their work loads. In the case of plowing little thought has been given to the question of who provided the labour for the additional weeding or harvesting. And, in the case of access to resources, there is mounting evidence that the expansion of irrigated rice has usually made various groups of women swamp rice producers worse off. (The recent displacement of women rice producers from the Jakhally-Patcharr swamps is an example indicating the neglect of the concerns of women producers among Government policy makers and planners.)

The remaining element in equation (106) is the impact of institutional changes on the risk factor (a.dV(PR)). Government policy decisions can have a significant impact on the various risks farmers perceive they face. Factors which tend to reduce the farmer's degree of risk aversion are steady increases in his/her wealth, predictable improvements in marketing arrangements for both inputs and outputs, and demonstrated reliability of the services the Government provides (e.g. agricultural research and extension, disaster relief, and the maintenance of infrastructure). Factors which tend to reduce the variability of the farmer's profits are predictable (though not necessarily fixed) input and output prices), access to productive factors such as fertilizers, seed, and information, and a steadily expanding market for a range of products so that advantage can be taken of the income stabilizing effects of output diversification. None of these factors can be influenced significantly in the short term (except perhaps adversely) since they all essentially depend on agricultural and rural development. The useful policy lesson is that the longer term effects of any changes the Government may wish to promote have to be considered from the perspective of how they affect the farmer's perception of the risks he/she will encounter from the broader economic and social setting. This point is particularly important if the Government is contemplating dramatic changes in relative agricultural prices. Farmers may respond slowly to the changes because they realize that if the Government can dramatically change its pricing policy, it can just as dramatically reverse itself. (This is a general point which can be applied to all of the policy decisions described in the ten Topic areas.)

To determine the impact of the farmer's micro level changes on the macro-economic variables such as the balance of payments, the Government deficit, and agricultural employment the effects of input use and output decisions taken by all farmers in response to the policy-induced changes (e.g. in relative prices and so on have to be aggregated. In economics, there are few satisfactory aggregation methodologies primarily because economists have not discovered an effective way to deal with the effects of interactions among individual producers. A specific example of the problem is that policy makers in the Ministry of Finance cannot provide credit at low interest rates to the agricultural sector and expect that all farmers will have equal access to the credit in the sense that they can borrow at the stipulated interest rate. Since the supply of credit at the low interest rate is limited, small farmers in particular will be rationed out of the market by high transactions costs (cf.identity (8) in the model). In practice, the aggregation problem is typically ignored by assuming that the interaction effects are unimportant and that the aggregate effects of policy changes are the sum of all the individual effects. For example, in the case of agricultural employment the incremental impact of policy changes is approximated by measuring the effect of the policy on output or area cultivated or animals produced and multiplying these by their respective labour coefficients. The aggregate employment effect is simply the sum of all the individual effects of the policy at the farm level. Some examples are given in the following Table.

Table:Area,Output and Average Labour Requirements,Gambian Agriculture

Item	Area (th.has)	Labour/Hectare*	Total
Employment**			
Cotton	2.6	195	2.5
Rice-Irrigated	2.6	290	3.8
Swamp	22.3	120	13.4
Upland	4.0	100	2.0
Early Millet	11.4	100	5.7
Late Millet	11.6	45	2.6
Maize	10.0	55	2.8
Sorghum	14.3	60	4.3
Findo	3.2	30	.5
Groundnuts	69.0	115	39.8
Sub-Total	151.0	105	77.4
Livestock***			6.0

Notes:*Refers to full-time adult equivalent workers.
**Based on a 200-day employment year.
***Assumes one full-time herdsman to fifty cattle.

Sources: Dunsmore,Rains,Lowe et al. The Agricultural Development of The Gambia:An Agricultural, Environmental and Socioeconomic Analysis U.K. Ministry of Overseas Development 1976,Volume II,Chapter 3; Appraisal of Rural Development Project The Gambia The World Bank,Western Africa Regional Office Report No. 1089a-GM Washington D.C. June,1976,pp.7-8

These data can be used in a number of ways. For instance, if the Government provides incentives to expand the total cropped area in agriculture, it can expect that on average each additional 1 thousand hectares of land brought under cultivation will generate additional employment of approximately 500 (=77.4/151) adult equivalents per annum. Corresponding data for expanding irrigated rice production by 1 thousand hectares is approximately 1500 (=3.8/2.6) adult equivalents per annum. Thus, in terms of employment expansion increasing irrigated rice is far more effective than expanding the total cropped area in agriculture. However, employment is only one dimension of overall policy and the capital and recurrent costs per job created, the foreign exchange earned or saved, and the women producers assisted should be considered as well.

Another way of measuring the macro-economic impacts of the changes in agricultural price policy is through the macro model above. Suppose the Government decides to subsidize groundnut producers. This subsidy can either raise the effective price farmers receive for their output or lower the effective prices they pay for their inputs. (Since evidence from the mid-1970s shows that farmers do not spend much of their cash on farm inputs--less than 10 percent by one estimate--the most effective way to subsidize farmers is by increasing the product price.) If groundnut producers expect that the Government is seriously attempting to improve the incentives they face, the subsidy will result in an increase in the labour employed in groundnut production, and (weather permitting) an expansion in output. This will increase the income of groundnut farmers, raise export receipts and lower the balance of payments deficit. Additional beneficial effects will be that the financial position of the GPMB will improve (assuming that it returns to a producer pricing policy which covers its costs), and the activity and income in the wholesale trading sector which handles the groundnut crop will increase. On the negative side, the increase in producer prices will increase the demand for imported agricultural imports (mainly fertilizer), the processing and handling of the crop will require additional imports of fuel, spare parts, and other intermediate products and the expansion in agricultural income and the income associated with the increased activity of the trade sector will also lead to an increase in imports.

However, suppose that the Government decides to subsidize the production of food grain output such as rice. It has essentially two choices--an expensive but technically "easy" approach, and an inexpensive but socially complex approach. The former is based on the construction of the Bridge/Barrage over the Gambia River and the subsequent development of up to 25 thousand hectares of irrigation. It is an expensive scheme--in 1982-83 prices its capital cost alone for a twenty-year development period is approximately D 660 million. This represents a capital development cost in excess of D 26 thousand per hectare. The recurrent cost implications of the project are also large, since the Government already subsidizes 75 percent of the recurrent cost of irrigated rice production. This burden (on top of the other subsidies the Government provides) is unsustainable. Adding to them through the Bridge/Barrage project is (for the immediate future) out of the question. By contrast, the inexpensive but socially complex alternative is to promote swamp rice production. This is an inexpensive option because the capital costs involved are low--some infrastructure such as roads and local storage may have to be improved. Indeed, the principal immediate tasks which will not be expensive are to begin to better understand the farming systems used in swamp rice production, determine the main problems and constraints as perceived by the women producers, and encourage longer term agricultural research that supports a program of gradual but sustained improvement in productivity.

Such an effort has a number of advantages. First, it will help to increase the incomes of the poorer members of Gambian society namely women agricultural workers. Second, since the yields in swamp rice production are low (approximately 1.3 tonnes per hectare in a[illegible] average year) and the area under production is large (over 22 thousand hectares in 1981-82) the sector has the potential for substantial long term gains if producers are provided with sustained support. And third, expanding swamp rice production is the major opportunity for The Gambia to conduct an import substitution program based on agriculture. The following Table assesses the various merits and demerits of swamp rice and irrigated rice in The Gambia.

Table: Swamp Rice and Irrigated Rice Compared

Item	Swamp Rice	Irrigated Rice
Average Yields(1982,t/ha)	1.3	5.7
Area Harvested(1982,th.has)	22.3	2.6
Employment(Adult Equiv.th.yrs)	13.6	3.8
Gross Return per Day Worked (D)	3.5	7.0
Direct Import Requirement	Low	High
Indirect Import Requirement	Low	High
Capital Requirement	Low	High
Recurrent Cost Requirement	Moderate*	High
Import Substitution (Food)	High	High
Impact on Women in Agriculture	Positive	Negative
Marginal Output Contribution	Low	High
Food Security per D Invested	High	Low
Marginal Employment Contribution	Moderate	High
Intersectoral Linkages	Moderate	High

5. Consultancy to Analyze the GPMB Operations.

Among the many questions which could be asked about the operations of the GPMB, two stand out. First, what type of short term support does the Board require to stabilize its financial position. Second, what needs to be done to convince the Gambian Government to refrain from appropriating the Board's surplus (as happened over the last decade). Answering these questions involves considering: (a) whether the GPMB can be a viable financial entity in the longer term; and (b) whether The Gambia should base its agricultural development on groundnut production. The latter issue is important because both of the Five-Year Plans have stressed the need to diversify the economy away from groundnuts. To date, there has been little progress towards this goal especially when judged by the continuing contribution of groundnuts to exports, to rural income, and to the welfare of the rural population generally.

Yet, before programs to do this are pushed too far, it is useful to ask whether it is an appropriate objective? Isn't The Gambia's agricultural base of livestock products, food grains, cotton, and groundnuts sufficiently diversified? Has too much attention been devoted to increasing the production of other agricultural commodities when the same resources invested in groundnuts could have yielded an even higher return? These questions deserve detailed attention because the evidence from the last decade shows that although groundnut producers have experienced adverse price incentives their aggregate production (after allowing bad weather) has not fallen significantly. Since this result cannot be explained by producer irrationality or lack of responsiveness, other explanations have to be found. One is that Gambian farmers have had (and still have) a comparative advantage in the production of groundnuts within a relatively diversified agricultural system that provides the opportunity for food crop and livestock production. To illustrate, the following Table gives data on the effective exchange rate for groundnut producers, the real groundnut producer price, and aggregate groundnut production since 1975-76.

Table: Groundnuts-Exchange Rates,Real Producer Price,and Output.

Year	Exchange Rate(D/$) Official	Effective	Real Groundnut Producer Price*	Groundnut Production (thousand tonnes)
1975-76	2.2	1.4	104	133
1976-77	2.3	2.0	102	124
1977-78	2.1	1.8	94	82
1978-79	1.9	1.7	94	120
1979-80	1.7	1.3	91	67
1980-81	2.0	1.7	95	45
1981-82	2.4	1.2	93	82
1982-83	2.6	0.9	88	128

*Groundnut producer price divided by GDP deflator (1974-75=100).

Sources: M.F.McPherson "The International Terms of Trade and The Gambian Economy" mimeo, Harvard Institute for International Development November 1983,Table 5; CENTRAL BANK OF THE GAMBIA BULLETIN Quarterly 3,July-Sept. 1979,Table 25;Quarterly 2,April-June 1983 Table 24

Three features in these data are worth noting. First, groundnut production in The Gambia has been heavily taxed at the official exchange rate. This results from the groundnut export levy and the decline in the dollar price of groundnut products in international markets relative to domestic costs of groundnut production. It has varied from approximately 14 percent in 1976-77 to 65 percent in 1982-83. Since the export levy has been of the order of 10 percent, the main change in the tax has been through movements in the official D/$ exchange rate. Second, in addition to the disincentives of the low effective exchange rate (which affects the whole groundnut sector--producers, traders, and the GPMB), groundnut producers have faced a declining real producer price since the mid-1970s. And third, there has not been a significant decline in aggregate groundnut production when the effects of drought are taken into account. One reason for this is that producers have increased their efficiency to offset (partially at least) the adverse effects of the tax. Another explanation is that groundnut producers are locked in because of a lack of viable alternatives. Of the two reasons, the former is more plausible than the latter.

An important question is whether this situation will continue. Will groundnut producers increase their productivity (despite adverse incentives) at a rate which sustains aggregate production? This issue should be explored in more detail. Yet, from a policy perspective, it is more useful to ask what additional production would result if groundnut producers were taxed less heavily (or even subsidized)? To avoid too much of an adverse effect on the Government Budget such a policy would require a reduction in the export levy and a large devaluation of the dalasi. The impact of these actions can be traced through using the model set out above. Eliminating the tax would reduce Government revenue (T) but it would increase the dalasi income of both groundnut producers and the GPMB. The decline in tax revenue would increase in Government deficit (G*-T) and through equation (3) generate the various effects discussed earlier. A devaluation would increase the dalasi income of both groundnut producers (if the producer price was increased) and the GPMB. The direct effects of this can be measured using the data presented earlier on the computation of the groundnut producer price. For instance, consider the question to what extent would the dalasi have to be devalued to maintain the current producer price for groundnuts, provide a 10 percent export levy to the Government, and ensure that the GPMB earns at least 10 percent net profit on its groundnut activities. This can be answered as follows.

Item	Cost Structure (Dalasis) Actual (1971)	Estimated (1983)
PRODUCER PRICE	170	540
Marketing/Delivery Costs	51	75
Basic Instore Cost	221	615
Milling Costs/Overhead	16	24
Sub-Total	237	639
Decorticated Basis	334	900
Tax	27	90*
Other	4	5
F.O.B. COST BANJUL	364	995
Dollar Export Price	230	302

*Assumed to be 10 percent.

In 1971, at the official exchange rate of D 1.9/$ 1.0, the price of groundnuts at Banjul was D 477 per ton. The GPMB therefore made a net profit of D 113 per ton. However, the 1983 dollar export price at the official exchange rate of D 2.6/$ 1.0 was approximately D 785 per tonne which resulted in a loss for the GPMB of D 210 per tonne. For the GPMB to have broken even on its operations the exchange rate would have had to have been D 3.3/$ 1.0, a devaluation of about 27 percent. However, the devaluation required to maintain the export tax, the producer price (at D 540 per tonne) and to provide a net profit of 10 percent for the GPMB would have to exceed 40 percent increasing the exchange rate to D 3.6/$ 1.0.

The above exercise provides two important lessons. Firstly, it shows that if the Government wants to maintain the producer price of groundnuts and to improve the financial position of the GPMB then the repeal of the export levy is not enough. It will help, but there will still have to be a cut in the producer price or the GPMB will continue to operate at a loss (or both). Secondly, changes in the official exchange rate can be a potent instrument for economic recovery in agriculture and the sectors to which it is linked. This restates the point made earlier that macro-economic policy (controlled by the Ministry of Finance and Trade) has a major impact on agriculture and related industries.

6. Macro-Economic Impact of Public Enterprises.

Many of the points covered in the previous section are relevant to any evaluation of the effects of the various Public Enterprises. That these enterprises, taken as a whole have been a fiscal burden on the Government is well known. For instance, the Minister of Finance and Trade reported in his Budget Speech of 1983-84 that during 1982-3, the combined losses of six parastatal organizations (GPA, GUC, GPTC, GPMB, FMC, and the ADB) was D33.9 million. Set against this, the profits of six parastatals (NTC,GCDB,HFC,GNIC,LMB and CBTG) were D6.7 million. (The losses while large are distorted by neglecting the potential losses by the GCU of D34 million.) The net effect of these losses is to increase the Government deficit (G*-T) by increasing the subsidies required to support the operations of the parastatals and by reducing the revenue accruing to the Government (reflected through a lower value of T). As discussed earlier, an increase in the deficit has significant macro-economic implications through the money supply, the balance of payments, the rate of inflation, and the level of real income.

These large net losses have a number of other effects. One is that the Government subsidies paid to the parastatals diverts national resources from investment. This reduces the rate at which the economy's productive base can expand and thus the longer term growth of the economy. Another effect which operates at one remove,is through the expansion in the money supply as parastatals are given preferential access (frequently at the Government's direction) to bank credit. For some parastatals, such as the GCU, this has meant that the banks (mainly the GCDB but sometimes the Central Bank) have de facto taken equity in them. The net effect of government deficits and preferential credit for parastatals has been an excessive expansion in the money supply and a general undermining of the whole financial system. This point is discussed further in the section on Credit and Monetary Policy.

The impacts of the parastatal organizations on the economy can be traced and measured in a variety of ways. The model set out above is one. But to use it requires that some of its relations be disaggregated. For example, in equation (3) the subsidies paid to parastals should be split out from Government expenditure and a term could be added to measure the impact on domestic credit of parastatal borrowing. The effects of parastatal operations on the demand for imports (equation 4) and the tax base (through exemptions) could also be isolated). Once the necessary terms are included in the appropriate relationships, the effects of changes in the economic variables controlled by the parastatals on other macro-economic aggregates can be traced in the manner described earlier.

The IMF methodology for measuring the impact of parastatals (cf. International Monetary Fund DM/83/35) is essentially an elaboration of the procedure outlined above. Various macro-economic relationships are decomposed to isolate the components directly relevant to the interactions of the parastatals with the Government (through taxes,subsidies, grants, net surpluses and so on), among themselves (through the provision of services or resources), with the rest of the economy (through the purchase of good and services--especially labour--and the sale goods and services), and with the rest of the world(through the import and export of goods and services and financial flows). The basic framework for the IMF approach is a model developed by Polak and others in the early 1960s. A simple version is the following two equations and two identities:

$$
\begin{array}{ll}
(P1) & Y = v.MS \\
(P2) & dMS = F + dNDC \\
(P3) & F = E - M + K \\
(P4) & M = m.Y
\end{array}
$$

Equation (P1) relates aggregate income (Y) to the money supply (MS) through the proportionality factor v. Identity (P2) defines the change in the money supply as the change in international reserves (F) and the change in net domestic credit. Identity (P3) defines the change in international reserves as exports (E) minus imports (M) plus net capital inflow (K). And, equation (4) relates imports to aggregate income through the proportionality factor m. The parameters v and m can be estimated econometrically or representative values can be substituted and the model solved for several time periods.
Although this is a simple model, it can be expanded easily to include the contribution to national income by public enterprises, their propensity to import, and their contribution to exports and foreign capital flows. Furthermore, as the IMF paper (DM/83/35) shows, basic national accounting procedures will link the activities of the public enterprises to the Government and other sectors of the economy. Indeed, the main theme of the whole approach is that a simple analytical framework, if appropriately used, is a powerful guide for macro-economic policy making.
Nevertheless, while the fiscal, monetary and balance of payments effects of public enterprises take on special significance when economic circumstances are adverse (as they are in The Gambia), the performance of public enterprises cannot (and should not) be judged solely by these criteria. As discussed earlier, concerns about efficiency and equity and effectiveness are embedded in all policy decisions. Certainly, when resources are severely limited, efficiency will be emphasized and both the effectiveness of government and public enterprises and the efficiency costs of their equity-oriented activities should be scrutinized. (This shift in focus can be seen from the First to the Second Five-Year Plan. The former emphasized economic and social development through the expansion of infrastructure; the latter stresses productive investment.)

Therefore, besides their concern over fiscal, monetary, and balance of payments effects, policy makers will also be interested in how the activities of public enterprises contribute to food security, employment, the re-distribution of income, the development of lagging regions or sectors, assuring national control over important productive assets, and national integration. (Here it is worth noting in passing that the recent efforts by major international agencies to encourage Governments to "privatize" the public enterprises can at best have a limited impact. It has been resisted more because Governments are not convinced that the social services provided by the public enterprises will persist once they are privatized rather than that they are opposed to the idea of increasing efficiency.)

7. Industrialization and Export Promotion.
As noted in the comments on the terms of reference, there is little that The Gambia can provide to world markets in the way of industrial products or manufactured goods. It has limited natural resources, few skilled personnel, the energy supply is expensive and unreliable, investment costs are high because of the redundancy required to

compensate for deficient infrastructure, and the country is poorly located relative to major world markets. However, it has an international comparative advantage in groundnut production which has promoted some industrialization and provided a substantial export base. That industrialization or export promotion have not been based on groundnuts has been a matter of choice and not compulsion. So far, Gambian policy makers and planners have seemed to want to ignore what they do well in the hope that something else will emerge. For instance, hopes remain high that fisheries will become a dynamic export sector despite every indication that The Gambia's fish stock are already seriously depleted. Attempts have been made, with some success, to export beef. Transport costs are a severe limitation.

A major source of Government support for industrial enterprises and activities having export potential has been the Development Act of 1973. It includes incentives such as tax holidays, rebates of import duties, and in some cases Government-guaranteed loans. No detailed assessment of the effect of the Act has yet been undertaken but indications are that its net impact on investment (and development) has been marginal. Its provisions have essentially rewarded investors for what they would have done any way (especially in the Tourist sector).

With these points in mind, the question of what incentives should be provided to promote industrialization and export-oriented growth reduces to the issue of determining what is feasible from what is desirable. Since there are few exports that The Gambia can promote besides groundnuts and there are few industrial activities except those associated with groundnut production that can be be developed at low social cost, the focus of the effort to industrialize and promote exports should be in the groundnut sector. This does not mean that The Gambia should ignore promising opportunities as they arise nor take some risks on activities that may prove to have important longer term consequences. However, it does mean that in the immediate future greater support should be provided to the groundnut sector. And, as the earlier example showed one of the basic ways that the Government can provide support is by a large devaluation. This point has broader significance. In any program aimed at promoting industrialization or exports, the future exchange rate regime will have a crucial role. Specifically, an over-valued exchange rate (which The Gambia has had since the mid-1970s) gives the impression that the country is losing (or has lost) its comparative advantage in its traditional exports and that the country has a cost advantage in the production of some goods it has traditionally imported. Therefore, policy makers and their advisors should be careful to determine whether what appears to be the loss (or gain) of a comparative advantage is not the result of a distorted exchange rate which cannot be sustained over the longer term.

Finally, although this topic emphasizes industrialization and export promotion it should not divert the attention of policy makers from promoting agricultural development and import substitution based on agriculture. As indicated earlier, both of these objectives can be achieved by helping to expand the area cultivated and the productivity of swamp rice producers. Indeed, given The Gambia's current balance of payments situation an the expansion of swamp rice production would have a large net impact on imports. It is an import extensive way of substituting for an basic import.

B. Senegambian Confederation.

In any discussion of the economics of Senegambian Confederation, three points have to be recognized. Firstly, the Confederation emerged from the circumstances surrounding the attempted coup in 1981 and was not based on economic considerations. These were added as after-the-fact justification for the association. (This does not mean that the Confederation has no economic merit just that it was not motivated on economic grounds.) Secondly, political concerns especially those related to domestic security in Senegal may result in closer integration between Senegal and The Gambia irrespective of the economic problems it may cause. (This implies that any analysis of the merits and demerits of various types of integration may prove to be irrelevant to the type of association that emerges.) And thirdly, since trade and monetary ties already exist between the two countries, the economic policy issues are how to modify an existing process rather than to create entirely new economic linkages. For instance, in the area of Senegambia trade the movement of goods and services across the international boundary has never been fully controlled. Hence the issue, for example, of establishing a Free Trade Area is not one of creating something that did not exist previously but one of modifying the existing system of trade which has a variety of restrictions (depending on the commodities involved) to a system which has fewer restrictions.

Seen in this context, five points can be made about the trade and monetary issues raised in the PID. One. It is a contradiction in terms to speak of a Free Trade Area subject to safeguards. If the Gambians adopt the notion of a Free Trade Area there is little that they will be able to do, both politically and economically, to ensure that their goods and services flow as freely or no less freely to Senegal as Senegalese goods and services flow in the opposite direction. Thus, from a strategic viewpoint if the Gambians want to retain some control over the flows of goods and services, they should not even contemplate the idea of a Free Trade Area. Two. The idea that trade between Senegal and The Gambia should somehow be balanced makes little sense. It seems to have arisen from the belief that The Gambia will be "swamped" by Senegalese goods. The Gambia does not have balanced trade with the U.S.,U.K.,Japan, Germany and other countries with which it trades and yet it is not swamped by their goods. To help policy makers gain some perspective on the issue the questions should be asked what would have to happen for the exchange of goods and services between the two countries to be balanced and is the effort involved worth it.e this.

Three. One of the problems of trying to analyze the decision about the concessions the Gambians can offer the Senegalese on the re-export trade is that officially little is known about this trade--its volume, rate of growth, the principal people involved, the types of goods and services provided, and its susceptibility to Government intervention or control. The danger of presuming that there are concessions the Gambians can offer the Senegalese in this area is that the effects of Government intervention (to make good on the concessions) may seriously impede the trade or change its character so that the Gambian

Government has no more control over then as now. Therefore, before major promises are made between the two Governments about the re-export trade it would be useful to ask whether Government intervention will seriously reduce the trade; is this in the longer term interests of either The Gambia or Senegal; and if the trade is reduced what other areas of economic activity are available to the entrepreneurs and others who make their living from it. This point should be a reminder that one of the adverse effects of Confederation will be the destruction of existing markets and marketing channels. If this negative aspect of development is to be minimized some useful alternatives should be worked out in advance. Four. Since the Gambians have yet to propose a concrete time-table of integration, a useful starting point may be the ECOWAS proposal for the creation of a West African customs union. This will at least give The Gambians time to study their options and to selectively raise some tariffs in line with the Senegalese schedules on selected goods and gain some measure of the degree of "swamping" and potential revenue loss (through import duties) as Senegalese goods out-compete goods from international markets.

Five. The question of monetary union is the one on which the success of the Confederation hinges. The Gambian Government can replace some of the revenue it loses through trade diversion to Dakar through higher taxes and charges (just as the various states in any Federation do). However, the ability to issue fiat money is the essence of economic autonomy. Without it, The Gambia is a state of Senegal, no more no less, and the commitment to maintain national independence included in the Confederation Agreement of December 1981 is meaningless. Thus the fundamental issue for the Confederation is whether The Gambian Government retains the power to print money. For this reason, the main thing the Gambians should do if they wish to retain some autonomy an independent nation-hood over the foreseeable future is to continue to insist that they retain their own currency and the right to conduct an independent monetary policy. They could do this by retaining the dalasi as legal tender for government transactions, by agreeing to maintain full convertibility of the dalasi relative to the CFA, and by pegging the dalasi to the European Monetary Unit (i.e. the basket of principal European Community currencies which includes both the Franc and the Pound). Continuing to peg the dalasi to the Pound would be politically unacceptable to the Senegalese, while pegging the dalasi to the Franc would de facto put the dalasi in the BCEAO. Pegging to the EMU is compromise solution which makes sense in practical terms since most of The Gambia's trade is with European Community countries. Furthermore, it gives the Gambian authorities some discretion over the dalasi/CFA rate of exchange and hence it provides them with some monetary independence within the Confederation.

However, the above is easier planned than accomplished because at the present time, as noted earlier,the whole financial system in The Gambia is under severe strain. One consequence of this is that Gambians have increasingly been using CFA to overcome the shortage of foreign exchange. This is a de facto monetary union (just as the Israeli and Mexican authorities have found with respect to the U.S. dollar). Therefore, the major policy challenge for the Ministry of Finance and Trade is how to regain some control over the monetary system; otherwise the discussion regarding whether The Gambia should retain monetary autonomy will be moot.

9. Credit and Monetary Policy.
The credit and monetary policy followed by the Gambian Government over the last decade have undermined rather than promoted the development effort. Dating from at least 1972 when the Gambia Commercial and Development Bank was established, but definitely from the beginning of the First Five-Year Plan (1975-76), many Government officials have held the view that credit can promote economic development. (This point can be verified by reading what was required of credit in both the First and Second Five-Year Plans.) Furthermore, as the 1970s progressed, the Government shifted from the conservative fiscal and monetary policy of having a Budget surplus (i.e.being a net saver) during the first decade of independence to an expansionary policy of having a Budget deficit (i.e. being a net dis-saver). The combined effects of the Government deficits and the rapid increase in "supply-leading" finance (provided mainly through the GCDB) was a rapid increase in net domestic credit and the money supply, a sharp increase in both imports and domestic inflation, and a deterioration in the balance of payments. Indeed, most of the current problems in the economy are the dynamic consequences of the dramatic expansion in the money supply during the mid-1970s. The following Table shows recent trends in some major variables.

Table: Selected Monetary Aggregates in The Gambia

Year	Millions of Dalasis		
	Money Supply	Net Credit to Government	Net Foreign Assets of Banking System
1975-76	100	-1	68
1976-77	118	14	62
1977-78	109	22	23
1978-79	115	32	-12
1979-80	147	46	-37
1980-81	158	48	-50
1981-82	139	78	-102
1982-83	184(E)	55	-140(E)

(E) Estimate
Source: CENTRAL BANK OF THE GAMBIA BULLETIN Quarterly 4,April-Dec.1979,Table 7A; Quarterly 2 April-June 1983,Table 7B

These data show how the Government's change from being a net saver to a net borrower was partially reflected in the growth of the money supply (in excess of 80 percent during the 7 years) and the decline in foreign exchange reserves of approximately D 210 million. (It was also reflected in prices and the real exchange rate,points dealt with below.)

Three consequences of this deteriorating financial situation are of direct policy concern to the Ministry of Finance and Trade. As already noted, the financial system is under severe pressure; there has been a break-down in financial discipline and debtor morality resulting in large outstanding (and potentially unrecoverable) debts; and the monetary expansion has sustained inflation and had an adverse effect on the real exchange rate particularly for exporters.

The pressure on the financial system is aggravated by unrealistic interest rate policies. For instance, over the last decade inflation in The Gambia has averaged around 15 percent per annum yet the interest rates charged by the banks on short term advances (their highest rates) have averaged 10 percent while the interest rates on time deposits have averaged 7 percent. Moreover, it has been only since 1978-79 that these interest rates have been increased significantly. This structure of interest rates lowers the opportunity costs of borrowing (for borrowers who have access to credit) while increasing the opportunity costs of lending. (Its main macro-economic effects can be traced by starting at identity (8) in the model above.) In addition to the significant distortion of the opportunity costs of borrowing and lending caused by the current interest rate policies they have the longer term consequences of reducing the rate of financial development and the degree of control of the monetary authorities over the economy.

The break-down in financial discipline and debtor morality has many explanations. One is that the Government decision to forgive farmers debts to the Gambia Co-operative Union during the drought year of 1977-78 has had an adverse effect on the expectations of all debtors who owe Government organizations money. They expect (quite reasonably) that since the Government has foregiven large amounts of debt for one group then can't it happen for them. The result is the dilemma that it is not in any individual debtor's interests to repay unless everyone repays. A second explanation is that farmers treat the credit they receive as a subsidy the Government owes them for the heavy net taxes levied on them. This sentiment is particularly strong among groundnut producers who have been taxed at rates approaching 50 percent of their net groundnut income by the 10 percent export levy. (This can be shown by working the effects of the tax on the f.o.b. price back through the processing and marketing system and assuming that groundnut producers net half of their gross earnings.) Another explanation for the poor debtor morality is that the credit programs have been poorly managed. For instance, the Gambia Commercial and Development Bank, with a loans and advances to deposit ratio of 6 to 1, has clearly emphasized the dispersion of credit rather than its collection (either through savings mobilization or through assuring the repayment of its outstanding loans). Indeed, estimates from early 1983 show that at least 75 percent of the GCDB's portfolio is in arrears with perhaps as much as 50 percent of it uncollectable.

The extent of the decline in the real exchange rate for exporters has already been discussed above. Here, the point that is worth making is the importance of the dynamics by which the exchange rate declines. This can be easily seen from the formula used in the model, namely as the official exchange rate multiplied by one minus the rate of export tax multiplied by the dollar price of exports in the last period divided by an index of domestic costs of production in the last period. (The lagged prices are included because the world market price is not known until after the crop is planted.) Measured this way, the real exchange rate can decline (i.e. there is an effective revaluation) if any of the following occur: the world market price declines; the domestic costs of production increase; the export tax is increased; and/or the official exchange rate revalues. The Ministry of Finance and Trade has a degree of influence over all of these variables except the world dollar price. As such it has a variety of alternatives it can use to restore incentives to exporters.

From the above discussion, the main issues which will concern the Ministry of Finance as it develops its perspective on credit and monetary policy will be to find ways of reducing the Government's deficit and re-establishing some discipline in the financial system. One place to start would be to raise the structure of interest rates to a level which makes the opportunity cost of borrowing high (it should be distinctly positive in real terms) and the opportunity costs of lending low relative to the alternatives of holding inventories of goods, investing in real estate or cattle or sending money out of the country. While these sorts of changes in the interest rate structure will take time to have a major impact, they will begin to reverse the financial regression that has occureed over recent years and lay the basis for a more fully integrated financial system. Finally, this approach is one way of using the informal money markets. Indeed, if the Ministry can implement policies which significantly increase the real returns from operating in the regulated financial sector many of the so-called informal operators will soon become involved.

10. IMF/IBRD Stabilization Programs

Any of the basic stabilization programs suggested by either the IMF or the IBRD can be readily analyzed using the model set out earlier. The IMF will continue to insist that The Gambia readjusts its exchange rate (this issue is always raised by IMF missions to countries needing its assistance) and it will continue to insist that the Government reduce its deficit and net borrowing from the banking sector. Both of these conditions emerge directly from the three approaches to balance of payments problems which determine the way IMF officials view the world. They require a devaluation to increase the current account surplus on the balance of payments; they require a cut-back in the Government deficit to ensure that the current account surplus will materialize (it cannot if domestic absorption increases faster than domestic income); and they require that the Government reduce its recourse to the banking system so that the rate of increase of the money supply can be contained thereby reducing the rate of inflation and the extent to which the initial devaluation is indermined. Since IBRD stabilization efforts are co-ordinated with the IMF, their program has similar requirements.

Because this is a standard package, there is little that the Ministry can do to alter its basic format or the list of "performance criteria" the IMF establishes as a condition for its help. However, the Ministry can argue for less stringent limits for the criteria; for a degree of substitutability among the various criteria; and for an increased recognition among the IMF staff who negotiate the conditions that some allowance for error should be made. With respect to the stringency of the criteria, the point should be made that since the IMF is not able to function in its full capacity as the lender of first and last resort for the poorest countries, because it has the majority of its resources committed to the rescue of the Brazils, Mexicos and Argentinas of the world which voluntarily got themselves into their current financial binds, it has an obligation not to be too rigid. The point should also be made since the provision of shorter term finance (for example, a Stand-By) when the real need is time to allow less drastic adjustment (as would occur with an Extended Fund Facility) the Stand-By conditions have to be less rigid if adjustment is not to compromise the Gambian development effort further. (As a proportion of real GDP, development expenditure declined from 18 percent on 1979-80 to 12 percent in 1982-83.)

The notion of subsitutability among criteria should at least be raised during negotiations with the IMF. What is involved is whether the IMF will allow the averaging of the limits of the criteria they set. For instance, if a Government agrees to keep its foreign borrowing and its net recourse to the banking system below specified limits, is it allowed to exceed one to make up for a short-fall in the other and still satisfy the IMF conditions. To be explicit, suppose the IMF conditions stipulate that the Government will not increase foreign borrowing by more than D 10 million and it will contain the increase in net domestic credit creation to less than D 20 million. Suppose the Government decides not to increase its foreign indebtedness but it is unable to keep the increase in net domestic credit to less than D 25 million. Has it satisfied the IMF's conditions? In macro-economic terms the answer is yes, because an increase of foreign debt would have directly subsitituted for the D 5 million excess domestic credit creation. (This can be seen in identity (2) of the model.) Whether the IMF sees it this way is not clear. Since past experience suggests they do not, the point should be clarified.

Finally, in any of the Ministry's dealings with both the IMF and the IBRD (and other donors for that matter) the general question of who bears the costs of any mistakes should be kept in mind. For years, the World Bank has been a shifting source of development ideology with essentially the whole Third World to use as an "experiment farm". The list of variables it has believed were critical for development is extensive and often inconsistent. (Compare the planning orientation of the 1950s and 1960s with the market orientation which is currently in vogue.) Part of this inconsistency arises in the learning process which accompanies any accumulation of experience. However, a part of it results from shifting fads and changes in the priorities and concerns of those who determine Bank and Fund policies. While learning always has a cost in that ideas once firmly held have to be doubted, the costs of shifting ideologies should not have to be borne by the poor countries of the world. Yet, these cost have been and it is likely to continue until policy makers in poor countries begin to challenge the premises upon which the donor support is based. Through the various questions set out above and the improvements in the capacity of its personnel anticipated from the technical assistance the PID, the Ministry of Finance and Trade has the opportunity to begin this process in The Gambia.

ATTACHMENT: List of Topic Areas.

1. Income Tax Reform

2. Overall Tax Administration

3. Expenditure Control

4. Fiscal and Balance of Payments Implications of Agricultural Price Policy

5. Consultancy for the Analysis of GPMB Operations

6. Macro-economic Impact of Public Enterprise Operations

7. Industrialization and Export Promotion

8. Senegambian Confederation

9. Credit and Monetary Policy

10. IMF/IBRD-Supported Stabilization Programs