

Memorandum

DATE: March 16, 1994

REPLY TO
ATTN OF: Fred Witthans, Program Officer/Acting USAID Representative *JW*

SUBJECT:

Project Assistance Completion Report: African Economic Policy
Reform Program for The Gambia, 635-0228 and 635-0231

TO:

To Files

1. INTRODUCTION

From the mid-1970s to the mid-1980s, The Gambia's economy suffered a steady decline. The country's terms of trade worsened as the price of groundnuts (the major export) fell and the price of imported petroleum products increased. In addition, the government budget went from a small surplus to a rapidly growing deficit as civil service employment expanded and government parastatals incurred losses. By 1985 the economy was grinding to a halt because of a major balance of payments crisis, an unsustainable budget deficit, rapid inflation, and a general loss of business confidence.

In 1985, USAID/Banjul along with the World Bank supported a major Economic Reform Program - a program that has had a striking impact on the Gambian economy. The effort quickly stabilized the economy and, after only one year, economic growth resumed to the present period.

In 1987, as part of the overall reform program, USAID provided The Gambia with a \$6 million NPA grant to support a series of sectoral reforms and \$850,000 in support project technical assistance. The policy conditionality of the grant focused on a set of financial and agricultural marketing reforms designed to encourage greater private sector involvement in productive activities and discourage the Government from regulating and controlling activities that could most efficiently be done by the private sector. The Government of The Gambia (GOTG) agreed to the following reforms:

- to develop and implement appropriate policies with respect to term lending, agricultural credit, and development lending;
- to ensure that all borrowing from official sources are at market-determined interest rates;
- to ensure that no public sector institution grants preferential access to credit;
- to ensure that allowances - fees intended to cover trader's margins - for all buyers (public and private) involved in agricultural marketing are equal.

These reforms were designed to end the flow of subsidized credit to government parastatals and to end the repression and control of financial markets. It was expected that the reliance on appropriate interest rates and the removal of administrative credit allocations would encourage savings, stimulate efficient investment allocations, and end capital flight.

In the area of groundnut marketing, the Gambia Cooperative Union had been receiving higher buying allowances (purchase price adjustments) from the parastatal Gambia Produce Marketing Board (GPMB) than had private traders; had been borrowing money from the parastatal Gambia Commercial and Development Bank (GCDB) at lower interest rates than had private traders; and, most importantly, had been incurring operating deficits that were subsidized by the Government. By eliminating the preferential allowances and favorable interest rates, and by ending government subsidy support, the policy reforms were designed to encourage fair and equitable competition between the public and private sectors.

During the course of the program, the purpose of the technical assistance support project (635-0231) was modified. The original purpose was to assist and advise the GOTG in carrying out credit-related policy reforms and to monitor implementation of these reforms. However, by 1990, the reforms required for the release of NPA cash transfers had already been initiated without technical assistance, and monitoring responsibilities had been transferred to another USAID project. Consequently, USAID changed the focus of the technical assistance component--and increased funding to \$1.65 million--to emphasize reviving and ultimately privatizing GCDB, a host government-owned bank which was having severe financial problems because of past lending policies.

2. PROJECT STATUS

The third and final tranche release of funds under the NPA program was made in September 1990. The support project was extended two times and all project activities were completed by the final PACD of September 30, 1993. RIG/Dakar audited the NPA and support project components in July 1990. A USAID/CDIE impact evaluation was carried out in October 1989.

3. SUMMARY OF CONTRIBUTIONS

USAID provided \$990,335 in technical assistance \$195,000 in training and \$94,410 in project management under the support project. The mission deobligated \$370,255.

4. PROGRAM/PROJECT ACHIEVEMENTS

Objective one: End discriminatory practices in public sector institutions and give the private sector equitable access to financial resources.

The Gambia Cooperative Union no longer receives preferential access to credit at below market interest rates nor does it receive a preferential allowance from the GPMB for purchases of groundnuts. All loans from commercial banks are made at positive real rates of interest and are market determined.

Objective two: Develop, adopt and implement financially sound GOTG policies for agricultural credit, term lending and development lending.

The GOTG's stated position is that term lending, agricultural lending and development lending will be at market rates of interest. Unless a donor insists otherwise, all lending of donor supplied funds will be at the T-bill rate plus one-half percent.

Objective three: Pay \$6 million in external GOTG debts.

External debts of \$6 million were paid.

Objective four: Improve managerial capacity of GCDB in anticipation of privatization targeted for 1992.

Two technical advisors to assist a World Bank funded Managing Director were placed to institute modernized internal controls and computerization. GCDB was privatized and taken over by Meridien Bank in July 1992.

5. EXTENT TO WHICH THE PROJECT SOLVED THE ORIGINAL PROBLEM

The Government instituted policies of market determined interest rates and the cessation of preferential access to credit are substantial achievements. Market-determined interest rates encouraged savings and helped to stem capital flight.

Despite the equalization of groundnut marketing allowances, however, private traders did not capture a greater portion of The Gambia's domestic groundnut market. There were two main reasons. First, those allowances, although equal, were set too low and private traders had trouble covering their costs. GCU simply went further into debt. Second, private traders had to pay their loans on time and finance their operations from their own funds. The cooperative was allowed to accumulate a large debt at GCDB without servicing that debt in a timely manner.

6. FINAL PROJECT ADJUSTMENTS

The reforms achieved under this program have played an important role in furthering the Mission's strategic objective of increasing private sector investment. Two of the Mission's new NPA programs built on the successes of this program. Under the Mission's Financial Sector Restructuring program, GCDB was privatized, credit ceilings were eliminated, and the financial system is playing a larger role in supporting private sector led growth. The Mission is assisting the GOTG to establish and operationalize an Asset

Management Recovery Company to pursue the nonperforming loans left over when GCDB was privatized. Under the Mission's Financial and Private Enterprise Development program, GPMB was privatized.

7. APPROPRIATENESS OF REMAINING CONDITIONS AND COVENANTS

None

8. REMAINING REPORTING REQUIREMENTS

None

9. REVIEW OF DATA COLLECTION RESULTS AND EVALUATIONS

AID/W evaluated the program in October 1989 and a performance audit was performed by RIG/Dakar in July 1990. The findings have been incorporated in this report.

10. SUMMARY OF LESSONS LEARNED

Donor coordination is essential, but split donor staffing of a management team can lead to problems. The World Bank funded the Managing Director position at GCDB, whereas USAID funded an internal controller and a computer specialist. USAID funded consultants often voiced disagreement to USAID on some of the policies implemented by the Managing Director. If the entire team had been funded by one donor with one acknowledged Chief of Party, such disagreements may not have arisen.

Policy reform programs usually require intensive donor and recipient staff support. Because policy reform programs need technical assistance to help make policy reforms operational and to accelerate necessary institutional changes, they are intensive users of highly skilled professionals.

Program designers must be sensitive to the phenomenon of interlinked markets. One important reason why the Gambia Cooperative Union is able to retain its market share of the groundnut marketing business is because the agricultural output and input markets are closely linked: farmers are inhibited from dealing with private traders out of fear that the cooperative will deny them access to credit, seed and fertilizer.

In general, the effects of a complex policy reform program do not emerge quickly and the effects are often difficult to attribute because other influential changes are occurring at the same time.

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