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THE GAMBIA

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A Study on
Evaluation of Donor Assistance to The Gambia

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Evaluation of Donor Assistance

1. BACKGROUND

This special economic report forms part of the close-out activities of the Financial and Private Enterprise (FAPE) Support Project which ended on March 21, 1994. The report reviews the political economy of The Gambia and evaluates the impact of donor assistance on The Gambia's economy since the beginning of the Economic Recovery Program (ERP) in 1985.

During the first ten years (1965-75) after independence The Gambia registered higher gross domestic product (GDP) growth rates, inflation was moderate, the exchange rate was stable, and gross official reserves were equivalent to 10 months of imports cover. The period 1975-1985, however, was characterized by the emergence of unsustainable imbalances in both the external and internal accounts. The current account deficit of the balance of payments rose to about 30% of GDP, while foreign debt amounted to 250% of GDP. As a result, the country accumulated arrears and could no longer meet its external financial obligations. The domestic budget deficit also deteriorated sharply, rising to 25% of GDP by 1984. Growth in all productive sectors declined, and the physical infrastructure deteriorated from lack of financial support. The country's international creditworthiness was diminished, business confidence was low, and real investment declined. Furthermore, except for humanitarian aid, most donor assistance was suspended. In many ways, The Gambia's economic decline reflected what had happened in many other Sub-Sahara African (SSA) countries.

Although it took ten years for the economy and physical infrastructure to deteriorate, action to stem the crisis was not taken until 1985. The long delay was due in part to the government's reliance on a bureaucracy that was dominated by generalist administrators who had no specialized training in economics. Despite obvious signs of the economy's rapid deterioration in the early 1980s, the government's economic and financial technicians made no recommendations for basic changes in policy. Indeed, the crises worsened when the donor community agreed with the few domestic economic analyses that at the time blamed the economic difficulties on the Sahalian drought, low world groundnut prices, the oil shocks, and the 1981 attempted coup d'état.

By 1985, the economic situation was getting out of control and the donor community changed their positions, emphasizing that the country needed fundamental policy and structural reforms. Led by the U.K., the bilateral donors withheld aid in the absence of reforms. The real catalyst for reform was the World Bank's Country Economic Memorandum of May 1985, which bluntly described the nature of the crisis and recommended that the Government of The Gambia (GOTG) should introduce a wide range of policy and institutional reforms to stabilize the economy and provide a framework for sustainable growth.

Given the vulnerability of The Gambia's aid-dependent economy, and the absence of viable alternatives, the question was not whether to adjust, but how to adjust. It was *a fait accompli* that the Ministry of Finance and Economic Affairs (MFEA) put together a task force of Gambian, World Bank, and USAID-funded technical assistance to design a comprehensive reform program to reverse the decline and return the economy to a path of sustainable growth. This process culminated in the formulation of the Economic Recovery Program (ERP) and its approval by the GOTG. The process also resulted in the approval of a stand-by agreement with the International Monetary Fund (IMF) and an accompanying three-year Structural Adjustment Facility (SAF) in August 1986. This was succeeded by the Enhanced Structural Adjustment Facility (ESAF) in 1988.

2. THE ECONOMIC RECOVERY PROGRAM

In essence, the Economic Recovery Program was designed to roll back the over-extension of the state in economic life and inappropriate economic policies; and create and promote an economic climate that would be conducive to private sector investment and development. As a result, monetary, fiscal, trade, and exchange rate policies were formulated to provide a stable economic environment for private sector development and improved transparency within the central government.

Monetary policy was directed at reducing inflation, accumulating international reserves, and supporting the exchange rate. In order to accumulate gross official reserves and harness the large inflows of external financial assistance, the government expanded broad money supply, making it consistent with the net foreign assets of the banking system. To enhance the efficiency of monetary control and, in particular, to support the exchange rate policy and encourage domestic financial savings the following measures were taken: (i) controls on bank deposit and lending rates were lifted in September 1985, including the discontinuation of subsidized lending rates for crop financing; (ii) bank cash-reserve requirements were tightened; and (iii) an auction market for treasury bills was introduced in July 1986. The system of credit ceilings was finally abolished and an indirect system of monetary control was introduced in September 1990.

Furthermore, to encourage a return of foreign exchange proceeds to the official banking system and stimulate the production of exportable goods, a flexible exchange rate system was introduced in January 1986, replacing the dalasi being pegged to the pound sterling.

A restrictive fiscal policy aimed at lowering the budget deficit and raising government savings was an integral part of the adjustment effort. Revenue policies focused on broadening the tax base, strengthening tax administration, and rationalizing the taxation structure. Tax reforms included the introduction of a sales tax, a raise in the threshhold of the personal income tax and reduction in the marginal rate of company income taxes. Taxes on exports were abolished, and import tariffs were reduced so that a low and uniform rate would be protected while preserving tariff incentives for the re-export trade. Meanwhile, new expenditure policies sought to increase the efficiency of public investment by focusing on the rehabilitation of the basic economic and social infrastructure, while also increasing expenditures on infrastructure operations and maintenance. In addition, cost recovery measures were introduced in the provision of social services and the civil service was rationalized to improve its efficiency.

These policies were complemented by broad structural reforms that were designed to enhance the efficiency of the economy and stimulate the private sector. Under the public enterprise reform program, public sector activities that could be more efficiently carried out by the private sector were scaled back through the divestiture of 20 enterprises, or about 60% of the total number of public enterprises. In addition, several measures including the signing of performance agreements were taken to improve the financial position of the enterprises remaining in the government's portfolio.

In the financial sector, the reform efforts focused on (i) improving the efficiency of the intermediation process and encompassed the takeover by the government of nonperforming bank loans; and (ii) strengthening bank supervision and the restructuring of the largest commercial bank, The Gambia Commercial and Development Bank (GCDB), which was owned by the government and later privatized in 1992. Finally, a tourism development area was designated and a new Investment Code was enacted in 1988. This provided various fiscal incentives to private investment in export-oriented and import substitution activities.

In general, the reform measures were mutually reinforcing. Most reforms targeted the structure of the economy and sought to correct existing imbalances, remove distortions, liberalize the markets, and enhance efficiency while also seeking to rationalize the participation of the state in the economy to better define the links between the public and private sectors.

3. THE ECONOMIC ENVIRONMENT, SEQUENCING, AND RIGHTNESS OF REFORMS

The success of economic reforms depends in part on the (i) nature of the economic environment, (ii) sequencing of reforms; and (iii) soundness or rightness of reforms to the prevailing economic conditions.

The Economic Environment. In 1985, The Gambia's key socioeconomic indicators such as growth per capita, external debt burden, illiteracy rates, and maternal and infant mortality rates were sharply deteriorating, and reforms could no longer be delayed. Some interest groups including the Gambian Chamber of Commerce, civil servants, and parastatal executives resisted specific reform measures. For example, while farmers who grew rice and groundnut embraced the removal of price controls on those commodities, they simultaneously pressured the Government not to remove subsidies on inputs such as seeds and fertilizers. Similarly, civil servants resisted the restructuring and streamlining of the civil service.

Despite the resistance, the government stood firm and embarked on a public education campaign to explain the rationale of market reforms to Gambians. The Cabinet's determination to carry out the reforms was largely inspired by the ex-President who is neither dogmatic nor a rigid ideologue. Through political rallies and the news media the dialogue between the government and the governed improved and allowed rural Gambians, in particular, to express their views on the viability of the ERP. Urban residents, however, proved to be a difficult group to deal with, especially in matters concerning retrenchment in the civil service and reforms to the parastatals.

The government bowed to some of the resistance by retraining laid-off workers in an effort to make them employable in the private sector.

Sequencing. Economic reforms came in two successive phases in The Gambia. The first phase, or stabilization period, lasted about two years and focused on (i) the removal of price distortions such as controlled consumer prices, interest rate ceiling, and an overvalued exchange rate; (ii) removal of external arrears; and (iii) reduction in the budget deficit. Structural and institutional reforms necessary for sustainable growth, including institutional capacity building, the legal and regulatory framework, and tax reforms, constituted the bulk of reforms that were undertaken in the second stage of the ERP. The second phase of the ERP sought to (i) improve efficiency in the civil service through retrenchment and restructuring of some key agencies; (ii) develop local capacity; and (iii) improve the legal and regulatory framework under which the private sector operated.

In order to reverse the severe deterioration in the economy, a broad range of mutually reinforcing changes that were introduced simultaneously or in very quick succession was urgently needed. The internal sequencing of these reform measures was, therefore, not critical. The more important issue was whether structural and institutional reforms should have been taken in tandem with economic reforms.

While retrenchment and restructuring of the civil service and parastatal reform were relatively simple and were carried out quickly, capacity-building schemes and improvement of the regulatory framework proved very slow to implement. This in the main was attributable to (i) poor planning to improve capacity-building; (ii) inadequate resources for institutional strengthening; and (iii) little or no commitment on the part of some high ranking government officials to actually carry out far-reaching institutional reforms such as improving the legal and judiciary framework.

Not surprisingly, the World Bank placed its faith in a distinct initiative with the focus or resource management in the civil serv e on one hand, and a more conprehensive targeted civil service reform including that of the Ministry of Finance and Economic Affairs and all its agencies on the other. This led to the formulation of the draft Sector Adjustment Loan for Administrative Reform Program (SECAL), which was about to be launched when the July 22, 1994 events disrupted the initiative.

Thus, in the critical area of improving the institutional environment through capacity-building and other measures, progress in initiating and implementing reforms has not matched development in the restructuring of the economy. Some progress in computerization of key GOTG agencies and intensified staff training for the MFEA, the Central Bank, and the now defunct National Investment Board (NIB) were achieved as part of ancillary efforts. However, overall capacity-building has not improved much as the personnel management system has still not been able to assemble, much less retain, that critical mass of top and middle-level economic managers and technicians.

In retrospect, institutional reforms, should have been implemented in tandem with structural economic reforms. In addition to the problems of inadequate resources from donors, and the lack of government's commitment to making some critical institutional changes as noted above, no concerted attempts were made to review salaries and conditions of service in the civil service. As a result, it was difficult to retain highly trained personnel in the public services.

Rightness of Reforms. In almost all cases, the reforms pursued by the government and donors have been relevant. The implementation of the ERP has resulted in an impressive improvement in The Gambia's economic and financial performance, and has laid the foundation for sustain ble expansion in output growth. During the seven years between 1985 and 1992/93, a steady growth in real GDP was recorded, end-of-period inflation declined from 70% in 1985/86 to 5.1% in 1993/94, and the overall balance of payments switched from a deficit of US$15 million to a surplus of US$12 million, facilitating the gradual elimination of all outstanding external payment arrears and the buildup of a comfortable level of gross official reserves.

The gains in competitiveness and the enhanced price incentives encouraged some diversification of the production and export bases which have more than offset declining export receipts from groundnuts. The increase in foreign exchange facilitated a strong expansion in domestic imports as well as project-related imports financed by donors under the public investment program (PIP). The Gambia's external debt and debt service position has also improved appreciably in recent years. As the arrears were being repaid, the external public debt declined from 113% of GDP at the end of June 1986 to 102% of GDP at the end of June 1993. Debt service payments, on the other hand, inclusive of obligations to the fund and cash payments for arrears reduction fell from a peak of 104% in 1985/86 to 9% in 1992/93.

Actual real GDP growth of 3.5% fell short of the target of more than 5%. The fall in growth rate is explained by such factors as (i) restrictions on the convertibility of the CFA; (ii) border closure by Senegal; (iii) unmanageable population growth compounded by immigration from Sierra Leone and Liberia and its consequent strain on social services; and (iv) poor infrastructure including an undeveloped energy sector which has reduced the attractiveness of investment in The Gambia.

4. THE NATURE, ROLE AND IMPLEMENTATION OF DONOR CONDITIONALITIES

Donor assistance was conditioned on the GOTG satisfying certain prescribed policy requirements. These conditionalities were characterized by a combination of resolve and reasonable flexibility to ensure that important commitments were kept and were broadly in line with the thrust of the ERP. The conditionalities for second tranche disbursement under the FAPE funded by USAID, for example, sought to (i) improve the quality of the public investment program and redefine the role of government by redirecting public investment toward provision of social services and public infrastructure; (ii) reduce and eliminate subsidies to public enterprises while developing the private sector; and (iii) undertake comprehensive tax reforms to stimulate private sector growth.

Specifically, in the PIP, the government was required to ensure that:

(i) adequate feasibility studies were completed for all new projects;

(ii) projects had an economic rate of return (where calculable) of at least 15%, and for projects in the social sectors where the economic rate of return was not calculable, such projects should be cost effective;

(iii) the recurrent cost implications for new projects were to be worked into future recurrent budgets;

(iv) among projects that met the above criteria, priority was to be given to projects that supported human resources development and rehabilitation and maintenance of existing assets rather than expansion or creation of new assets; and

(v) the public sector was not to engage in investments which were of potential interest to the private sector.

Under the divestiture program, the government was expected to develop and review with USAID a multi-year divestiture plan to transfer ownership of state-owned enterprises such as The Gambia Public Transport Company, The Gambia Utilities Company, The Gambia Telecommunications Company, Gambian Airways, the Government Printing Press, or other publicly owned enterprises engaged in the direct production or marketing of goods and services of potential interest to the private sector.

Under tax reforms, the GOTG was expected to review with USAID the findings and recommendations of the tax reform study prepared by the Harvard Institute of International Development (HIID) and resident advisors of the AMEX/FAPE project, and develop an action plan satisfactory to USAID to implement agreed reforms, and begin implementation of other appropriate recommendations.

Clearly, these conditionalities were consistent with the broad objectives of the ERP. However, the requirements for sustained growth sometimes clashed with some of the conditionalities that had successfully guided the stabilization phase of the ERP. For example, the provision of credit for private sector investment implied flexibility in some of the conditionalities on monetary and interest rate policies that had steered earlier reforms. The treasury bill rates serving as an index for bank lending proved to be problematic. Most holdings were in the hands of institutions, PEs, and ompanies that did not have an alternative outlet for their funds. In addition, the spread between deposit and lending rates remained large, yet the Central Bank was restrained from intervening. As a result, credit to the private sector remained low even as the government continued to exhort local entrepreneurs to invest more.

The withdrawal of subsidies to productive sectors such as artisanal fishing and farming, which formed part of the conditionalities under the policy framework paper (PFP) prepared jointly by the IMF, World Bank, and the government, also presented the Minister of Finance and policy makers with a dilemma. Although charges of abuse and loss of revenue under the program were well-founded, it was also evident that the withdrawal of fertilizer and premix fuel subsidies caused a significant drop in production and rural incomes. Withdrawing these subsidies was not only a constraint to raising rural poverty levels, but also it proved detrimental to developing private sector productive capacity.

There were also instances where conditionalities had been vague and were subject to various interpretations. For example, in the Financial Sector Review (FSR) project, disbursement of the second tranche grant was conditioned on the Assets Recovery and Management Corporation (AMRC), charged with managing the assets and liabilities of the defunct Gambia Commercial and Development Bank (GCDB), recovering some D135 million within a specified time period. There was no requirement that any or all of the assets should be sold within the time frame. The AMRC met the deadline in asset recovery but did not realize actual sales. As a result, USAID did not disburse the US$3 million grant, because USAID's interpretation of the conditionality meant *actual sale of property* amounting to D135 million. The IMF, however, agreed with the Government's argument that AMRC did not control the market and therefore could not force the sale.

Several lessons can be drawn from this experience. The government did little cross-checking on the internal consistency of the project, the state of the legal system, and its ability to speedily and efficiently pronounce judgment. USAID lacked confidence in a legal system that was perceived to protect individuals with high political connections who were contesting the seizure of their assets before the law courts. In the absence of any agreement or clear understanding of what would constitute satisfactory discharge of donor requirements, conditionalities did not always serve as a test of the GOTG's commitment to implementing particular reforms. Indeed, in some instances, these conditionalities stifled the execution of other pressing reforms because of delays in disbursement of funds. The result was dissatisfation for both the donors and the GOTG.

4.1. The Role of Government And Donors in Economic Reforms

The GOTG played a leading role in the design and implementation of the reform program. Through the assistance of USAID and expertise from the World Bank and the IMF, the government set up a task force to review and recommend areas for economic and institutional reforms. Once the task force completed its work, the matter was passed on to Cabinet for further consideration and was subsequently approved by the government.

Initial negative reaction to the ERP came from politicians who analyzed the proposed measures not on their economic validity but on their political acceptability. The Government and Parliament both wanted assurances that the private sector could be trusted with the importation and distribution of rice, and that there would be no shortages and resultant social unrest. The prospect of retrenchment of public sector workers was another sensitive issue as was the new flexible exchange rate mechanism. On the whole, the Cabinet was positive and supportive of the reforms. The promotion effort, in Parliament and at party rallies around the country, did help educate the general public, even though skepticism remained widespread in the urban areas. The factor of "luck," that is, good rains, and favorable terms of trade also helped in the early turnaround of the economy.

Notwithstanding the Cabinet's and Parliament's acceptance of the reforms, there is little doubt that the urge to undertake structural changes came from the donors. It might be recalled that the United Kingdom threatened to withhold assistance from The Gambia if it did not initiate economic reforms, and the IMF almost declared the country ineligible for foreign loans if it did not clear its external arrears. But once the reform program got underway, donors provided generous assistance to the government, through outright cancellation of debt, debt rescheduling, and balance of payments and budgetary support. Donors, in particular USAID, also supported sectoral studies that provided analysis of the constraints to development in some of the key sectors such as tourism, horticulture, finance, and the re-export trade and suggested appropriate measures in dealing with other sectoral issues. The donor community's role was therefore critical in the formulation and implementation of reforms in The Gambia. Without the clear signals they sent and the firm resolve demonstrated, the GOTG was most unlikely to carry out such comprehensive policy reforms at the time it did.

4.2 Reforms and The Political Decision-Making Process

Until the military coup in July 1994, The Gambia had a well-established Cabinet system that took a collective approach to decision-making. The President chaired Cabinet meetings, and through prior interministerial consultation and distribution of memoranda before the meetings, individual ministers were afforded ample opportunity to fully participate in meetings. This collective and consultative approach to decision-making also guided the policy decisions on the ERP. The issues raised under the ERP, however, were novel in the experience of most ministers. The memoranda were often technical in detail and voluminous; and under pressure to meet deadlines, they were circulated with insufficient lead-time to allow real discussion in Cabinet meetings. These factors handicapped ministers from making informed contributions to otherwise free and open discussions. In effect the decision-making in the Cabinet reflected the nontechnical training of most of the ministers and the relative complexity and abstractness of the economic policy issues that were tabled. These reasons also tended to make the President and the Minister of Finance dominant in discussions. The technical advantage of the Minister of Finance was obvious. Economic and financial questions were his daily responsibility and, apart from the standing technical back-up at his disposal, he always led the Government's side in economic policy dialogue with the donors. The President realized quite early that his position was crucial to the success of the reform program and through the work of staff of economists, he quickly achieved a good grasp of the economic issues in the ERP and appreciated the likely consequences of nonadjustment.

The business community was also frequently consulted through the medium of the Chamber of Commerce and Industry. Nonetheless, the value of the Chamber's input was sometimes played down because of its tendency to focus on narrow sectoral interests. This was further compounded by the attitude of government officials who regarded businessmen as tax evaders and therefore limited effective collaboration between the two. However, with the emergence of a more sophisticated entrepreneurial class, and an increasing acceptance of a private sector-led growth strategy, it is expected that the business community will be consulted more often and their input utilized in policy formulation. Furthermore, unlike other SSA countries such as Senegal and Nigeria, where religion can play a moderating influence on economic policy reforms, the strength of The Gambia's secular traditions did not make the religious groups particularly significant players in the area of economic policy-making.

5. IMPACT OF DONOR ASSISTANCE ON THE GAMBIA'S DEVELOPMENT

The impact of reforms has been profound and wide-ranging. The structural adjustments have helped to effectively arrest the decline in the economy and stabilize the macroeconomic framework. A trend of GDP growth has been set and, generally, a realistic basis for sustained growth and improvement in the lives of the population has been laid. More so, donor assistance has contributed in bridging the investment-savings gap, the foreign exchange gap, and the technological gap.

Investment-Savings Gap. Over the past several years, gross domestic savings have been well below gross domestic investment, generating a large investment-savings gap. The donor community has been supportive in filling this investment-savings gap. Indeed, over the period of adjustment, donors have contributed more than US$150 million to the public investment program. This has facilitated improvements in the country's telecommunications, ports, and the road network, thereby enhancing the climate for foreign and local investment. In the medium-term, as The Gambia develops the "Gateway Program" to further open its ports and communication facilities for regional and global trade, and also diversify its economy, external resources will be critical as the savings investment gap is expected to widen.

Foreign-Exchange Gap Another important area where donor assistance has made a big impact is in the balance of payments. Over the period, the cumulative official grants totaled over US$300 million. Donor grants and other assistance to the Government has helped to meet the country's debt servicing requirements, improved its creditworthiness, and resulted in large accumulation of gross external reserves. In June 1985, gross reserves were only about two weeks of imports; reserves at the end of 1994 were equivalent to over five months of imports.

An important outcome in the improvement of the balance of payments has been the stability of the exchange rate. Between 1985 and 1994, the exchange rate depreciated by 18% or less than 2% on average per year. Against the background of several external and domestic shocks that hit the economy, donor support in bridging the foreign exchange gap has been significant.

Technological Gap. Technical assistance forms a key component of donor assistance to The Gambia. Over the last 10 years, the Ministry of Finance and Economic Affairs has received assistance in a number of areas including macroeconomic analysis, tax reforms, public investment programming, training, and capacity building. USAID assistance, has provided training to MFEA in computer programming, data processing, macroeconomic policy formulation and implementation, econometric analyses, and tax studies. Scholarships have also been granted for overseas studies. Though these interventions have been timely, they have still not provided adequate capacity for national staff to undertake serious economic analysis.

Overall, there has been a surge in the level of confidence within the civil service and national pride in general. The design and successful implementation of reforms have been a test of the skills, ability, and efficiency of the economic experts and managers and a challenge to the nation as a whole to pull itself from economic malaise. The leadership felt justifiably proud of their foresight and resolution to steer the right course out of a major adversity. The general population did not merely benefit from the good performance of the economy but they also drew immense national pride in seeing their country become the marketplace for neighboring countries including Senegal, Mali, Sierra Leone, and Guinea.

5.1 Sustaining the Current Reforms

Sustaining the ERP will be a major challenge for the new military government. At present, there is a political impasse between the military government and the donor community. Donors are still not comfortable with the revised transition period of two years for returning the country to democratic and constitutional rule, and as a result, have not yet resumed assistance to The Gambia. Unless the fundamental concerns of donors are quickly addressed in the short term, there is the likelihood that some of the major reforms already in place may be reversed. In the medium-term, the success of subregional reforms and complementary institutional reforms will both affect the sustainability of the ERP.

5.2 Effects of Political Impasse and Continued Withholding of Donor Assistance on Reforms

When the Armed Forces of The Gambia wrested power from the democratically elected government, the donor community reacted with the suspension of all program assistance, in particular, technical assistance, and balance of payments and budgetary support. The European Union (EU) and United Kingdom threatened to consider new programs and projects on a case-by-case basis. In a letter to the international community in August 1994, the new government pledged itself to continue with the ERP/PSD and quickly return the country to democratic and constitutional rule. When the government announced later in November 1994 that it would complete its rectification program and hand over power to a newly elected government in December 1998, USAID[1] terminated all assistance except for humanitarian aid through nongovernmental organizations (NGOs). After some political disturbances in the middle of November, the British and Scandinavian governments issued a travel advisory notice that urged their citizens not to travel to The Gambia, except when necessary. The political changes and donors' reactions thus far have had a serious impact on the productive sectors of the economy

The macroeconomic framework still appears to be in place, though there

[1] By law, the U.S. Government cannot provide assistance to regimes that usurp power by force from duly elected governments. In The Gambia, assistance could have continued if the return to constitutional and democratic rule had occured within ~~nine~~ eight months.

are emerging signs that if donor assistance continues to be withheld, most of the reforms will be reversed. Exchange rate, price controls, and unregulated monetary policy are prime targets.

Reversal of Exchange Rate Policy. So far, the military government has considered the idea of reintroducing currency restrictions and providing Central Bank guarantees for imports of basic commodities. Either of these policy changes will increase the country risk premium for suppliers' credit to the business community; and put pressure on the country's foreign exchange reserves which could easily lead to import licensing and the allocation of foreign exchange. It is not clear how long the Central Bank can hold on to maintaining the present policy stance. However, if donors do not respond favorably to the revised timetable, and reserves begin to fall, it is likely that the Central Bank will be forced to reverse course.

Reintroduction of Price Controls. In anticipation of shortages of basic commodities, the government has on occasion mentioned the possibility of reintroducing price controls on basic commodities such as oil, rice and sugar. But this was at the initial period of the changeover. So far, agricultural harvest has been good and there is a good stock of basic commodities in the country. The market system of allocating goods will only last as long as these commodities are available and there are no shortages or panic in the market. But this depends on the willingness of the private sector to import, and/or the availability of foreign exchange reserves should it become necessary for the military government to import. Indeed, there is evidence that the military government is already moving into the importation and distribution of rice, a function that has been performed by the private sector since the ERP. If such government interventions in the private sector continue, it may crowd-out private sector investments, further reduce business confidence, increase pressures on government to find the resources to sustain its new functions, and set the stage for price controls.

Extra-budgetary Expenditure. The military government has already plunged into the resources of the parastatals, especially those of the Gambia Ports Authority (GPA), Gambia Telecommunications (GAMTEL) and the Social Security and Housing Finance Corporation. In part, this explains why central government expenditures have remained on track at just over 4% above that appropriated for the fiscal year. However this practice may make it difficult for the parastatals to meet their financial obligations to the government as required in the 1994/95 budget. As part of the 1994/95 revenue measures, public enterprises are required to (i) pay company taxes; and (ii) make dividend payments as part of government's efforts to mobilize additional domestic resources. In spite of this, the concern is that after the depletion of parastatal resources, the government may put pressure on MFEA to provide the needed resources for its extra-budgetary activities. In the absence of any financing, the likely scenario is that government may monetize the debt, and thereby increase inflationary expectations and put pressure on the exchange rate.

5.3 Reforms at the Subregional Level

The continued success of the ERP derives partly from the inefficiencies of the other countries in the subregion. As The Gambia undertook comprehensive economic reforms and improved its macroeconomic framework, Banjul became a major port for subregional trade. However, in August 1993, the countries within the Franc zone devalued their currencies and committed themselves to undertaking structural economic reforms. The success of these reforms in the medium-term will undercut The Gambia's competitiveness in the transit trade. Prospects for growth in the future and sustainability of past reforms will depend in part on diversification of the economy. Efforts were already underway, as the former Government moved to initiate the Gateway Program, Export Promotion Zones, and Industrial Centers. Recent political developments have put on hold all the major initiatives at diversification, and unless quick action is taken, it will be difficult to sustain the current reform program.

5.4 Civil Service Reforms

In spite of the civil service reforms in 1988, the size of the civil service still remains large and bottom-heavy; conditions of service are poor; existing personnel are inefficiently utilized; and there is lack of human resource development. In short, there is perhaps no issue more critical for effective government action than the provision of adequate resources and transparent policy and procedures for the development and utilization of personnel in the public service.

The World Bank's Administrative Reform Program (SECAL), expected to begin in 1994, would have been the first major step since 1988 toward fundamentally reforming the civil service but the events of July 1994 prevented it. Even more disturbing is the new government's complete disregard for normal administrative and legal practices in civil service hiring and retrenchment. Already the government has arbitrarily dismissed several high ranking officials and professionals including medical doctors and engineers without justifiable cause and this is undermining morale in the civil service. In the short term, intimidation of civil service employees would have to stop, even as the government embarks on the medium-term goal of restructuring the civil service. The progress that will be made in restructuring the civil service will be an important determinant in sustaining some of the reforms already taken.

5.5 The Issue of Corruption

Sustaining current reforms will also depend on the extent to which corruption is contained. While the donor community may have exaggerated the extent of corruption, with the benefit of hindsight, there are several instances in which the full benefits of reform were not realized because of corruption and other governance-related deficiencies.

There is no doubt that a combination of patronage, mismanagement, and possible embezzlement at some levels of government starved the nation of critical resources for development. In the Ministry of Agriculture, for example, mismanagement and possible embezzlement by the Groundnut Cooperative Union undermined reforms by diverting Norwegian grant funds and African Development Project II credit from the sector to personal use. High level officials of the Ministry appeared to have been fully aware of the mismanagement and might have been compromised in that incident.

Further, patronage and mismanagement, supported by an inefficient legal system, also led to the misappropriation of resources of The Gambia Commercial and Development Bank and delayed progress in the recovery of loans. There was also evidence that previously, in the Ministry of Finance and Economic Affairs, corruption stifled efforts to improve resource mobilization and led to persistent under-performance of the Customs and Central Revenue Departments holding back progress in the fiscal domain.

Other areas of the public service were also not free from corruption. In the police force, leadership was weak and inadequate sanctions against wrong-doing only encouraged a higher incidence of corruption. Similarly, poor leadership within the civil service cultivated a culture of corruption that rewarded crooks and demoralized able and competent staff. In addition, the public enterprises capitalized on their autonomy under performance contracts to indulge in corruption through the award of irregular procurement contracts, and patronage as well as unjustified bonuses and other pay awards and perquisites. In view of this, it is necessary that in the medium-term, further institutional, legal, and regulatory reforms must be given much higher priority in donor assistance to The Gambia.

6. FUTURE ASSISTANCE AND STAKEHOLDERS

Experience with the ERP has provided important lessons to policy makers in the design and implementation of programs. In particular, the experience over the past several years has raised many issues including the role of human resource development and capacity building in the growth process, and the need to consult representatives of recognized groups in the design of projects pertinent to their interests.

6.1 Role Of Human Resource Development And Capacity Building

The low level of literacy in the country and the inappropriate skills in some critical areas of government were major constraints to the success of the ERP. Though the government did well in educating the general public about the thrust of the reform program, high illiteracy rates stifled public and media discussion and also prevented the development of alternative measures that could have been useful to policy makers.

Furthermore, the critical mass of local technicians necessary to start and sustain the program was nonexistent. The Ministry of Finance was stretched thin and the government had to depend on expatriate technical assistance for basic analysis of the economy. This is not necessarily bad especially where local capacity is being built to ensure continuity of the work of the technical advisors. Nonetheless, the capacity-building efforts have not been quite successful for several reasons which were identified in previous reports. Meanwhile, we suggest that in future, advisors should be given line positions making them accountable for the delivery of their unit's or department's work. For that purpose, technical assistants should be: (i) treated as part of the Ministry to which they are assigned and (ii) given the responsibility to deploy, as they deem fit, the local staff under them in carrying out various tasks. These measures will promote greater cohesion and collaboration and facilitate skills transfer to the local officials. In addition, as part of any restructuring exercise to improve local capacity, clear terms of reference and job descriptions should be provided for civil servants, especially in areas where technical assistants will be working.

6.2 Program Design and Stakeholders

In recent years, Gambian technicians and policy makers have played a crucial role in the design of some aid programs. Examples are the USAID-funded Agriculture and Natural Resource program, and the World Bank's SECAL. These are important developments that should be encouraged in the future. As a first step, donors must increasingly involve Gambian nationals in the preparation of project documents, determination of their sequencing, and monitorable benchmarks necessary for project or program success.

The government should continue with the interactive and collaborative process that was initiated with the Administrative Reform Project. In the formulation of this project, the government, in cooperation with U.K. Overseas Development Administration and the World Bank, organized a workshop that brought representatives of the various sectors of the civil service together to discuss issues of constrained productivity and resource mobilization and its efficient allocation. The issues raised and recommendations suggested formed the basis of the final draft of the SECAL document that the government was negotiating with the World Bank at the time of the military takeover in July 1994. The experience gained has shown that the representatives of interested groups could feasibly be consulted as stakeholders. The small population and good communications in The Gambia constitute additional advantages. The format can be made to vary from one program to another. But as a general rule, there is immense advantage in involving the people along with GOTG and its development partners in the decision-making process and this process should meaningfully start at the design stage.

In the final analysis, the greatest benefit that donor assistance could bestow on The Gambia is for policy makers to become fully involved in the design of programs and projects. Being part of the project preparation process will allow Gambians to help determine (i) policies that would work; (ii) conditionalities that are practical; and (iii) sequencing that takes into account the broad picture of the economy. This prior consultation will also help project planning personnel to establish linkages with other ongoing or pipeline reforms.

7. SUMMARY AND CONCLUSIONS

Donor assistance has played a very important role in the success of the Gambia's economic recovery program. It has helped to stabilize the economy, shore up international reserves, and restore some sense of pride in all Gambians. Although the comprehensive complementary institutional reforms were not undertaken in tandem with the structural economic reforms, some progress has been made to train Gambians in overseas institutions and technical assistance is helping develop local capacity. Inexperience of Gambian economists and technicians during negotiations has caused some problems with conditionalities and the capacity to implement so many reforms in so short a time; nonetheless, the experience gained has been valuable. In the medium-term, as the country begins to diversify its economy, foreign aid will become even more critical in institutional and capacity-building. Donor assistance will be crucial in improving the legal and regulatory framework, and the Government will have to show greater determination in rooting out corruption.

In order to facilitate program implementation, the government should be encouraged to continue with the collaborative and interactive approach of preparing projects and should be allowed to play a more decisive role in the design of conditionalities and sequencing. In the final analysis, the recommendations and conclusions reached should form the basis of negotiations and donor support to the country.