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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: 635-0222

4. BUREAU/OFFICE: Africa | 06

5. PROJECT TITLE (maximum 40 characters): PL 480 Title II Section 206/The Gamb

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 02 DD 28 YY 89

7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4): A. Initial FY 86 | B. Quarter 3 | C. Final FY 88

8. COSTS ($ OR EQUIVALENT $1 =) — FIRST FY 86

A. FUNDING SOURCE	FIRST FY 86 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	( )	( )	( )	( )	( )	( )
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1. PL 480	1,545		1,545	6,138		6,13
Other U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS	1,545		1,545	6,138		6,13

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) PL480	144	070		0		6,138		6,138	
(2)									
(3)									
(4)									
TOTALS				0		6,138		6,138	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 056 | 840 | 024

11. SECONDARY PURPOSE: 734

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

A. Code	BS					
B. Amount	6,138					

13. PROJECT PURPOSE (maximum 480 characters)

To assist The Gambia in becoming food self-reliant by increasing production of 1) groundnuts (their only significant foreign exchange earner) to enable them to import food and 2) coarse grains.

14. SCHEDULED EVALUATIONS: Interim MM 10 YY 88 | | Final MM 10 YY 90

15. SOURCE/ORIGIN OF GOODS AND SERVICES: [X] 000 [ ] 941 [ ] Local [ ] Other (Specify)

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

Clearance: K.W. Klemp, Controller

17. APPROVED BY — Signature: Byron Bahl

Title: Byron H. Bahl, AID Representative

Date Signed: MM 03 DD 07 YY 86

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W AMENDMENTS, DATE OF DISTR: MM | DD | YY

COVER

EXECUTIVE SUMMARY

Until the severe droughts of the late 1970s and fiscal problems of the early 1980s, The Gambia was food self-reliant . Although the nation did not grow enough grain to feed itself, groundnut exports earned the foreign exchange necessary to import food and other essential imports. By the early 1980s, however, The Gambia was experiencing macroeconomic problems which adversely affected the ability of Government (GOTG) and public institutions to provide adequate and efficient support to the agricultural sector. Simultaneously, groundnut production was declining and there was low growth in coarse grain production. After 1977, public sector employment and development expenditures grew rapidly This contributed to a large increase in imports because of the high import consumption of the urban public sector wage earners and the high import component of general government expenditures and donor-supported development projects.

The resulting large trade deficits depleted The Gambia's foreign exchange reserves, inhibiting the ability of the GOTG to pay its debts as they came due while still importing food, fuel, medicine and spare parts essential for national maintenance. Producer prices for groundnuts were compressed because of (1) declining world prices, (2) over-valuation of the exchange rate, (3) rising Gambia Produce Marketing Board (GPMB) overhead costs (debt), and (4) increasing taxes on groundnut exports. Also, imported rice prices were fixed by the GOTG at a price lower than the CIF cost, thereby subsidizing urban consumption and discouraging both the consumption and production of domestic coarse grains. Investments in agriculture did little to alleviate the structural food deficit or foreign exchange problem, because they were focused on activities in which The Gambia does not enjoy a comparative advantage (such as irrigated rice and cotton schemes). Moreover, these investments were directed towards infrastructural development to the detriment of traditional cash crop production. Hence, when groundnut production began to decline because of drought, aggravated by low price incentives, The Gambia's foreign exchange problem increased so much that the nation could no longer import commercially enough food to bridge its structural food gap.

Consequently, when domestic grain production suffered because of drought and near drought, there was a dramatic need for emergency assistance. This need is manifest in current annual demand for 128,000 metric tons (MT) of cereals, annual production of 73,000 MT, commercial imports of 34,000 MT, donor food aid imports of 14,000 MT, and an uncovered gap of 7,000 MT. The U.S. has provided emergency food aid in three of the past five years.

The GOTG recognizes the necessity of resolving its chronic food crisis and foreign exchange problems. During the past four years it undertook a series of efforts to reverse the nation's economic decline. These efforts, focused mainly on constricting demand, fell short. Building upon the experience of these programs, the GOTG recently developed a more rigorous, more comprehensive, and more structural adjustment oriented package of policy reforms.

Development of the package was facilitated and endorsed by the IMF, the IBRD, USAID and other donors. This Economic Recovery Program (ERP) ends the prevailing economic bias which discriminated against rural producers while protecting urban consumers. It also provides for privatization-oriented reform of the marketing system, the decapitalization of which was key to the decline of production and marketing. The ERP was announced during the Budget Speech in June 1985 and initial measures were implemented immediately.

The Section 206 program will help The Gambia sustain its efforts to create the policy and institutional conditions promoting an economic balance between food crop production and imported food, as well as between cash crop production and the import of essential supplies. Under the program average annual rice donations of 7,000 tons will cover one third of the structural food gap over a three year period. The reforms associated with this contribution are: (1) decontrolling fixed retail prices for rice while liberalizing trade; (2) progressive reductions in the groundnut export tax; (3) divestiture of public service activities and peripheral enterprises of the GPMB as well as settlement of its interlocking arrears with the Government; and (4) removal of fertilizer subsidies, distribution of fertilizer and seed through private traders, and expanded entry of private traders into crop marketing. The proceeds of rice sales through private channels will be used to recapitalize the groundnut marketing system, thereby helping to provide the liquidity necessary to revitalize the groundnut sector - the heart of the economy.

This combination of food imports, policy reform, and use of sales proceeds to sustain implementation of the reforms will help The Gambia sustain incentive prices, stop (cross border and other) leakages from the system, and shift consumption from imported rice to domestic coarse grains. The policy reform implementation measures have been laid out in annual sequence and each call forward of rice is contingent upon implementation of the appropriate measures.

The economic analysis, using comparatively conservative assumptions concerning the program's impact, indicates that a favorable economic rate of return will be realized. Depending upon which initial base year production figures are used, the IRR resulting from the program's investment is between fourteen and twenty-six percent. the break-even analyses demonstrates that, even with modest increases in groundnut production, the program will generate a stream of benefits which justifies program-related incremental costs over a ten year period. The macroeconomic part of the analysis, indicates in detail additional benefits in the form of: (1) reduced pressure on the foreign exchange rate; (2) increased foreign exchange earnings; (3) increased rural incomes and production; (4) reduced demand for credit; (5) curtailment of inflation; (6) improved balance of payments; and (7) curtailed hemorrhaging of the groundnut marketing system. OAR/Banjul devoted great time and effort to developing alternative uses of the sales proceeds, especially for seed multiplication and line item support

of government and USAID project activities, but all alternatives involved much slower returns, much slower disbursement, and major associated technical assistance costs.

Rice is the only economically feasible commodity that can be brought into The Gambia without distorting the current supply and demand situation and without defeating the purpose of recent pricing policy reforms. The high demand but low supply of rice in The Gambia ensures that the Section 206 rice will sell quickly, even at the prevailing decontrolled high retail price. Rice imports will not increase the supply of rice enough to cause a decline in price. Keeping retail rice prices at their current level will meet domestic demand, discourage the retail re-export trade in rice, and encourage consumers to switch to the more affordable locally-produced coarse grains. The resulting rise in demand for coarse grains will encourage domestic production, helping to bridge The Gambia's structural food deficit. Importing any other cereal such as maize, sorghum or millet would significantly affect the local supplies of these commodities, therefore lowering their prices and discouraging their production.

The Section 206 program will benefit several groups. These are groundnut farmers (through higher net producer prices); food crop and livestock producers (through the complementary effects of increased groundnut production); rural dwellers in general (through improvement in rural incomes and economic activity); wholesale traders (through the expansion of groundnut volume); the GPMB (through an improvement in its overall net profit and reserve situation); and, indirectly, all Gambians (through the reduction in net credit to the public and the consequent easing of inflation and pressure on the balance of payments).

II. PROGRAM DESCRIPTION

A. General Background

The Republic of The Gambia is a Sahelian country situated on the coast of West Africa 13 degrees above the Equator. It is the smallest country in continental Africa, with one of the highest population densities in Africa. Its area of 11,295 square kilometers, inhabited by 745,300 people (1985), forms an enclave within Senegal stretching about 350 kilometers up The Gambia River. The width of the country varies from 26 to 48 kilometers, making the River the principal geographical feature.

The Gambia has a per capita income of about $260 (1984) making it one of the most impoverished nations in the world. There are no known important mineral or other natural resources in the country. There is little manufacturing, some fishing and a growing tourist industry but agriculture is the dominant sector of the economy. Seventy percent of the population live in rural areas where most people engage in farming. About 40 percent (452,000 hectares) of the nation has soils suitable for farming. Gambian agriculture is predominantly rainfed, with only about 1500 hectares under irrigation. The largest area of farmland (65 percent) is devoted to groundnut cultivation, and groundnuts constitute 85 to 90 percent of the total value of all domestic exports. Although grown primarily as a cash crop, groundnuts also are utilized as food by Gambians. Coarse grains cultivated include maize, early and late millet, sorghum and findo (a grass resembling rice). Rice is cultivated in swamps, on upland areas and in irrigated plots. A small amount of cotton is grown for cash.

The Gambia is heavily dependent on trade and it has an active commercial sector. All fuel and capital goods, most manufactured items and a significant amount of food must be imported. Because of its position astride the Gambia River and its open trade policy, The Gambia has served as a commercial entrepot for much of the region, importing goods for re-export to Senegal, Mali, Guinea-Bissau and Mauritania. Its small size, substantial trade openness and heavy dependence on a single export crop gives The Gambia an inherently vulnerable economy, highly sensitive to changes in terms of trade and to shortfalls in agricultural production.

B. The Problem

1. The Food Deficit

The Gambia faces a serious recurring structural food deficit that has become more severe in recent years. Historically, The Gambia did not grow enough grain to feed its population. But by exporting cash crops, primarily groundnuts, The Gambia earned the foreign exchange necessary to pay for cereal imports, especially rice, thereby bridging the gap between the domestic supply of and national demand for food. Within the past decade, however, The Gambia has been unable to cover its growing structural food deficit through commercial imports alone, forcing the country to rely upon chronic emergency food aid in order to survive. The Gambia's current food crisis is the result of a combination of three factors: (i) adverse rainfall patterns which reduced agricultural yields in general; (ii) overextended Gambian Government budgets and development programs which failed to provide the services necessary to sustain and expand agricultural production; and (iii) ineffective Gambian Government pricing policies exacerbated by declining terms of trade which helped depress the agricultural sector, primarily by contributing to declines in groundnut production and exports.

The Gambia is neither self-sufficient nor self-reliant in grain production. It's demand for cereals has grown rapidly over recent years to about 138,000 metric tons (MT) in 1985 (see Table 1). During the past five years however, domestic grain production has been erratic, averaging 73,480 MT, leaving an average gap of 55,100 MT per annum. The Gambia's cereal gap has not been met by commercial imports which have averaged 33,800 MT. As a result, The Gambia has been facing an average structural food deficit of about 21,300 MT per year during the past five years. This chronic food shortage has been covered in most years by donor food assistance, including U.S. emergency food aid, averaging 13,900 MT per annum. Still, the gap between total demand based on optimum consumption and known grain supplies is about 7,400 MT per year.

The Gambia has received food assistance from the US in each of the last five years; in three of those years it was emergency food aid. A continuing need for emergency food assistance is projected for at least the next three years and probably for the next five years. Meeting this need will give the Gambian economy at least some of the time it needs to respond to the policy reform program being executed by the Government of the Gambia (GOTG).

In order to project The Gambia's estimated annual cereal requirements for the next five years, several assumptions must be made:

(i) The population will grow at 3.5 percent per year. The annual average growth rate from 1973 to 1983 was 3.5 percent, (representing local growth of about 3.0 percent, and immigration of about .5 percent per annum) which is substantially higher than the average annual growth rate that has been assumed to date (2.6 percent).

TABLE 1: Supply and Demand for Cereals, FY 1981-1985

YEAR	1980/81	1981/82	1982/83	1983/84	1984/85
Population (est.)[1]	640,200	663,400	687,500	711,600	736,500
Demand (MT)[2]	119,700	124,000	128,500	133,000	137,700
Supply (MT)[3]	94,200	109,300	126,800	112,500	93,600
Local Production	62,200	80,300	90,800	57,500	76,600
Commercial Imports	32,000	29,000	36,000	55,000	17,000
Structural Deficit (MT)	25,500	14,700	1,700	20,500	44,100
Total Food Aid (MT)	13,400	11,100	9,000	22,000	14,000
US Food Aid	5,360	3,700	2,000	9,800	8,100
(US Emergency)	1,540[4]	-	-	8,000	6,000
(of which monetized)	510	-	-	3,280	3,000

[1] Figures are estimates based on 1973 and 1983 GOTG census.

[2] Demand is calculated as follows: cereals account for 70 percent of calorie requirements or 170 kgs. per capita per year. 10 percent is added to reflect storage losses and seed requirements, thus total demand is 187 kgs. per person per annum. This represents optimal requirements; in fact actual consumption is lower.

[3] GOTG Price Policy Monitoring Unit (PPMU) 1980-1985 for local production; WFP and FAO for commercial imports. Food import data for The Gambia vary considerably depending on the source. For example, GOTG data reflect the Gambian crop year which is from October through September. In contrast, FAO (and WFP) data reflect the period July through June. USDA data reflect the U.S. fiscal year (which happens to be the same as the Gambian crop year). Moreover, food import data sometimes refer to actual arrivals (as in the case of WFP), while other data include pledges of food aid that has not actually arrived. USDA data refer to the year in which the food aid was purchased, as reflected in dollar obligations. The AID mission considers WFP data more accurate, hence their figures are used here.

[4] 1030 MT sorghum and 510 MT rice were received in early FY 1982.

(ii) Cereals will continue to account for 70 percent of calorie requirements, which is equivalent to 170 kgs. per capita per year (or 1,844 calories per day). The remainder of the calorie requirement will be met by fish, livestock and other non-grain commodities. One hundred and seventy kgs. (374 lbs.) of cereals per person per year is the optimal calorie requirement necessary for maintenance as recommended by the FAO.

(iii) Ten percent of this level of consumption (17 kgs. per person per year) is added to reflect storage losses and seed requirements; thus, total estimated production requirements are 187 kgs. of cereals per person per year. (This method of adjusting demand upward by 10 percent differs from the method used in the PID in which supply was adjusted downward by 15 percent. The WFP and the Government adjust supply downward by 25 percent. The net result is the same no matter which method is used.)

(iv) No allowance is made for changes in income. (Although an anticipated devaluation may decrease real incomes in the short and medium term.)

(v) No allowance is made for different consumption patterns in rural and urban areas; instead, the projections reflect the results of a 1969 urban consumer survey.

Table 2: Projected Cereal Requirements, FY 1986-1991

YEAR	1985/86	1986/87	1987/88	1988/89	1989/90	1990/9
Pop. (est)	745,300	771,400	798,300	826,200	855,100	885,00
Demand (MT)	139,400	144,200	149,300	154,500	160,000	165,50

Source: FAO, "Population Trends and Cereal Requirements," The Gambia Agriculture Sector Review Draft Report, 1984.

Table 2 illustrates that during the next five years, cereal requirements will increase from about 139,400 MT (in 1986) to 165,500 MT (in 1991). This compares unfavorably with current annual average domestic grain production of about 73,480 MT. To what extent The Gambia is able to cover its projected food deficit for the next five years depends mainly upon five factors: (i) adequate rainfall to ensure maximum yields of domestic grains; (ii) sustained high levels of groundnut production and marketing to maximize foreign exchange earnings; (iii) the extent to which food re-exports can become part of the entrepot trade; (iv) a change in consumption patterns whereby the proportion of rice in Gambian diets is reduced commensurate with an increase in coarse grain consumption; and (v) the generation and promotion of improved varieties of coarse grains and technologies designed to increase cereal production.

Cereal consumption in The Gambia consists of rice and coarse grains (essentially sorghum, millet and maize). In the mid 1970s rice provided about 42 percent of total cereal requirements, but by 1983/84 the rice share of the diet had increased to 60 percent. The cereal demand projections below anticipate a return toward the earlier consumption pattern in response to economic reforms (see Section C).

Based on projected increases in coarse grain supply and decreases in rice demand, Table 3 below indicates the extent to which domestic production and commercial imports can be expected to satisfy the projected demand for cereals.

The FAO estimate for the 1985/86 season represents near record levels of cereal production for The Gambia. This may be an over-optimistic estimate, however, given past production performance. During the 1985/86 season there also has been a rare combination of factors that contributed to the potential increase in local grain production: (i) there was a dramatic switch in cropping patterns with less groundnuts and more coarse grains being planted; and (ii) there was sufficient rainfall in most areas, well distributed over most of the growing season with shortfalls coming only during the first two weeks and last two weeks. Hence OAR/Banjul anticipates production figures for FY 1987 through 1991 will return to a more balanced cropping pattern combining groundnuts, coarse grains and swamp rice.

It is essential that The Gambia recover from current low levels of groundnut production and marketing (1985/86 estimated harvest of 75,000 MT) to previous high levels (such as the mid-1970s when well

Table 3: Projected Supply and Demand for Cereals FY 1986-1991

YEAR	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
Pop. (est.)	745,300	771,400	798,300	826,200	855,100	885,000
Demand (MT)	139,400	144,200	149,300	154,500	160,000	165,500
Rice	69,700	70,700	72,000	72,600	73,600	74,500
Coarse Grains	69,700	73,500	77,600	81,900	86,400	91,000
Supply (MT)	120,000	115,800	125,000	134,300	138,900	143,500
Local Prod.	100,000	90,800	95,000	99,300	103,900	108,500
(Rice)	(27,000)	(23,200)	(24,200)	(25,300)	(26,500)	(27,600)
(Course Grains)	(73,000)	(67,600)	(70,800)	(74,000)	(77,400)	(80,900)
Comm. Imports	20,000	25,000	30,000	35,000	35,000	35,000
Deficit (MT) (Aid Requirement)	19,400	28,400	24,300	20,200	21,100	22,000

Sources: FAO, "Population Trends and Cereal Requirements", The Gambia Agriculture Sector Review Draft Report, 1984; and USDA estimates.

over 100,000 MT were harvested) in order to generate the foreign exchange it needs to pay its external debts and buy essential imports of fuel, medicine and food. The current trend towards subsistence production will not solve the foreign exchange crisis nor the food problem of The Gambia.

Assuming modest success for policy reforms and using the best and most balanced previous year as the base year (FY 1983: 23,200 MT of rice; 67,600 MT of coarse grain; and 157,300 MT of groundnuts), Table 3 projects a minimum increase in production of 4.5 percent per annum, which the FAO states is possible using improved technology and better varieties of coarse grains more extensively throughout The Gambia. At the same time, the demand for rice is projected to decline from 50 percent of total cereal demand in FY 1986 to 45 percent in FY 1991.

The magnitude of the need for food aid is based on the assumption that The Gambia will be able to import commercially 20,000 MT of rice in FY 1986; 25,000 MT in 1987; 30,000 MT in 1988, and 35,000 MT thereafter. The Gambia has averaged 33,800 MT of commercial rice imports during the previous five years, but that was when GPMB dominated the rice importing business. Since July 1985 GPMB's role in the commercial rice trade has ended and the private sector is handling rice imports. Experience to date indicates that the private sector is moving cautiously into this new activity, thereby causing an initial decline in total commercial rice imports. Furthermore The Gambia suffers from a shortage of foreign exchange, so there is insufficient hard currency available to sustain previous levels of commercial rice imports. Hence OAR/Banjul projects it will take at least three years for enough foreign exchange reserves to build up within the banking system, and for the private sector to acquire the confidence it must have in the government commitment to free trade, before commercial rice imports are restored to their previous levels. A Section 206 Program would help bridge the rice gap during this critical transitional period.

2. Macroeconomic Factors

The Gambia's economic and financial crisis has left the nation without the income necessary for food self-reliance. That is, past investments have failed to generate the increases in production and revenue necessary to meet the rising costs associated with the investment program. These investments failed to generate needed increases in production and revenue because they were focused on activities in which The Gambia does not enjoy a comparative advantage, such as cotton and irrigated rice schemes, and because they were directed towards infrastructural development to the detriment of traditional cash crop production. To manage, operate and supply this investment program, which was developed with donor support, the GOTG expanded the public sector by rapidly recruiting more civil servants and technicians, and increased the importation of capital and manufactured goods without regard to the level of exports these investments were generating.

The rapid growth of public sector employment and development expenditures contributed to large increases in imports (more than 30 percent per year between 1977 and 1980) due to the high import consumption of the fast-growing urban population, especially public sector wage earners, and the high (over 60 percent) import component of general government expenditures and development projects. For example, between 1976 and 1980 established government posts doubled and the share of GDP absorbed by government expenditures increased from 15 percent to 41 percent. By 1983 the public sector (government administration and public enterprises) accounted for two-thirds of total modern wage employment. Most of this growth was concentrated in urban areas, especially Banjul, the capital. Between 1973 and 1983 Banjul's population more than doubled; today more than 30 percent of The Gambia's total population is living in the capital and its environs. These trends have created a highly dualistic economy over the past decade: average incomes in the urban, modern sector, dominated by government wage earners, are approximately four times higher than average rural incomes. Moreover, urban consumption features a greater marginal propensity to consume imported goods as well as a greater demand for public services, while the rural sector continues to furnish the sources of foreign exchange.

These factors created a structural deficit in The Gambia's trade; domestic exports, even in a good year, were increasingly unable to generate foreign exchange sufficient to cover the cost of domestic imports, principally fuel, food and capital goods. Moreover, as urban purchasing power was largely independent of agricultural production, the demand for imports was no longer significantly curtailed in years of reduced export earnings from groundnuts. At the same time, softening world prices for groundnuts and the rise in world oil prices combined to cause a serious deterioration in The Gambia's terms of trade. These factors combined to produce substantial trade deficits after 1979, contributing to the severe deterioration in the overall current account since that time.

Gambian government pricing and credit decisions made to encourage rural production as well as to accommodate urban consumption also contributed to the increase in imports, especially of rice, fuel, fertilizer and machinery. These decisions included maintaining artificially low (subsidized) retail rice prices, keeping price controls on imported goods destined for urban consumers, and subsidizing the costs of agricultural inputs (including fertilizer and machinery) delivered to farmers while providing subsidized credit through low interest rates and periodic "forgiveness" of outstanding farmer debts.

Resultant internal price disparities skewed domestic consumption patterns. Table 4 below illustrates the price disparity between imported rice and domestic coarse grains which, unlike rice,

Table 4: Cereal Prices in Banjul, The Gambia[1]
May 1984 - April 1985 (per 100 kgs.)

		Imported Rice	Maize	Millet	Sorghum
1984	May	91 Dal.	170 Dal.	120 Dal.	170 Dal.
	June	91	157	131	120
	July	91	150	130	130
	Aug.	91	150	120	120
	Sept.	91	150	100	100
	Oct.	91	95	90	100
	Nov.	91	95	90	100
	Dec.	91	125	105	100
1985	Jan.	111	100	90	85
	Feb.	111	100	90	85
	March	111	100	85	90
	April	111	125	100	120
	Avg.	97.6 Dal.	126.5 Dal.	104.2 Dal.	110.0 Dal.
SENEGAL (1985)[2]		208.0 Dal.	138.0 Dal.	118.0 Dal.	118.0 Dal.

[1]Price data collected by the Mixed Farming Project News Survey from May 1984 through April 1985. Note that the imported rice price is the ex-store GPMB price whereas coarse grain prices are wholesale prices. Hence the disparity in retail prices is even greater than illustrated.

[2]Senegalese prices are converted to their Dalasis equivalent using the parallel market exchange rate (65 Dalasis per 5000 CFA). Prices are fixed official retail rice prices and parallel market wholesale grain prices. Senegalese price data collected by the GOS Bureau of Macroeconomic Analysis.

were sold at market prices. Judging by price alone it is evident that there would be a higher demand for imported rice than for domestic cereals. Given other variables, such as the relative ease of preparing rice for meals compared to the arduous and time-consuming tasks involved in pounding and milling coarse grains, it is no wonder that The Gambia's rice demand has increased at a much faster rate than the demand for coarse grains.

Resultant external price disparities skewed trade patterns, leading to the retail re-export of imported and domestically produced items critical to The Gambia's needs. For example, during the past year the Senegalese fixed price for imported rice was nearly double the equivalent Gambian price. Thus rice, which was imported by the GPMB with hard currency earned from groundnut exports, could be re-exported to Senegal and other countries for profits approaching 80 to 90 percent. Equally evident is the

impetus to sell scarce supplies of domestic coarse grains outside the country. Similar forces have been at work for fertilizer and other production inputs. Furthermore, the foreign exchange earned from these retail re-exports did not enter the official banking system.

The Gambia's investment program of the late 1970's was funded by highly concessional loans from donors and by domestic borrowing and grants, especially between the GOTG and GPMB. However, in order to sustain the new level of imports created by the investment program, by the rapid growth in the public sector, and by government pricing policies, the GOTG had to borrow more money from external and internal sources. This borrowing led to the accumulation of debt and as donor assistance (grants) declined and the terms of these loans hardened over time the total debt burden increased proportionately. Moreover, grants from the GPMB to the GOTG decapitalized the agricultural marketing system of funds needed for its own internal operations as well as for the purchase of groundnuts and the capitalization of plant and equipment. This decapitalization led to a decline in the ability of the system to deliver inputs and services to traditional cash crop producers (groundnut farmers), thereby creating a decline in groundnut marketing and exports and foreign exchange earnings. The dramatic fall in foreign exchange earnings after 1977 led to a near total inability to import essential items by 1985. After The Gambia's net foreign assets became negative in 1979, for the first time in the country's history, recourse to foreign borrowing was heavy with the external public debt increasing from $158 million in 1979 to $312 million by June 1985 (equal to 200 percent of GDP). Table 5 below illustrates the situation and indicates that The Gambia faces a foreign exchange gap of about 50 million SDR's between July 1985 and December 1986 (1 SDR is equal to about $1 US).

Table 5: The Gambia: Foreign Exchange Cash Outlook
(Official Sector Transactions Only) 1985/86 - 1987/88
(In millions of SDRs)

	July -Dec. 1985	Jan. -June 1986	July -Dec. 1986	Jan. -June 1987	1985 /86	1986 /87	1987 /88
Outflows	19.5	30.8	21.1	20.9	50.2	42.0	41.8
Petroleum [1]	5.5	5.5	5.5	5.5	11.0	11.0	11.0
Other (e.g., government travel, embassies).	1.0	0.9	1.0	0.9	1.9	1.9	1.9
Debt service (after debt relief)	6.2	6.4	8.1	8.1	12.5	16.1	16.6
Nonreschedulable debt (medium/long-term)[2]	3.5	3.5	5.2	5.2	6.9	10.4	10.7
of which: multilateral	(2.6)	(2.6)	(3.3)	(3.3)	(4.8)	(6.5)	(7.2)
other	(0.9)	(0.9)	(1.9)	(1.9)	(2.1)	(3.9)	(3.5)
Payments on reschedulable debt (medium/long-term)[3]	0.5	0.6	1.0	0.9	1.1	1.9	2.4
Interest on short-term debt/arrears	2.2	2.3	1.9	1.9	4.5	3.8	3.5
Payments to the IMF	6.8[4]	6.9	4.5	4.0	13.7	8.5	6.3
Repayment of commercial bank overdraft	-	8.1	-	-	8.1	-	-
Increase in reserves	-	2.0	1.0	1.0	2.0	2.0	2.0
Cash reduction in arrears	-	1.0	1.0	1.5	1.0	2.5	4.0
Inflows	3.4	17.3	-	19.4	20.7	19.4	21.0
GPMB	0.5	17.3	-	19.4	17.8	19.4	21.0
of which: groundnuts[5]	(-)[6]	(16.3)	(--)	(17.8)	(16.3)	(17.8)	(19.3)
Other	2.9[7]	-	-	-	2.9	-	-
Gap (inflows less outflows)	-16.1	-13.5	-21.1	-1.5	-29.5	-22.6	-20.8

[1] Estimated total value of petroleum imports in 1984/85 was SDR 12.1 million. Projections for subsequent years assume, compared to the 1984/85 outcome (i) 24 percent reduction in gasoline consumption; (ii) unchanged kerosene consumption; and (iii) unchanged total diesel consumption (within this category, a rise in GUC requirements is assumed to be offset by a reduction in other diesel usage).

[2] For working purposes, it is assumed, based on the estimated debt structure, that 38-42 percent of medium- and long-term official debt service falling due during 1985/86-1987/88, and of official debt service arrears as of June 30, 1985, would be eligible for rescheduling. Payments shown with respect to reschedulable debt represent estimates of downpayments and moratorium interest that could be required under a rescheduling.

[3] Includes interest payments in respect of certain central bank foreign liabilities, i.e., arrears to the West African Clearing House, and short-term debt owed to commercial banks.

[4] Includes SDR 2.5 million overdue as of August 15, 1985.

[5] Assumes:

	1985/86	1986/87	1987/88
GPMB purchases (in tons)	60,000	70,000	80,000
Average price change (in percent)	-10.0	-5.0	-5.0

[6] Net of small amount of groundnut export proceeds used to finance rice imports.

[7] Includes transfers from commercial banks to the Central Bank under the existing 30 percent transfer requirement. Does not include possible oil credits.

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3. Natural Factors

The Gambia's chronic food deficit is also attributable to recent adverse environmental changes which have had a negative impact on agriculture, thereby exacerbating the general economic deterioration discussed above. The dominant natural feature of The Gambia is its river which bisects the entire nation. The Gambia River is tidal with salt water intrusions reaching as much as 250 to 270 kilometers inland during the dry season and 150 kilometers inland during the wet season. Topographically, the country has three main zones: a narrow mangrove swamp area extending about 250 kilometers along both sides of the River; an area of slightly higher ground which is swamp during the wet season; and a higher sandstone plateau (which rises to a maximum of 44 meters) away from the River.

The Gambia's climate is classified as Sudanic-Guinea which is heavily influenced by the zone of inter-tropical convergence. The wet season usually lasts from July through October; the remaining eight months of the year are dry. Average annual rainfall varies from almost 1200 millimeters in the west to approximately 850 millimeters in the middle and eastern parts of the country. But the rains are erratic, droughts are frequent, and over the last fifteen years there has been a significant reduction in average rainfall not only in The Gambia but for the whole Senegal-Cassamance-Guinea sub-region as well.

The decline in rainfall during the past decade has been dramatic. During 1973 an average of only 731 mm of rain fell throughout The Gambia, and in 1982 (755 mm), 1983 (603 mm), and 1984 (605 mm) similar low levels were recorded. This pattern of low rainfall has had a significant impact on agriculture, reducing yields and causing farmers to change the combination of crops they cultivate. Declining rainfall has reduced the flow of water into The Gambia River during the dry season, thereby aggravating the problem of salt intrusion. As the salinity level of soils makes

lowland and swamp rice farming more difficult, farmers have shifted to more upland crop farming as is evident from figures in Table 6 below.

Reductions in rainfall have caused farmers to devote more land to drought-resistant coarse grain production and less to groundnut or upland rice cultivation in order to increase their own food self-sufficiency. While increases in coarse grain production have helped raise The Gambia's domestic food supply, declines in groundnut production have decreased foreign exchange earnings, thereby aggravating the ability of the nation to import commercially the grain it needs to bridge its food gap, leading to increased Gambian requests for emergency food aid.

Table 6: Area Planted of Principal Crops, 1974/75-1983/84
(Thousands of hectares)

YEAR	FINDO	EARLY MILLET	LATE MILLET	SORGHUM	MAIZE	UPLAND RICE	SWAMP RICE	IRRIGATED RICE	GROUND-NUTS	COTTON	TOTAL	UPLAN TOTA
1974/75	2.7	5.9	16.4	11.4	5.4	7.4	13.4	0.6	104.8	-	168.0	154.0
1975/76	3.0	6.5	15.8	9.7	4.4	7.5	13.6	0.9	98.8	0.5	160.3	146.2
1976/77	2.5	4.6	10.3	10.9	4.0	7.6	13.7	2.0	107.6	1.1	164.3	148.6
1977/78	2.4	6.4	13.0	14.6	6.2	7.0	12.0	0.8	105.4	2.6	170.3	157.6
1978/79	2.1	10.0	15.3	13.9	6.8	4.0	13.0	1.3	106.2	2.0	174.6	160.3
1979/80	1.4	2.3	11.5	17.3	8.5	9.2	14.5	1.9	97.1	1.4	165.1	148.7
1980/81	2.3	9.0	12.8	15.9	6.7	2.0	22.5	2.9	82.5	3.3	159.9	134.5
1981/82	4.6	12.5	14.4	15.3	8.7	4.6	24.0	1.3	92.5	3.0	180.9	155.6
1982/83	2.1	19.4	18.9	20.2	10.0	4.8	24.6	0.8	122.6	2.8	226.2	200.8
1983/84	0.9	19.5	12.3	9.6	8.4	4.5	14.8	1.3	110.0	3.4	184.7	169.6
1984/85	.4	21.3	14.7	8.9	10.0	2.0	6.9	2.9	98.5	3.0	165.7	155.9
Avg.	2.2	10.7	14.0	13.4	7.1	5.5	15.7	1.5	102.3	2.2	174.5	157.3

Sources: Central Statistics Department (CSD) for 1974/75 to 1978/79; PPMU, Ministry of Agriculture for 1979/80 to 1984/85.

4. Agricultural Sector Factors

a) Resources

Gambian agricultural production has been limited by the amount of quality arable land and by labor shortages that persist at critical times during the farming season. With regard to land, only about 40 percent (452,000 hectares) of the nation has soils suitable for farming; 14 percent (158,000 ha.) has marginal soils; and the remaining 46 percent (519,000 ha.) consists of mangrove and saline swamps, forests, and pasture reserves unsuitable for farming.[1] Gambian soils are fragile with low fertility but they do respond well to phosphate and nitrogen fertilizers. Gambian agriculture is predominantly rainfed with only about 1500 ha. under irrigation during the last ten years.

The traditional method of restoring soil fertility used by Gambian farmers has been shifting cultivation whereby land, after being used for several planting seasons, lies fallow for five to seven years. Recently, however, the length of these fallow periods has decreased to only two to three years because of rising demand for land. This means that soils do not have time to regenerate naturally and so yields tend to decline. In order to maintain yields, farmers are being encouraged to use more fertilizer, to switch to mixed farming, and to employ crop rotation. Use of these methods would also bring more land under cultivation. At present, because Gambian farmers practice shifting cultivation, only about 38 percent (175,000 ha.) of the quality arable soil is under cultivation at any one time.

Agricultural labor traditionally has been less plentiful than land in The Gambia, with labor shortages especially during peak planting and harvesting periods. In recent years, though, labor shortages have become more severe because at the same time that young men have been leaving rural areas to seek employment in Banjul, artificially low groundnut producer prices have kept rural incomes low, thereby undermining farmers' ability to hire the labor needed to increase production. To overcome this constraint farmers rely on their extended family and draught animals to perform most farming tasks, and sharecropping arrangements are used among some farmers. The demand for labor during critical times in the farming season attracts seasonal and permanent migrant workers from neighboring nations. Many of these immigrants are leaving desolate areas in other Sahelian countries where it has been a problem to farm and they are coming to The Gambia to secure access to food. While these immigrants increase the demand for food, they also help increase agricultural production by relaxing the labor constraint in Gambian farming.

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[1]Statistics from Club du Sahel Report "The Development of Rainfed Agriculture in The Gambia," (1983).

b. Institutions

Given the limited land, labor and capital available in the agricultural sector, Gambian production is highly vulnerable not only to vagaries in rainfall, but also to weaknesses in the institutions and systems serving farmers. Indeed, the breakdown in agricultural institutions and systems caused by the pursuit of unsound macroeconomic policies led to shifts in production and marketing patterns that exacerbated the foreign exchange crisis and chronic food deficit.

From 1980 to 1985 the agricultural sector's share of the development budget declined from 16 to 7 percent, falling in real terms from 14.5 M Dalasis to only 12.3 M Dalasis. While recurrent expenditures in both the Ministry of Agriculture and Natural Resources (MANR) and Ministry of Water Resources and the Environment (MWRE) were rising, a greater proportion was used to pay salaries and wages than was used for materials and supplies needed by farmers, as is evident from Table 7 below.

Table 7: Recurrent Expenditures in MANR and MWRE
(in millions of Dalasis)

	MANR			MWRE		
	1981/82	1982/83	1983/84	1981/82	1982/83	1983/84
Salaries/wages	6.12	7.99	8.68	1.16	1.72	1.82
(Percentage)	(66 %)	(71 %)	(72 %)	(70 %)	(86 %)	(86 %)
Materials/ Supplies	3.17	3.20	3.41	.49	.28	.29
(Percentage)	(34 %)	(29 %)	(28 %)	(30 %)	(14 %)	(14 %)
TOTAL	9.29	11.19	12.09	1.66	2.01	2.11

Source: GOTG, Ministry of Finance and Trade and CSD 1981/82-1984/85.

When the macroeconomic climate worsened during the early 1980s, government institutions designed to assist farmers became incapable of delivering quality services in sufficient quantity in time to help improve production. The MANR and the MWRE became administratively and financially over-burdened with inadequately trained staff, leaving fewer resources to provide essential inputs to farmers. Deterioration in the strength and fiscal solvency of the GPMB and GCU, which are responsible for agricultural credit, purchase and distribution of inputs, crop marketing, processing and exports, also prevented the system from offering proper incentives to farmers.

One of the largest centers of unmanageable growth has been the MANR, whose headquarters and extension services employ over 2,300 established workers - or one government employee for every 17 farm units. This ratio is far above that of most other countries. The very large staff of the Ministry is only minimally effective because it has grown beyond the ability of management to handle efficiently, and a large proportion of staff were not properly trained to do the jobs that are asked of them. This is not entirely the fault of the Gambian Government, however, because the MANR expanded its staff in response to specific donor requests for manpower support for their projects without consideration for long term manpower development. When the donor-funded projects ended, many of these temporary workers were absorbed by MANR as permanent ones. This trend was exacerbated after the attempted coup in 1981, as it became politically expedient to retain temporary workers throughout the Government. Finally, the increasingly severe shortage of essential materials and supplies has resulted in a situation whereby staff are unable to perform virtually any productive function. For example, extension agents are station-bound for lack of fuel or spare parts for the Ministry's vehicles; animal husbandry services have been forced to discontinue vaccination programs for lack of vaccines; crop protection services cannot get pesticides or fuel; the seeds multiplication unit has been moribund over the past three years for lack of funds, supplies, and electricity; the 129 person staff of the tractor plowing division has only three operational tractors; and agricultural researchers are unable to conduct even basic on-farm trials because they lack vehicles, fuel and research inputs.

In a continuing environment of overall public finance constraints, a failure to shift some current expenditures from wages and salaries to materials and supplies for a reduced number of employees has a high opportunity cost. Essentially tax revenues are being used to provide subsistence income for too many employees rather than to deliver productive extension services.

The GCU has been the main source of institutional credit for farmers. Unfortunately, its financial position is now so weak that it cannot meet the credit needs of Gambian farmers. Many of its problems stem directly from the past imposition of central government policies and credit schemes which did not consider the management capabilities of GCU nor allow for the safeguards normally associated with viable credit programs. For example, credit disbursements were made on the basis of criteria set by the central government and not on an analysis of borrowers' credit-worthiness. Moreover, during years of poor harvests the President has publicly "forgiven" farmers' debts.

Some of GCU's problems also have been caused by its involvement in activities for which it does not have trained staff and adequate resources. For example, instead of working with farmers to ensure sufficient credit is available and recovered, GCU became involved with GPMB in fertilizer as well as groundnut marketing. The parastatals took over this aspect of agricultural marketing because fertilizer was sold at GOTG prescribed subsidized prices, leaving no profit margin for private entrepreneurs handling fertilizer distribution. But instead of increasing farmer access to this

essential input, GCU and GPMB proved incapable of delivering fertilizer on time because they were too busy handling the groundnut harvest. Consequently: (i) fertilizer arrived late at the primary cooperative societies' stores (seccos); (ii) distribution was more expensive because separate transport had to be arranged; (iii) farmers who were not secco members were excluded from distribution and credit arrangements; and (iv) effective demand rates among seccos were not known and so fertilizer did not move from surplus to deficit areas.

The GPMB was once an efficient and fiscally solid institution, handling groundnut processing and marketing. But as it became burdened with public service activities at the request of the GOTG, its budget grew to unsustainable levels.[1] GPMB's commercial viability eroded as it had to bear the costs of subsidies associated with these public services. Indeed, by the early 1980s GPMB was sustaining heavy losses in the rice import trade (18.5 M Dalasis since 1978), cotton trade (2.1 M Dalasis since 1978), lime processing (.3 M Dalasis since 1979), and in maize and poultry feed (.6 M Dalasis since 1978), which accounted for a cumulative loss of 21.5 M Dalasis by 1984. An additional 26.8 M Dalasis was lost between 1978 to 1984 because of fertilizer subsidies. Table 8 below illustrates that GPMB lost almost 50.0 M Dalasis in just six years on operations outside groundnut marketing and processing. Furthermore, GPMB's reserves, principally the groundnut stablization fund which had been a source of price support to farmers during the early and mid 1970s, were depleted by central government borrowing and by grants to the GOTG. These factors undermined the financial stability of the GPMB; with no capital to operate, GPMB was forced to borrow the funds necessary to meet its operating costs and to cover its losses. With lower groundnut production there has been a need for higher gross margins before GPMB breaks even. Bank changes on GPMB loans continue to keep GPMB costs high. Finally, GPMB has not been able to operate its equipment at capacity levels, nor has it been able to modernize its outdated oil extraction equipment.

These institutional weaknesses became most apparent during the 1984/85 farming season. For example, although rainfall was uneven in some parts of The Gambia during 1984/85 the low groundnut crop marketed was to a large extent not the result of drought, but of GOTG price increases which were too little and announced too late to capture all the harvest, and institutions which were unable to provide sufficient input and marketing services. According to the MANR several thousand hectares prepared for groundnut cultivation could not be planted because GPMB through the GCU was late distributing seed and much of the seed actually distributed was of poor quality. At harvest time pest infestation was unusually severe, in part because the MANR's crop protection services lacked the fuel to deliver pesticides to farmers to help guard their crop. Then, when the Senegalese raised their groundnut producer price by

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[1]See "An Economic and Operations Analysis of The Gambia Produce Marketing Board" (May 1985), a report prepared by USAID consultants for OAR/Banjul and the GOTG. A copy is available from AFR/PD/SWAP.

Table 8: Financial Results of The Gambia Produce Marketing Board (GPMB) 1978/79-1983/84
(Thousands of Dalasis)

	1978/79	1979/80	1980/81	1981/82	1982/83[1]	1983/84[2]
Trading Profit (Loss) on:						
Groundnuts[3]	(2,492)	(14,638)	(2,724)	(13,199)	(21,659)	37,409
Rice	(466)	(2,126)	(6,103)	(2,166)	(3,101)	(4,593)
Cotton	(187)	(575)	(454)	294	(39)	(898)
Palm kernels	94	215	55	14	197	290
Lime	24	(49)	(85)	(149)	-	-
Maize/Poultry feed	(83)	(402)	(54)	(72)	(19)	(20)
Briquettes	-	-	-	(146)	-	-
Total Trading Profit (Loss)	(3,110)	(17,575)	(9,365)	(15,424)	(24,621)	32,188
less: Overhead expenses[4]	-	-	-	4,380	5,369	4,480
Other expenses[5]	1,450	6,583	2,802	4,179	8,165	6,000
add: Other income[6]	2,234	1,631	2,876	1,802	1,849	850
Total Profit (Loss)	(2,326)	(22,527)	(9,291)	(22,181)	(35,239)	22,558
less: Contributions/Grants to Govt. Development Fund	9,550	2,169	187	396	-	-
Subsidies for fertilizer[7]	1,372	4,812	4,638	4,616	2,401	3,950
Net Profits transferred to Reserves[8]	(13,248)	(29,508)	(14,116)	(27,193)	(38,707)	18,608

[1]From unaudited 1982/83 accounts.

[2]Estimated 1983/84 budget figures.

[3]Includes FAQ and HPS as well as cake and oil.

[4]Head Office overhead expenses were not separately shown in accounts prior to 1981/82.

[5]Other expenses include conference attendance, medical expenses, bad debts provision, etc.

[6]Other income consists mainly of interest on investment.

[7]Includes a small amount for subsidies on local refined groundnut oil sales.

[8]Shows sum of general reserve and price stabilization reserves.

Sources: GPMB Annual Reports; 1982/83 unaudited accounts; 1983/84 annual budget; and Central Bank Monthly Bulletin.

20 percent in December 1984, The Gambia was a month late raising its price to parity with Senegal's. Consequently, local traders estimate that about 15 percent of The Gambia's harvest was lost to Senegal.

c. Production and Marketing Results

Unsound GOTG policies and the breakdown of agricultural institutions has caused a significant shift in the mix of Gambian agricultural production and marketing over the past seven years which has contributed to the chronic food deficit. During the mid-1970s Gambian farmers produced a mix of food and cash crops, cultivating sorghum, millet, maize and rice to feed themselves while growing groundnuts to earn the cash incomes necessary to buy goods they did not produce themselves. Gradually though, because of low farmgate prices and weak institutional support, farmers produced and sold less groundnuts. At the margin, relative prices for cereals (coarse grains) became more attractive than groundnut prices and this caused farmers to shift out of groundnuts and into coarse grain production. (Table 9 illustrates the dramatic change in production which has occurred in Gambian agriculture since the mid-1970's.) While farmgate prices for coarse grains encouraged production, the GOTG discouraged coarse grain consumption by using subsidies to price imported rice lower than domestic coarse grains. Hence relative consumer prices dampened the demand for domestic cereals thereby limiting increases in production.

While institutional support to groundnut farmers declined and that to coarse grain farmers remained low the GOTG, with donor support, provided subsidies for inputs used in cotton and irrigated rice production. This encouraged farmers to grow crops for which The Gambia does not possess a comparative advantage.

The private marketing infrastructure in The Gambia is operationally and cost effective in distributing coarse grains, whereas public sector marketing is not always as efficient. According to the FAO, costs for marketing crops in which the public sector has dominated (groundnuts and rice) have increased much more rapidly than marketing costs for coarse grains which are handled by the competitive private sector.[1] This efficiency is demonstrated by grain wholesalers in The Gambia who are able to conduct local and international business with overhead costs of 12 to 20 percent as compared to 36 percent for the GPMB.

Groundnuts: The macroeconomic, natural, and institutional factors discussed above led to a significant drop in groundnut production from an average of 135,000 MT in the late 1970s (1974-1979) to only 96,000 MT in the early 1980s (1980-85). In 1984/85 farmers sold only 45,000 MT to the GPMB.

Prices paid to groundnut farmers were compressed because of

[1]FAO, The Gambia Agriculture Sector Review Draft Report, 1984.

Table 9: Production of Principal Crops, 1974/75-1984/85
(thousands of tons)

	1974/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85
Upland Rice	4.0	4.0	2.8	2.7	3.6	2.6	1.8	4.7	4.2	2.5	2.2
Swamp Rice	11.0	10.5	10.5	9.6	26.0	17.5	25.3	27.9	29.6	18.1	8.9
Irrigated Rice	2.4	4.3	4.7	3.1	4.1	9.3	15.6	6.8	4.9	5.4	16.1
Total Paddy	17.4	18.8	18.0	15.4	33.7	29.4	42.7	39.4	38.7	26.0	27.2
Total Milled Rice[1]	10.4	11.3	10.8	9.2	20.2	17.6	25.6	23.6	23.2	15.6	16.3
Early Millet	6.7	3.6	3.0	4.4	9.5	1.6	5.4	14.5	16.9	14.4	22.9
Late Millet	11.6	9.3	8.1	6.4	10.3	7.0	9.9	14.7	16.8	11.7	15.6
Sorghum	7.9	7.4	9.6	9.8	12.2	8.8	13.7	12.8	15.7	7.1	8.2
Findo	1.5	1.2	0.9	0.6	1.6	0.2	1.3	2.2	1.2	.4	.1
Maize	8.9	5.8	5.6	8.7	9.5	6.6	6.3	2.5	17.0	8.3	12.5
Total Grains	36.6	27.3	27.2	29.9	43.1	24.2	36.6	56.7	67.6	41.9	59.3
All Cereals (grain eq.)	47.0	38.6	38.0	39.1	63.3	41.8	62.2	80.3	90.8	56.5	75.6
Cotton	--	0.3	0.7	1.2	0.9	0.9	1.4	2.7	2.4	1.2	2.5
Groundnuts (unshelled)	156.0	51.0	142.0	95.0	133.4	66.9	60.8	108.9	151.3	113.8	75.0

[1] 60 percent milling coefficient.

Sources: GOTG CSD, 1974/75-1978/79; PPMU 1979/80-1984/85; Cotton and irrigated rice: Department of Agriculture and WARDA Statistical Yearbook.

declining world prices, over-valuation of the exchange rate, rising GPMB overhead costs (debt), and increasing government taxes on groundnut exports. The purchase price for groundnuts declined 40 percent in real terms between 1979 and 1984 while the groundnut export tax increased from 8 percent of the FOB price in 1978 to 12 percent by 1982. In the past GPMB built the cost of the tax into its cost-price structure, thereby keeping the producer price for groundnuts artificially low vis-a-vis world market prices. For example, during the 1983/84 season GPMB paid farmers a mere 450 Dalasis per MT. The export tax, 196 Dalasis per MT (12 percent of the FOB Banjul price), represented a regressive tax equal to 43 percent of the producer price. If the export tax had been added to the producer price there is no doubt that farmers would have been motivated to grow more groundnuts. Instead, because of the low farmgate price and lack of proper seed, farmers planted less groundnuts. These factors combined with drought reduced production by 27 percent.

Government producer prices for all cash crops fell substantially (often 50 per cent) below free market prices set by private traders for competing upland crops such as maize, millet and sorghum. This competition affected groundnuts more than rice or cotton because 90 percent of domestic rice production is consumed on farm or sold in the parallel market (where prices are higher than official prices), and because cotton is produced in areas ill-suited to other crops, benefiting from heavily subsidized inputs.

Cereals: There has been a significant diversification of production in favor of coarse grains during the last five years. Coarse grain output has risen by 45 percent from an annual average of 32,800 MT in the late 1970s to more than 47,700 MT in the early 1980s. Maize production has improved in part because of assistance provided by OAR/Banjul's Mixed Farming Project (635-0203): average maize harvests are almost double what they were 5 or 6 years ago. Farmers also put more effort into exploitation of swamp resources and irrigated perimeters. As a result, rice production has increased by 64 percent from an annual average of 12,400 MT (milled equivalent) in the late 1970s to more than 20,300 MT in the early 1980s.

Irrigated rice production has been attempted in a number of pilot projects but has not proved economically viable or technically sustainable to date. One reason it is not sustainable is that it is difficult to maintain adequate water flow from the river during the dry season which allows double cropping. Because of its very low gradient the Gambia River has a water flow which in April and May is sufficient for the full irrigation of less than 1,000 ha.. As a result, irrigation schemes have been plagued by problems of saline intrusion and/or the oxidation of acid sulphate soils. The possibility of overcoming these problems through construction of a bridge/barrage on the Gambia River has been under study for almost a decade but there is growing evidence that such an initiative would have significant adverse ecological consequences causing substantial economic losses, particularly of river fish resources and mangrove swamps (now extensively used for firewood), as well as destroying an

important part of the area now used for swamp rice cultivation.[1]

The high costs of developing and sustaining irrigated rice farming are exemplified by the experience of the Jahally/Pacharr project (now in its second year of operation). The project consists of 500 ha. of pump-driven irrigated land and 950 ha. of reclaimed swampland used for rainfed rice cultivation. High rice yields have been generated on the irrigated area, averaging 6 tons per ha. in the dry season and 4 tons per ha. in the wet season, or 10 tons per ha. per year. However, the project's very high fixed capital costs (estimated unit costs of US $12,000 per ha.) and heavy technical assistance costs are not recovered from farmers. This adds substantially to the high unit cost of rice production making irrigated rice costs three to four times higher than the CIF (Banjul) cost of rice from Southeast Asia. It is obvious that heavy subsidies would be required to sustain irrigated rice production unless full economic production costs could be substantially reduced. The likelihood of this appears small, however, as no irrigation scheme in The Gambia to date has achieved declining average costs and proved sustainable.

Despite these trends, there is still potential for agricultural growth. The evidence suggests that farmers shifted their cropping patterns in response to natural and market forces. The bulk of the incremental grain production did not come from subsidized irrigated rice farmers, but from coarse grain and swamp rice farmers who operate independently of official marketing channels and without subsidized inputs. This indicates that Gambian farmers are quite adaptive, willing to exploit newly available technologies (improved seeds, fertilizer, animal traction), and ready to shift their cropping patterns at the margin in response to price differentials.

5. Attempts at Adjustment

The GOTG has recognized the gravity of its situation and with the support of the IMF, IBRD, USAID and other donors it has made attempts to reverse the nation's economic decline. Since the initial balance of payments crises of 1980 and 1981, the Government has negotiated two Stand-by Arrangements with the IMF. In 1981 the Government received SDR 9 million in compensatory financing from the IMF and two Trust Fund loan disbursements. These were followed by a one-year Stand-by Arrangement of SDR 16.9 million adopted in February 1982. That initial Stand-by Program aimed at lowering the public sector deficit through reductions in consumer subsidies and selective tax increases, and stimulating production through higher purchase prices for groundnuts and rice. Specific measures included a rise in petroleum prices to cover import costs, increases in electricity tariffs, and the introduction of petroleum-related taxes both to discourage consumption and to increase fiscal revenues. To

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[1]See the multi-volume work produced for USAID and OMVG (The Gambia River Basin Development Organization) by the University of Michigan especially "Rural Development in The Gambia River Basin" (March 1985).

stimulate increase domestic savings, the program also included a significant rise in interest rates on commercial bank deposits and the removal of interest rate ceilings on loans and overdrafts. The 1982/83 Program achieved many of its desired effects. The fiscal deficit was reduced from 21 percent to 14 percent of GDP. There was a decline in petroleum imports and an increase in savings deposits. There also appears to have been a significant supply response to the producer price increases; groundnut production reached 150,000 tons, the last time such a level was attained.

Unfortunately, however, these results coincided with the disastrous effects of a 43 percent decline in world groundnut prices in 1982. The higher price offered to farmers absorbed two-thirds of the realized export price, plunging the GPMB deeply into deficit and forcing it to borrow heavily (67 million Dalasis between June 1982 and June 1983) to cover its operating costs. This level of borrowing could not be accommodated by the commercial banks so the Government was forced to grant the GPMB direct access to Central Bank financing at the Government lending rate of 8 percent. This greatly diminished the impact of the monetary measures introduced to curb commercial bank credit expansion because the GPMB and the central government are the heaviest borrowers in the country, accounting for more than half of total credit outstanding. Total liquidity increased rapidly between June 1982 and 1983 as a result of a doubling in credit to the Government needed to compensate for declining external aid flows, and a dramatic (180 percent) increase in credit to the GPMB. Squeezed by this demand, credit to the private sector suffered.

Despite the recovery of groundnut world prices in 1983/84, the economic situation continued to deteriorate as a result of poor foodcrop production which necessitated heavy rice imports. The continued decline of net aid inflows put pressure on the overall balance of payments and led the authorities to negotiate another Stand-by Arrangement with the IMF in early 1984. Policy adjustments under the 15-month, SDR 12.8 million second Stand-by Program (covering the period April 1984 to July 1985) included a 25 percent devaluation and producer price increases (35 percent on groundnuts) plus stiff price increases on rice (20 percent), fertilizers (38 percent) and public transport in order to reduce subsidies. Fiscal measures included increases in import duties on petroleum products, tobacco products, alcoholic beverages and automobiles, plus an increase in the basic import tax and excise taxes. On the expenditure side the Government adopted a hiring freeze except for pressing emergencies, and put limits on supplementary appropriations. Monetary adjustments included further increases in interest rates on deposits and guidelines to limit commercial bank credit to the private sector.

Although the Government implemented all of the agreed measures the program did not meet the June 1984 targets for reductions in external arrears and net credit to the Government, the GPMB, and the private sector. As a result, after one disbursement of SDR 2.63 million, further disbursements were suspended while program criteria underwent review. This represented the beginning of the end as far

as the GOTG's ability to become current with the IMF. When the groundnut harvest declined in January 1985, foreign exchange earnings dropped and the GOTG lost its ability to become current with the IMF and the program was cancelled. Now, despite having paid several million dollars to the IMF over the last year, the GOTG remains in arrears; at present it does not have any foreseeable prospect of becoming current because it lacks the foreign exchange necessary and no donor has come forward with the amount needed ($5 million in October 1985) to pay the IMF arrears. The GOTG cannot launch the sequence of steps necessary - an IMF program, a Paris Club debt rescheduling, a World Bank structural adjustment credit - until it pays its IMF arrears.

Despite all of these difficulties, the GOTG has maintained its traditional commitment to a liberal system of trade which is unusual in Africa. Because of its low import duties relative to neighboring countries and other policies promoting free trade, The Gambia enjoys a high level of commercial activity which benefits its own citizens as well as those of neighboring nations. The Gambia has been an entrepot for much of the region, serving merchants from Senegal, Guinea, Mali, and even Mauritania because of the high tariffs, inefficient import-substitution industries and over-valued currency (CFAF) of those countries. Unfortunately this commitment has become costly to the Gambian Government because as official foreign exchange reserves dwindled, a parallel market in foreign exchange emerged to meet merchant demand. This has shifted much of the country's economic activity, such as the re-export trade and trade in domestic cereals (maize) and groundnuts, to some extent beyond the influence of policy instruments the Government has at its disposal. The positive side of this situation is that if the GOTG can adjust its exchange rate and rationalize its external debt, it can begin to encourage some of the activity which now occurs in the parallel market back into official channels. That is, there has been little "capital flight" from The Gambia; rather capital has shifted into non-Dalasis financed activities, such as the re-export trade in textiles, sugar, tea, cement, matches, corrugated metal, and other commodities.

6. Emergency Preparedness:

While the Gambian Government has been trying to overcome the macroeconomic constraints noted above, it has also acted to improve its ability to deal with emergency food needs. The principal elements of the Gambian Government's emergency preparedness are its early warning data gathering system, the planned strategic reserve, and the standing Cabinet Committee on Drought Relief. Following the dislocation caused by the attempted coup d'etat in August 1981, the GOTG established institutional mechanisms to handle future emergencies. The Commission for External Aid was established in order to coordinate the administration and delivery of relief supplies (such as food and medical aid) in cooperation with other government departments, especially the Ministry for Local Government and Lands which had handled past emergency food distributions. An interdepartmental National Reconstruction Committee was created to examine the broad problems of national reconstruction and to deal

with the specific problems of victims of looting and related acts of vandalism. After completing its work in December 1981, the Commission for External Aid recommended the creation of a permanent centralized public agency which would be responsible for the coordination and administration of all future relief aid programs. As a result, and also in response to recurring drought problems, the GOTG established the current Cabinet Committee on Drought Relief under the Vice President's Office. Representatives from all government ministries, at the Ministerial or Permanent Secretary level, comprise the Cabinet Committee.

An early warning data gathering system has been established by the GOTG, too. The Agricultural Statistics Division of the MANR conducts periodic sample surveys of crop production for each administrative division and crop. The Program Planning and Monitoring Unit (PPMU) of the Ministry then makes production estimates based on these surveys and refines these estimates as early harvest crop figures are reported. These estimates are then passed on to appropriate government planning offices, including the Cabinet Committee, and to donor agencies.

Although the GPMB has been removed from the commercial rice trade, it has been charged with the receipt and maintenance of strategic food stocks to meet potential emergencies. In fact, rice provided by the World Food Program for the 1985 food crisis was transferred to the GPMB as part of its strategic reserve. In previous years unused domestic and international food aid provided to the Cabinet Committee was held by the GPMB or sold by them and then credited to the Cabinet Committee. Although financially very limited in the short-term, the Government plans to develop this strategic grain reserve so that it will be sufficient enough to address any major future emergency food deficits.

OAR/Banjul provided 7,150 MT and 6,000 MT of rice directly to the GOTG in 1984 and 1985 respectively. Of those amounts over half was distributed for free and the remainder was sold by GPMB. The entire free food and sales program was managed by the Cabinet Committee on Drought Relief. Throughout both emergency programs OAR/Banjul found the Cabinet Committee and its donor liaison officer to be efficient and responsive to the requirements of the emergency food aid program and the participating donors.

In view of the Cabinet Committee's performance in the last two years, the PPMU early warning system, and with the planned strategic reserve, OAR/Banjul is confident that the GOTG is in a far better position today than it was just three years ago to respond to any emergency food problems.

C. The Gambian Economic Recovery Program

1. Strategies and Objectives

To address the macroeconomic problems noted above and building upon the experience of past programs, the GOTG recently developed a more stronger, comprehensive package of policy reforms which was announced in the Finance Minister's Budget Speech of June 1985. Endorsed by the IMF, the IBRD, USAID and other donors, this GOTG Economic Recovery Program (ERP) contains tighter fiscal and monetary ceilings, more attractive production incentives and a much more pronounced restructuring component than earlier programs. Thus, it is designed to: (1) shift consumer and investor spending away from imported and toward domestic items through adjustments in the exchange rate, credit and interest, and government spending policies; (2) shift government and private spending away from urban consumption and infrastructural development toward rural production through adjustments in the exchange rate, pricing, and government financial policies; and (3) shift trade patterns and make trade more efficient - especially in groundnuts, rice, fertilizer, and coarse grains - by changing the price structure and by privatization. Specific adjustments will be made in six critical areas:

(i) Stimulate agricultural production by price incentives, removal of subsidies, and by improving the effectiveness of agricultural extension services and institutions;

(ii) Expand output and employment in the other productive sectors, that is, fishing, light industry, and tourism through investment and price incentives;

(iii) Introduce a flexible exchange rate system (interbank market) which provides realistic signals regarding the scarcity value of foreign exchange, thereby directing foreign exchange to its most economic use through pricing rather than through arbitrary allocation;

(iv) Balance the supply of money and credit by raising interest rates, reducing credit creation, and collecting outstanding debts;

(v) Restore equilibrium to the public sector by reducing the budget deficit as a proportion of GDP, reducing non-essential personnel in the civil service, and reorganizing the parastatals including divestiture of government interests in key areas; and

(vi) Sharply reduce both the size and scope of the Public Investment Program, from 776 million Dalasis over four years to only 640 million Dalasis over six years in order to limit the creation of new infrastructure, which can only be done at the expense of maintaining existing facilities.

2. Measures to Date

None of these changes will be easy because they involve: (1) a general reduction in consumption standards especially a shift from more attractive foods to less attractive ones; (2) a shift from more attractive urban employment to less attractive rural employment; and (3) closing off opportunities for financial privilege and gain previously available through distorted foreign exchange allocations, dual exchange rates tax avoidance, and sales to government. Nevertheless, showing firm resolve the Government commenced implementation of the entire program in July 1985. The GOTG sharply raised the producer price of groundnuts (58 percent), cotton (43 percent), and rice (33 percent), despite strained finances. The export duty on fish products (18 percent of the FOB Banjul price) was eliminated. The GOTG decontrolled the retail price of rice and ended the de facto parastatal monopoly on rice imports, cut planned annual public investment expenditures in half, and froze civil service hiring and wages for the next three years while commencing sharp cuts in staff. Reductions in redundant government employees began in November 1985. To encourage energy conservation, petroleum prices were raised 7 percent and then an additional 15 percent import duty was made. Retail gasoline prices also were raised an additional 30 percent in January 1986. To reduce price distortions which contribute to economic leakage, the GOTG sharply increased fertilizer prices (38 percent) with all subsidies to be eliminated by early 1986. Other measures described below, which require planning because they involve changes in formal institutional relations and thorough structural reform, are scheduled for early implementation and preparatory steps are underway.

While the policy changes executed to date have been economically difficult and politically costly, there is some early evidence of positive results. Donors are beginning to provide The Gambia with financial assistance and private traders are importing some rice. Moreover, there were strong indications of a last minute jump in groundnut plantings in response to the GOTG producer price incentives.

3. Sectoral Measures

a. The Agricultural Sector

Encouraging production and marketing of those food and cash crops for which The Gambia enjoys a comparative advantage involves immediate emphasis on and investment in rainfed agriculture: coarse grains, groundnuts, and swamp rice. Long-term expansion is to come from horticulture and livestock.

To capture domestic produce the GOTG reviewed crop prices in late November, prior to the 1985/86 harvest, and adjustments were made accordingly: the groundnut producer price was raised to 1100 Dalasis per MT, cotton went up to 1120 Dalasis per MT, and rice went up to 900 Dalasis per MT. Over the long term market determined prices and exchange rates should create sustainable economic equilibrium.

In addition to these financial incentives, the Government is moving to eliminate technological and institutional bottlenecks. Decontrolling retail fertilizer prices by eliminating and encouraging private sector participation in trade should make fertilizer distribution more efficient and it should broaden its use to include coarse grains. Even fertilizer obtained through official aid is to be sold at prevailing market prices. Action is underway to rationalize the organization of the MANR and to improve its efficiency. Funds available under the IBRD-supported Agricultural Development Project II are to be used to address the current bottlenecks in coarse grain storage, processing, and marketing by adapting and disseminating hand mills that have been developed recently for easy processing of coarse grains and rice. This will complement and support FAO efforts to establish diesel-powered mills in rural villages. Moreover, the World Bank is auditing the GCU with the aim of improving its ability to provide credit. Finally, the Government is exploring means of making existing irrigated rice schemes cost-effective while not undertaking any significant expansion of irrigated rice projects until parity between domestic and world production costs can be achieved.

b. Other Productive Sectors

The Gambia's ERP also includes measures to increase the contributions of fishing, manufacturing and tourism to the economy. This involves encouraging the private sector to continue its efforts to exploit the nation's marine resources. Furthermore, the Government intends to divest its direct holdings in the fishing sector as soon as feasible In manufacturing the GOTG continues to support resource-based and export-oriented activities by relying on the private sector, and by avoiding excessive trade regulation. In tourism the Government is committed to divestiture of its direct holdings and a broad range of policy measures designed to raise foreign exchange earnings are under way.

c. Exchange Rate and Pricing Policies

To curtail the growth of parallel market trade and thereby limit the export of domestically needed Gambian coarse grains, rice and groundnuts the GOTG will implement a flexible exchange rate system governed by market forces. The Central Bank and commercial banks will set the exchange rate based on the supply of and demand for foreign exchange. Once the Dalasi is floated in early 1986, IMF and IBRD economists estimate that it will go up at least to the parallel market rate (5.50 Dalasis per $1.00). With an IMF agreement in place, the Central Bank should have enough foreign exchange to meet domestic demand, thereby reducing the need for merchants to deal in the parallel market. This will enable the Government to capture some of the foreign exchange currently outside the official banking system and help alleviate foreign exchange shortages. At the same time devaluation and price adjustments will bring parity between prices in The Gambia and neighboring countries, thereby reducing the incentives that in the past allowed individuals to profit from agricultural cross-border trade to the detriment of

the national economy. Keeping coarse grains and rice within the borders will satisfy local demand; keeping peanuts within The Gambia will maintain foreign exchange earnings, and contribute to increased food self-reliance.

d. The Public Sector

Recognizing that the public sector is too large relative to the resource base of the economy and that it is inefficient, major reforms are being undertaken in fiscal policy, the civil service, and the parastatals.

(1) Fiscal Policy: The budgetary objective is to lower the overall government deficit (on a commitment basis and including grants) as a proportion of GDP from 12.4 percent in 1984/85 to 6.4 percent in 1985/86. If additional external budgetary financing of about 15 million Dalasis can be obtained (in the form of cash assistance or debt relief), the Government will have no need for domestic bank financing during 1985/86. New revenue measures representing about 4 percent of GDP will raise government income by 17 percent. Total current expenditure will not be allowed to rise by more than 6 percent. Within this total, salary growth will be restrained to 4 percent, thus allowing expenditure on essential materials and supplies to grow by 15 percent. Total development expenditure will be limited to 100.7 million Dalasis compared with 110.7 million in 1984/85. To strengthen surveillance procedures, particularly on expenditure, the GOTG has established a special monitoring unit within the Ministry of Finance and Trade (MOFT).

(2) Civil Service Reform: As noted above, initial reductions in government employees are being made at this time. A study to be completed with British technical assistance in mid-1986 will result in a more far-reaching plan for restructuring the civil service, including further reductions in total employment.

(3) Parastatal Reform: The Government intends: 1) to pursue a policy of systematic divestiture of its holdings in productive sectors (especially tourism and fisheries, as mentioned above); and 2) to use performance agreements with remaining parastatals as a method to delineate Government/enterprise relations and to increase their financial and managerial accountability.[1] This will establish the conditions necessary for further divestiture. The Gambian National Investment Board (NIB), with World Bank technical assistance, began preparing performance agreements for GPMB, GUC, and Gambia Telephone and Telegraph (GAMTEL) during December 1985. If this experience is successful it will be extended to other parastatals. NIB also will review the legal instruments establishing parastatals to ensure that these are compatible with autonomous and financially viable operations. In addition, during early 1986 (possibly with technical assistance from the IMF), NIB will establish a complete accounting of interlocking arrears of the parastatals and the Government, with a schedule for their elimination.

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[1]The May 1985 USAID-funded study of the GPMB recommended that performance agreements be used. See Annex C.

D. The Section 206 Program

1. Strategies and Objectives

OAR/Banjul will utilize the PL 480 Title II Section 206 program, in conjunction with its existing projects, to help The Gambia achieve food self-reliance. The contribution of this program toward this goal will be to work with the GOTG to create the policy and institutional conditions which will promote an economic balance between food crop production and imported food, as well as between cash crop production and the import of essential materials. This will involve efforts to:

(i) Capture and increase the supply of foreign exchange emanating from the agricultural sector;

(ii) Shift food consumption patterns from rice to coarse grains;

(iii) Increase domestic food production; and

(iv) Make full use of the most economically efficient marketing mechanisms and channels.

Our strategy to meet these objectives has two components. First, we will support policy measures to promote an economic balance in the food sector. The policy measures are: (i) market prices for consumers to encourage a shift in food consumption from imported rice to domestic coarse grains; (ii) incentive prices to farmers to encourage production of cash crops to earn the foreign exchange necessary for food self-reliance; and (iii) liberalizing trade so that merchants can participate in all aspects of the marketing system. The second component is to use food aid and the sales proceeds to facilitate implementation of these measures and to cover interim needs during the current transitional period. That is, our rice aid will compensate for the expected shortfall in necessary import levels because of the foreign exchange crisis which The Gambia now faces. Selling the rice at market prices will encourage consumers to change their consumption patterns, and selling the rice through private merchants will reinforce trade liberalization. Finally, using the funds generated by the rice sales to recapitalize the groundnut marketing system will facilitate agricultural production and marketing, by providing incentive prices to farmers.

The Section 206 program will be a key element in assisting the GOTG to implement fully its policy measures to rectify imbalances in the agricultural sector and thereby encourage overall economic growth. Incentive producer prices, decontrol of urban consumer prices, and trade liberalization have set the the basic direction of reform, moving towards full macroeconomic equilibrium. But concomitant measures are needed to ensure full achievement of equilibrium, financial assistance is necessary to sustain those measures, and food aid is required to bridge the gap until the reforms take effect. Not the least of the benefits provided by our

multi-year assistance is to free the GOTG policymakers so that they can focus their efforts on the policy reforms themselves instead of spending their time on crisis management as they do now.

2. Policy Measures

a. Overview

The policy measures supported by our Section 206 program to promote economic balance in the food sector are being implemented in three stages. First to commence movement towards equilibrium, the GOTG implemented pricing and marketing measures. These measures are those easily executed by fiat, and they should help eliminate skewed demand caused by consumer sibsidies, help reduce marketing inefficiency caused by de facto trading monopolies, and help reduce distortions in production caused by low producer prices. The second stage involves implementing measures to sustain the process of allowing market forces to prevail. That is, agricultural tax reform will help sustain incentive prices for farmers by reducing regressive taxes on production and substituting a progressive corporate tax on businesses serving agriculture. Structural marketing reform will regularize business-Government relations, sharply curtail leakages from the system, and help sustain efficiency in trade. During the third stage, measures to broaden, strengthen and make more efficient the participation of private traders in the marketing system will be implemented. These measures include divestment of peripheral activities from core activities in the GPMB, reducing barriers to trade such as licensing requirements; and strengthening merchants' ability to provide marketing services such as credit to farmers.

b. Consumption

A primary component of increased food self-reliance for The Gambia is to reduce demand for imported rice commensurate to an increase in consumption of coarse grains. As part of the Section 206 program design process an AID/Washington economist prepared an analysis which demonstrated the importance of ending consumer subsidies on imported rice and allowing market determined prices to prevail for all cereals as an integral, initial step towards food self-reliance (See Annex B). In June 1985, prior to the receipt of our FY 1984/85 emergency food assistance, the findings and recommendations of this analysis were presented to the Vice President and the Minister of Finance and Trade. It was in the context of this presentation as well as ongoing OAR/Banjul and IMF policy discussions with the GOTG, that in July 1985 the Government decontrolled retail rice prices.

The first rice to become available for sale following the lifting of the price controls was USAID's 3,000 MT of emergency food earmarked for monetization. As called for in the Memorandum of Understanding (our Transfer Authorization implementation letter), the GOTG purchased the rice for the Dalasi equivalent of the FAS (Banjul) value and sold it to traders for a price which covered the purchase price plus GPMB's associated overhead and handling costs

and profit margin. The ex-door GPMB price per 100 kgs. bag, therefore, increased by 40 percent from 111 to 155 Dalasis. Since then private traders have entered the market and as of November 1985 rice is retailing for as much as 200 Dalasis per 100 kgs. bag.

Decontrolling retail rice prices will encourage consumers to switch to the more affordable, domestically produced coarse grains. This shift will call forth increases in production as a response to the surge in demand. Farmers will increase their incomes as coarse grains, such as maize and millet, become increasingly commercial and not only subsistence crops. Making the more affordable coarse grains available in greater quantities will benefit the urban poor who cannot afford the high retail rice prices. Work being assisted by the FAO, the World Bank, USAID and PVOs to disseminate mills for coarse grains processing will facilitate this transition in consumption patterns. Allowing market determined prices for cereals to prevail will also curtail cross-border leakages, thereby ensuring that Gambian consumers benefit from increases in domestic production and that commercial rice imports reach Gambian consumers.

c. Production

Fertilizer use has been subsidized by the GOTG, with prices averaging about 30 percent of their economic cost between FY 1975 and 1984. To encourage more economic consumption of fertilizer by Gambian farmers, OAR/Banjul, with AID/Washington assistance, suggested that the GOTG end its subsidies to producers. Following the June 1985 presentation of the USAID economist's report to the MOFT, the Government announced the acceleration of its schedule to eliminate the fertilizer subsidy. The retail fertilizer price was increased by 38 percent in mid-1985 and the subsidy will end completely by early 1986, two years earlier than originally projected. Selling fertilizer at market prices will encourage its economic consumption because the price disparity between Senegalese and Gambian fertilizer will end, and this will curtail the cross-border trade in that agricultural input.

Another important component of food self-reliance for The Gambia is to encourage production of coarse grains and groundnuts. Free markets in coarse grains combined with improved technologies and farming methods being introduced by activities such as the US-AID funded Gambia Agricultural Research and Diversification Project (635-0219) should help encourage domestic cereal production. However, as noted in Section IIB4, Gambian groundnut production and marketing has decreased during the past five years because of: (i) erratic, insufficient rainfall; (ii) declining real producer prices for groundnuts as a result of decreasing world prices, increasing GPMB overhead costs (debts), and increasing taxes on groundnut exports; (iii) poor input distribution and inadequate extension services; and (iv) competitive Senegalese pricing policies.

There is little The Gambia can do about erratic, insufficient rainfall except to ensure that farmers get maximum benefit from the rain that is available while research efforts assisted by USAID and others, continue to develop and disseminate drought-resistant and short maturing varieties of crops. OAR/Banjul has been working with

groundnut and grain farmers to improve soil and water utilization and conservation through its Soil and Water Management Project (635-0202) which ends in 1987. Extension workers from the MANR have been trained in soil and water conservation techniques so that these efforts may continue.

The most important and immediate measure The Gambia can take to increase groundnut production and marketing is to offer farmers an attractive producer price. The Gambia's groundnut crop is less than one percent of world production which is too small to influence world prices. Therefore, if The Gambia is to maintain or increase its foreign exchange earnings it must rely upon increased groundnut production and not anticipate any immediate increase in world prices. Groundnut production can be increased in two ways: (i) by using existing technology with sufficient inputs and labor farmers can expand the acreage under cultivation without adversely affecting cereal production; and (ii) by applying yield-increasing technology, especially improved seed varieties and fertilizer, to current farmland. Farmers can be encouraged to plant additional acreage and to use yield-increasing technology by being paid incentive prices for groundnuts.

The GOTG faces three options concerning its groundnut pricing policy:

(i) Increase the producer price close to export parity in order to stimulate production, and then reduce the price if world prices decline; or

(ii) Initiate annual real price increases in order to capture The Gambia's own groundnut harvest and prevent significant loss across the border; or

(iii) Allow the producer price to continue eroding in order to hasten diversification out of groundnuts and into food crops, especially coarse grains.

For the 1985/86 crop the GOTG has chosen the first option and raised producer prices close to export parity. The GPMB is committed to pay 1100 Dalasis per MT to groundnut farmers while it may receive only about $380, or 1345 Dalasis per MT (at the current exchange rate of 3.54 Dalasis per $1) on international markets.

The GOTG has chosen pricing option one because of variables governing option two, specifically the Senegalese price. The Government of Senegal groundnut producer price for the 1985/86 harvest is 9000 CFAF per 100 kgs.. In order to prevent significant loss of Gambian groundnuts across the border, the GOTG had to match that price. At the official exchange rate (48 Dalasis per 5000 CFAF), The Gambia's price of 110 Dalasis per 100 kgs. is 24 Dalasis above the Senegalese price (9000 CFA being worth 86 Dalasis). Under normal circumstances this would mean that GPMB would capture The Gambia's own groundnut harvest as well as a portion of the Senegalese harvest from bordering farms.

However, as noted above, there is insufficient hard currency within the Gambian banking system and so a parallel market in foreign exchange has arisen to meet that demand albeit at premium rates. At parallel market rates (65 Dalasis per 5000 CFAF), The Gambia's price is only 7 Dalasis below the Senegalese price (9000 CFAF being worth 117 Dalasis). Given current local transport costs, and assuming that countervailing forces do not arise, the current GOTG price is high enough to capture The Gambia's harvest and prevent losses to Senegal. This indicates the determination of the GOTG to stem the foreign exchange losses caused by the cross-border trade, even at the expense of incurring operational losses for GPMB.

The first two options are really the only viable choices for The Gambia to make at this time. If the GOTG chose the third option, allowing groundnut prices to erode, it would cause a cataclysmic reduction in The Gambia's foreign exchange earnings during the short to medium term, thereby undermining the ability of The Gambia to pay for essential imports and service its external debts. In addition, this option fails to recognize that The Gambia has traditionally maintained a groundnut producer price slightly higher than Senegal's.

Therefore the appropriate pricing policy for the GOTG is to increase groundnut producer prices only to the extent necessary to capture The Gambia's domestic production in addition to garnering any nearby, cross-border production. This method of pricing is dependent on two important variables. First, the value of the Dalasis must be strengthened in order to prevent the sale of Gambian groundnuts across the border for CFAF, such as occurred briefly last year. Second, these competitive increases can progress only to a certain degree because there may come a point when either the world price will not allow further domestic price increases, or the respective country will not be able to sustain further increases through subsidies. Any combination of these two variables would also halt price increases.

At present, Senegal is receiving massive donor assistance which has enabled its Government to sets its groundnut producer price above the export parity price even though its groundnut parastatal corporation is not operating economically. The Gambia is not receiving the same level of donor assistance despite its better performance in implementing reforms concerning privatization and economic pricing (see Annex J for a detailed comparison). Consequently, the Gambian Government faces greater difficulty in sustaining export parity prices. Still, The Gambia cannot afford to allow a significant amount of its groundnut crop to be sold outside official channels to Senegal. Hence, the GOTG has been forced to set its producer price at parity with Senegal's even though this will cause significant losses to GPMB. Without sufficient donor support to sustain parity with Senegal The Gambia will be unable to capture its harvest and increase its foreign exchange earnings. Also GPMB will incur significant new debt as it borrows to cover its losses, thereby exceeding IMF limits on credit and continuing to distort the supply of money and credit, and balance of payments situation within The Gambia.

There are four methods by which The Gambia can maintain its current prices and continue to offer competitive price incentives to farmers. First the GOTG can devalue the Dalasi. Second, the groundnut marketing system can be recapitalized. Third, the GOTG can gradually eliminate the regressive export tax on groundnuts. And fourth, the GOTG and GPMB can take measures which will enable the GPMB to operate according to sound business practices without Government interference.

Given the current GPMB groundnut producer price (1100 Dalasis per MT), the current exchange rate (3.54 Dalasis per $1 US), the world price for groundnuts (about $380 or 1345 Dalasis per MT) and its own operating costs, it is anticipated that GPMB will lose about 721 Dalasis per MT in 1985/86, as illustrated in Table 10 below, or about 32.44 million Dalasis on the expected 1985/86 marketing of 45,000 MT of groundnuts. The underlying cause of GPMB's current financial dilemma is that the GOTG has not yet made a change in the price of its currency, i.e. the exchange rate. The GOTG is working with IMF technical assistance to institute a flexible exchange rate (interbank) system before the trading season ends in late February 1986.

It is highly probable that the official exchange rate will immediately move up to the parallel market rate of 5.50 Dalasis per $1.00, once the Dalasis is floated. If GPMB buys the groundnut crop at the current price, but sells its decorticated nuts on the world market after devaluation, it will raise its local revenue earnings and, even after paying a groundnut export tax of 12 percent (of the new FOB Banjul price in Dalasis), it will reduce its losses to only 151 Dalasis per MT (see Alternative 1 in Table 10). Exporting 45,000 MT would result in total losses of 6.78 million Dalasis to GPMB.

Table 10: Decorticated Groundnuts: Cost/Price Structure, (D/MT), 1985/86[1]

	Actual	Alter.1
Producer Price	1100	1100
Handling, Transport, Storage, Buying Agents & Decortication	186	240[2]
Cost per Ton (Undecorticated)	1286	1340
Cost per Ton (Decorticated) (0.7% recovery rate)	1826	1903
GPMB Overhead and Marketing costs	79	87[2]
Total Cost before Tax	1905	1990
Export Tax (12% of FOB price))	161	251
Total Cost after Tax	2066	2241
1985/86 Estimated FOB Banjul Price	1345	2090
GPMB Net Trading Profit/Loss	-721	-151

[1]Assumes GPMB buys 60,000 MT for processing and exports 45,000 MT.
[2]About 43 percent of GPMB's total operating costs require foreign exchange inputs. Hence devaluation raises some of GPMB's operating costs.

Source: GPMB study and the World Bank Country Economic Memorandum.

OAR/Banjul will use the local currency generated by its Section 206 program in conjunction with funds remaining from the FY 1984 and 1985 emergency food aid program to support the current producer price level and to recapitalize the groundnut marketing system. Annex E illustrates that recapitalization of the groundnut marketing system is the best use of the local currency during the three years the Section 206 program is in operation. There must be immediate price support during the current trading season so that: (i) the current price is maintained, thereby curtailing the loss of groundnuts to Senegal; (ii) all the local crop is bought, processed and sold by GPMB, thereby increasing The Gambia's foreign exchange earnings; and (iii) the GPMB does not accumulate net additional debt in violation of IMF credit limits.

Because the Section 206 food aid will not arrive, at best, until May 1986, a few months after the end of the groundnut trading season, OAR/Banjul intends to use the 4.10 million Dalasis in sales proceeds remaining from FY 1984 and 1985 food aid programs to provide immediate price support during the time that GPMB must purchase groundnuts from farmers, and then use the proceeds of the Section 206 program to reimburse GPMB for any temporary loan (including interest due) it may need to cover fully its 6.78 million Dalasis gap. At the new exchange rate, OAR/Banjul would generate about 8.90 million Dalasis from the first year's food sales (selling 5000 MT of rice at $310 FAS, Banjul). This would enable OAR/Banjul to cover completely the loan GPMB would need to pay its costs, leaving 6.22 million Dalasis to recapitalize the marketing system. Once the marketing system is recapitalized GPMB would be able to keep the producer price close to the export parity price, thereby maintaining high levels of groundnut production.

Although there are potential problems associated with a price support fund as a means of recapitalization, it would provide many benefits as shown in the GPMB study. Perhaps the most important benefit of price stabilization is that it reduces risk. As a result producers know they will receive a guaranteed (floor) price even when world prices are low. In the absence of this guarantee and in view of the extreme volatility of groundnut prices on the international market many producers would presumably allocate less acreage to groundnut production, thereby severely reducing The Gambia's foreign exchange earnings, such as happened during the past two years. Of course if world groundnut prices are unusually high, farmers will not reap the benefits except indirectly because the windfall would accrue to the price stabilization fund.

If there is no recapitalization of the marketing system, the GPMB will need to borrow in order to pay groundnut producers the guaranteed price. Alternatively, if recapitalization is too small (for example, because world groundnut prices are lower than anticipated or because the domestic price is too high), then the system would decapitalize rapidly. Producers would receive the support price (or close to it) but funds would not be available to support the price in the following year unless the GOTG allocated budgetary revenues to recapitalize the stabilization fund or unless external resources from the donors were used for this purpose.

There are potential problems associated with any stabilization fund, however, including the following:

(i) World prices may not be high enough to permit the GPMB to accumulate reserves in the short to medium term;

(ii) The Government would be tempted to use any exceptional earnings from groundnuts to finance its budgetary and balance of payments deficits; and

(iii) If IBRD price projections are correct, then a stabilization fund would do nothing but postpone the day when a downward adjustment of groundnut producer prices is necessary.

Despite these potential problems, there is no more beneficial alternative in The Gambia for using the local currency during the time this program is in place. The potential social and economic costs associated with a substantial decline in groundnut production, and reduced foreign exchange earnings, such as more severe balance of payments difficulties and severe shortages of essential imports, are far greater than the risks associated with decapitalization of the fund.

To address these problems and to help assure that any price stabilization fund for groundnuts works, several principles would be enforced under the Section 206 agreement between OAR/Banjul and the GOTG:

(i) OAR/Banjul would approve the rules that trigger the release of the funds. (A system has been established as a result of the monetization of some of our FY 1984 and 1985 emergency food aid assistance.)

(ii) The fund would apply to groundnuts only and not to cotton, palm oil, or other commodities.

(iii) The fund may be used to pay off debts incurred by the GPMB prior to the 1985/86 trading season, if these debts were incurred to stabilize groundnut prices. (The established joint AID/GOTG local currency account mechanism would preclude the use of funds for any activities which have not been approved by both parties. See Implementation Plan, Section VI.)

(iv) The GOTG would not receive grants from the fund to finance its deficit. (Once again the joint account mechanism would precludes such use of funds.)

Additional policy reforms will complement our recapitalization arrangements. For example, the GOTG-GPMB performance agreement being negotiated with IBRD technical assistance will stipulate that the Government cannot use the GPMB's reserves to finance their own budgetary and balance of payments deficits. Divestment of GPMB's peripheral operations, such as transport, and cotton, lime, and maize processing will ensure that the stabilization fund will be utilized only for groundnut price support.

Finally, even if IBRD projections that the world price for groundnuts will decline steadily with no upward movement during the next decade prove true, these measures will provide the immediate short and medium term relief necessary to maintain Gambian foreign exchange earnings while steps are taken to diversify production as may be necessary and thereby assist long-term economic growth. During the past forty years commodity prices have fluctuated up and down, reaching record high levels during the 1950s, and it is more than likely that groundnut prices will continue to move in such a manner. Indeed, recent IBRD revised projections anticipate a leveling off of prices by 1990 with moderate increases thereafter. This means that recapitalization would not be a short-term adjustment but that when combined with other measures to stop the hemmorhaging of the marketing system it would re-establish the institutional framework necessary to maintain stable and significant levels of groundnut production in The Gambia for the medium to long term.

Devaluation and recapitalizing the marketing system are two necessary methods to offer producers incentive prices but they alone are not sufficient. Another essential element of sustainable incentive prices is tax reform. The GOTG levies an export tax on groundnuts (12 percent of the FOB price) which acts as a disincentive to production. Taxes on exported agricultural commodities (groundnuts, palm kernels and fish) provide the GOTG with only 5 percent of its total revenue, but they constitute a significant levy on producers. In relative terms, the burden of the tax on farmers and fishermen has been far greater than the benefit of the tax to the Government. As noted above, to stimulate fish exports and foreign exchange earnings the GOTG recently abolished the export tax on fish. OAR/Banjul believes that if the GOTG also were to eliminate gradually the export tax on groundnuts and pass the savings along to producers in the form of higher prices, farmers would have more incentive to increase production, thereby increasing exports and The Gambia's foreign exchange earnings. Both the USAID-funded study of GPMB and the World Bank recommend reduction and eventual elimination of this tax.

Given the GOTG's current need to maintain revenue earnings while reducing expenditures, and its need to compensate for a reduction in groundnut export taxes with an increase in other taxes or improvement in the collection of current taxes, a few months will be necessary to make tax adjustments before implementing a reduction in the groundnut export tax. Indeed, at this time consultants for the USAID Economic and Financial Policy Analyses Project (635-0225) are working with the MOFT to reform the tax structure in order to increase revenue while maintaining equity in the tax system. One of the problems with the groundnut export tax is that it discriminates against groundnut farmers and therefore is inequitable. Instead of excessively taxing production the Government should maintain taxes on imported consumer goods while improving tax collection efficiency. Hence, allowing the MOFT the time it needs to implement tax reform, OAR/Banjul anticipates that the groundnut export tax can be reduced gradually during the three years of the Section 206 program without any loss to the GOTG, but that it is not feasible to reduce the tax immediately.

One method to compensate the GOTG for reducing and eliminating the groundnut export tax is to make the GPMB subject to a corporate tax. A corporate tax would be a better way for the GOTG to secure revenue from the GPMB while encouraging it to operate more efficiently. Because it is a progressive tax based on profits a corporate tax is preferable to the groundnut export tax which is a regressive tax based on the volume of groundnuts exported by the GPMB. Being subject to corporate taxation will motivate GPMB to keep its costs down by operating more economically. The GPMB would keep producer prices high enough to encourage the production and marketing of groundnuts because by purchasing and processing larger quantities of groundnuts GPMB would lower its own operating costs which would increase its profit margin.

d. Trade

Improvements in marketing mechanisms and channels must be made if the full benefits of production and consumption measures are to be realized, and food self-reliance achieved. As part of the Section 206 program design process, OAR/Banjul urged the GOTG to end the de facto monopoly GPMB had on commercial rice imports and fertilizer, and to allow private merchants to trade those commodities. The report done by our AID/Washington consultant endorsed these recommendations and the GOTG agreed to implement marketing reform at the same time it decontrolled consumer prices.

By enacting trade liberalization in July 1985 the GOTG took initial steps to encourage the efficient marketing of food and agricultural inputs. Allowing the private sector to handle the commercial rice trade will conserve official foreign exchange reserves. Because of high Senegalese duties and its over-valued currency, there is sufficient margin for Gambian wholesalers to make profits (in foreign exchange) by re-exporting rice much as they do now for other items (sugar, tea, matches, cement and fabric). In this way private entrepreneurs will generate the hard currency necessary to maintain commercial rice imports. Having private traders handle fertilizer distribution will encourage the timely delivery of adequate supplies to farmers, which will enable them to improve both coarse grain and groundnut production. Indeed, this will especially benefit coarse grain farmers who could not get loans from GCU to buy fertilizer because GCU gave preference to groundnut farmers.

Based on experience to December 1985, it is apparent that the private sector is moving cautiously into the commercial rice trade. To date only three merchants have imported rice. Therefore, OAR/Banjul expects that The Gambia will continue to have a structural food gap until the private sector acquires confidence in the GOTG commitment to free trade, builds up sufficient foreign exchange to engage in the trade, and acquires experienced agents to facilitate the distribution of imported rice. Hence, our Section 206 program will provide the food to bridge this gap during the time it takes the private sector to sustain commercial rice imports adequate to meet The Gambia's needs.

Given the cautious entry of merchants into the imported rice trade, the GOTG, with World Bank concurrence, wants to establish a strategic food reserve in order to meet emergency food needs. This reserve would be used if there were inadequate levels of commercial rice imports, price gouging, or unpredictable shortfalls in local food production. OAR/Banjul proposes to provide about 5000 MT of rice (food aid) to help the GOTG establish a strategic food reserve during the first year our Section 206 program is in place.

As subsequent food aid arrives during the second and third year of our Section 206 program, the GOTG will be required to turn over its rice stocks to the private sector for distribution and sale. This will enable the GOTG to recover its costs while generating the revenue to recapitalize the groundnut marketing system. Private merchants will handle the distribution and sale of the USAID rice in keeping with the liberalization of the commercial rice trade.

By using the initial shipment of Section 206 food aid to establish a Gambian strategic food reserve, OAR/Banjul will save the GOTG the foreign exchange costs of importing rice itself to do so. As part of its policy reforms announced in July 1985, the Government indicated that GPMB's role in the rice trade would be confined to maintaining such a strategic reserve. However, OAR/Banjul believes that private merchants should be allowed to bid against one another and GPMB for the right to hold the strategic food reserve. This would strengthen private sector responsibility for rice imports and complement our policy initiative to privatize GPMB's peripheral activities.

In order to sustain marketing efficiency, there must be measures to reform the institutions serving the agricultural sector. While other donors assist the GOTG in reforming the GCU and civil service (including the MANR and MWRE), OAR/Banjul will work with the GOTG to make the groundnut marketing system operate more efficiently and economically. To achieve this goal requires that a series of steps be taken as part of a process of gradual reform leading ultimately to the divestment and privatization of the GPMB.

The GOTG has initiated the process of parastatal reform by ending GPMB's domination of commercial rice imports and by opening the fertilizer trade to private merchants. The next step in the reform process is to sell off non-productive assets and balance the accounts receivable and accounts payable as well as the long term debts incurred by or owed to the GPMB. The third step is to end GPMB's subsidization of public services. The final step in this process is to divest the GPMB of its peripheral operations so that it can concentrate on oilseeds marketing and processing, an activity for which it enjoys a comparative advantage. These measures are recommended in the GPMB study done by USAID consultants and endorsed by the World Bank. (The IBRD is making the signing of performance agreements which reinforce these measures a condition of its granting a Structural Adjustment Loan to The Gambia; hence the complementarity of our efforts.) This study of GPMB was requested by the MOFT and approved by President of The Gambia and it will serve as the basis for the restructuring of GPMB and an improvement

in its operations. (See Annex C and Section III for a summary of the GPMB study; a copy of the complete study is available from AFR/PD/SWAP.)

One of the most important objectives of these measures is to eliminate government interference in GPMB activities, especially denying the GOTG access to GPMB reserves. It is the free access to GPMB reserves that involved the GPMB in a series of uneconomic investments which, together with contributions (grants) to the GOTG, rapidly decapitalized the marketing system. This decapitalization, directed towards non-productive investments and for purposes other than improving marketing efficiency, effectively crippled the GPMB's marketing performance while siphoning credit away from the private sector.

The final step in this reform process is to divest the GPMB of its peripheral operations in poultry feed (maize processing), cotton processing, river transport (Gambia River Transport Company), lime processing (Citroproducts), and in soap manufacturing. These peripheral activities will be offered for sale to private entrepreneurs thereby increasing the privatization of the Gambian economy. Divesting the GPMB of its non-essential operations will enable it to concentrate on its original purpose: to act as the oilseeds (groundnuts and palm kernels) marketing and processing business for The Gambia. Past experience shows that this process is not an easy one though (see Annex C, Attachment 1).

The process of privatization is a long-term one requiring institutional change. For complete privatization to be feasible, however, GPMB must be restored to financial autonomy and commercial viability so that its assets which are absolutely essential to the processing and export of groundnuts become attractive to private investors. At this time there is no other institution or group of traders ready, willing and able, financially or economically, with the proper network of agents, buyers, transport and storage facilities to take over the entire range of the GPMB's extensive groundnut operations. Hence, during the short to medium term it is necessary to recapitalize the GPMB while taking concurrent steps to streamline its operations via privatization (divestiture) of some activities, and to make it operate on an independent commercial basis via performance agreements and corporate taxation. Privatizing some of GPMB's operations will enable the private sector to build up the capability, both managerially and financially, to take over all of GPMB's operations over the long term.. The intermediate steps noted here, combined with immediate measures to halt its operating losses, will ensure that this goal is achieved.

Conclusion: The series of policy reforms which OAR/Banjul is supporting will provide incentives to farmers to increase production. Eliminating consumer subsidies and taxation on production will benefit the vast majority of The Gambia's population who live in rural areas. By paying remunerative prices to farmers the GOTG is creating the economic environment in which the rural poor can improve their welfare. Women, especially, will benefit

from the increase in rice producer prices because they are the primary producers of swamp rice. Decontrolling retail rice prices also benefits women because they comprise the vast majority of petty rice traders in urban and rural markets. As women increase their incomes, their children reap the benefits, too, in the form of improved diets and better nutrition. Studies done by economists analyzing African households indicate that family nutrition is directly linked to the ability of mothers to grow or buy food. Hence reforms designed to benefit farmers growing swamp and upland rice and coarse grains have a direct positive impact on women and their families' diet. Reforms designed to increase groundnut farmer's incomes will also assist those women who grow groundnuts. Raising the income of men, who dominate groundnut production, also benefits rural poor families because it increases the pool of resources (disposable income) available to them.

3. Review of Next Steps

As the Gambian ERP unfolds and the specific agricultural policy reforms which OAR/Banjul is supporting through its Section 206 program are implemented, their impact on production, marketing, foreign exchange earnings, consumption patterns and operational efficiency must be assessed. OAR/Banjul and the GOTG will need to know what further adjustments, if any, may be necessary to remove any new or persistent constraints in the system. Hence two sets of complementary studies will be undertaken by OAR/Banjul to ensure that policy measures will be articulated to address those constraints. First, OAR/Banjul will examine the marketing of crops, assess the impact of recent reforms, and make recommendations for subsequent measures to improve efficiency. The second study will analyze the informal credit market in agriculture. It is important to carry out these studies because even after producer prices have been raised there may an insufficient production response because farmers lack access to credit; or even even after trade liberalization has been implemented there may be a low increase in marketed surplus because of new constraints in the marketing system.

a. Marketing Study

The marketing of groundnuts is controlled by GPMB's licensed buyers. At this time there are only a few (26) licensed buyers who purchase groundnuts from farmers and sell them to GPMB. While it may not be feasible yet to completely privatize GPMB because it has a comparative advantage operating an economy of scale in groundnut processing and marketing, it may be wise to ease the restrictions on domestic buyers either by removing the license requirement entirely or by licensing more buyers. Allowing more buyers to enter the groundnut trade assumes that private entrepreneurs with available working capital exist and that they are willing to enter the trade. But the capital requirements for traders are high, especially because of the services they provide farmers (seeds, bags, fertilizer, and credit). Traders who do not have access to such capital may be unable to compete with traders who do. Thus, lack of capital may pose a significant barrier to free entry into the groundnut trade, leading to a monopsonistic marketing structure.

Information of this sort will help form policy recommendations on: (i) liberalization of groundnut marketing through the reform or elimination of the licensing system; (ii) decontrolling the producer price of groundnuts while maintaining a fixed GOTG purchase price; (iii) the need for a buyer of last resort at a fixed floor price if the producer price of groundnuts is decontrolled; and (iv) recommendations on credit ceilings, collateral requirements and interest rates to encourage entry into groundnut trading. Furthermore, to the extent that traders are also found to be an important source of credit for food crops, there may be barriers to entry at certain levels of the food crop trade, leading to inefficient and monopsonistic marketing structures. Such information would inform policy recommendations on removing the barriers to entry into the food crop trade as well.

b. Credit Study

Information on the functioning of the informal credit market and self-financing would help form policy recommendations in the following ways. At present, there is little information available on the extent to which farmers finance inputs through borrowing on the informal credit market and the terms under which they borrow. If GCU is not in a position to provide credit to farmers next year, then farmers will have no choice but to rely on the informal credit market to finance the purchase of inputs. If informal borrowing is found to be widespread at relatively high interest rates, then a good case could be made to eliminate subsidized credit programs. However, if substantial inefficiencies are found in the allocation of resources due to credit constraints, then the provision of credit may be an important factor in stimulating agricultural production. Information on informal interest rates would then provide some guidelines on the demand for money at various interest rates. The study would lead to policy recommendations on the need for government sponsored credit programs and on interest rates for agricultural credit.

Furthermore, the study is expected to show the extent to which farmers finance purchases of inputs and hiring of labor through their savings and the institutional means through which they save. Information on the returns to their savings would provide the basis for making policy recommendations on the interest rates that would induce farmers to deposit their savings in the formal banking sector.

The credit study is also expected to indicate the extent to which traders provide credit to farmers in exchange for forward sales of crops, provision of inputs, ploughing services and/or the provision of food to tide farmers over during the hungry season. To the extent that this practice exists, it is likely to be particularly important with respect to the trade in groundnuts. Hence the complementarity of these studies.

4. Timing, Sequence and Conditionality

The initial reforms implemented by the GOTG in July 1985 (market prices for consumers, incentive producer prices, and

liberalization of the rice and fertilizer trades) were executed in order to offer immediate incentives for farmers to increase production, for merchants to improve trade, and for consumers to shift consumption. These measures were implemented first because they were easily executed by fiat and because they lay the foundation for subsequent institutional change. These measures were taken as part of our Section 206 program design and policy dialogue process. They represented tough political decisions, especially the raising of retail rice prices. Hence, these are the conditions precedent for releasing the remaining FY 1984 and FY 1985 emergency food aid local currency funds, and the first tranche of food aid under our Section 206 Program.

The next step in the reform process concerning market prices is to eliminate completely the fertilizer subsidy. Implementation of this measure will be a condition precedent for the release of the second tranche of food aid to the GOTG during the first year the Section 206 program is in place.

To sustain incentive producer prices the GOTG must gradually reduce and eventually eliminate the groundnut export tax. Reducing this tax from its current level of 12 percent of the FOB price to 8 percent before the 1986/87 groundnut trading season commences will be a condition precedent for the release of the second tranche of food aid to the GOTG during the first year of the Section 206 program.

During the first year of our Section 206 program, OAR/Banjul will conduct two studies to assess the impact of these initial reforms on production, marketing and consumption. Once we have identified any new or persistent constraints in the system, OAR/Banjul will suggest modifications in policy measures as necessary.

To sustain structural reform in marketing, a series of measures involving the GPMB are necessary. First, the GPMB's non-productive assets should be sold, and the debt situation clarified by clearly delineating the interlocking debts betweeen GPMB and other entities, including its accounts payable and accounts receivable. This will be the condition precedent for releasing the third tranche of food aid to the GOTG during the second year of the Section 206 program.

Further reduction in the groundnut export tax, from 8 percent to 4 percent of the FOB price, must be executed before the 1987/88 trading season commences. Implementing this reform will be a condition precedent for releasing the fourth tranche of food aid during the second year the Section 206 program is in place.

After the GPMB accounts are rectified and as groundnut export taxes are decreasing, the second step in the process of institutional reform is to end GPMB's subsidization of public services. These activities should either be transferred to the private sector or, if the GOTG prefers to have the GPMB maintain those activities, the GOTG should transfer the costs of those subsidies to its own budget. This will be another condition

precedent for the release of the fourth tranche of food assistance during the Section 206 program's second year.

The last step in the process of reforming GPMB so that its assets become attractive to private investors is to divest it of peripheral activities for which it does not have a comparative advantage. Divestment of peripheral GPMB activities should have begun during the third year of the Section 206 program. This will be a condition precedent for the release of the fifth tranche of food aid to the GOTG.

Finally, the groundnut export tax should be eliminated during the third year of the Section 206 program, by reducing it from 4 percent of the FOB price to zero. This will be a condition precedent for the release of the sixth and last tranche of food aid to the GOTG.

2. Local Currency Uses

The local currency generated by previous emergency food aid programs in FY 1984 and 1985 as well as by the PL 480 Title II Section 206 program will be utilized to recapitalize the marketing system so that The Gambia retains its 1985/86 groundnut harvest, thereby realizing the maximum foreign exchange earnings possible. There are several methods by which OAR/Banjul can recapitalize the marketing system. First, a price support fund for groundnuts marketing could be established. Second, the local currency could be used to pay the interest due on GPMB's current debt (about 6.80 million Dalasis per annum). Third, USAID could pay off some of the arrears of the GPMB (about 85.0 million Dalasis as of November 1985). Discharging GPMB's debt would lower its operating costs and enable it to set attractive producer prices. This would also restore commercial viability to the GPMB, and thus make it an attractive investment for private entrepreneurs.

As noted above, at current prices GPMB stands to lose 721 Dalasis per MT of groundnuts to be sold in 1985/86. It is expected that the GOTG will float the Dalasi soon and the exchange rate will rise, at minimum, to the parallel market rate of 5.50 Dalasis per $1.00. This would reduce GPMB's losses on 45,000 MT of marketed groundnuts to only 151 Dalasis per MT, or 6.78 million Dalasis. At this time there is 4.10 million Dalasis remaining from FY 1984 and 1985 food aid programs. OAR/Banjul would authorize immediate use of these monies to help bridge this gap. Still, that would leave GPMB facing a loss of 2.68 million Dalasis, which would have to be borrowed from the banks so that GPMB covered its costs. At the new exchange rate the Section 206 program would generate at least 8.90 million Dalasis during its first year, selling about 5,000 MT of rice at $310 FAS Banjul. This would enable our Section 206 program to repay any temporary loan (and interest) the GPMB would need to pay the current producer price and still cover its own costs, leaving about 6.22 million Dalasis to recapitalize the groundnut marketing system.

When the GOTG announces a producer price for groundnuts, it must have adequate liquidity (funds) to pay that price, even if world prices are lower than anticipated such as happened this year. In order to estimate how much financial reserves the system needs to permit the GOTG to honor its price commitment, the GPMB study used simulation analysis based on actual price data from 1975/76 to 1982/83. It provided two estimates: one based on the assumption that a downward price adjustment would be permitted by the GOTG, and the other based on the assumption that it would not be permitted. Until 1983/84, when the price went from 520 Dalasis to 450 Dalasis, the GOTG had never adjusted groundnut prices downward. The study also assumed that any upward price adjustment could be no greater than 50 Dalasis per MT (decorticated) in any given year. The simulation shows that 17.9 million Dalasis was the most that would have been needed to pay producers the guaranteed price if downward price adjustments were not permitted, and 13.7 million Dalasis would have been needed if downward price adjustments were permitted.

When this method is used to determine the appropriate amount of financial reserves for GPMB, the choice of the base year is critical. For example, if the base year had been 1977/78 rather than 1975/76, only two years later, then 37 million Dalasis would have been needed, assuming downward price adjustments were permitted, because the GPMB used over 37 million Dalasis in five years.

Taking these and other factors into consideration, the GPMB study recommends that the minimal appropriate amount of financial reserves needed is about 35 to 40 million Dalasis. Given a new exchange rate (at minimum, 5.50 Dalasis per $1.00) the Section 206 program will generate at least 34.63 million Dalasis during its first three years of operation and as much as 61.06 million Dalasis if it continues for five full years. (See Section IV below regarding commodity levels and anticipated revenue.) Including the 4.10 million Dalasis remaining from FY 1984 and 1985 food aid programs raises the respective amounts to 38.73 million, or 65.16 million Dalasis. This would be enough money to recapitalize the groundnut marketing system so that it can service its existing debt without incurring new debt. This will enable the GPMB to offer Gambian groundnut farmers incentive farmgate prices and thereby earn The Gambia the highest foreign exchange revenue possible.

III. SUMMARY OF ANALYSES

A. Economic and Financial

The economic and financial analysis of this program in Annex E indicates that the series of policy reforms which the Mission is supporting, in conjunction with recapitalization of the groundnut marketing system will result in substantial financial and economic returns to the Program's investment. The Section 206 Program will have a direct positive impact on food supplies, foreign exchange supply and demand, and the profits and liquidity of the marketing system, with an indirect positive impact on total agricultural output, the foreign exchange rate, domestic credit expansion, and GOTG efficiency in operations and maintenance expenditures and investments.

B. Financial Costs and Benefits

The total financial costs of the Section 206 program to USAID will be about $6.29 million for three years, representing $6.14 million for supplying about 20,200 MT of rice, and about $.15 million in administrative costs. The financial costs to the GOTG will be small and management requirements low, representing about $150,000 per annum, or $.45 million in administrative costs over three years. Therefore, an assessment of the financial benefits of this program should be based on the $6.29 million cost to USAID and the $.45 million cost to the GOTG.

The financial analysis indicates that by enabling the GPMB to maintain incentive prices for groundnut farmers and by encouraging the GOTG to implement a series of policy reforms, there are sufficient financial incentives for the GPMB, farmers, private merchants and the GOTG to participate in this program.

The local currency generated by the sale of the Section 206 Program food aid (rice) will be used to recapitalize the groundnut marketing system. This will be of financial benefit because it will prevent the GPMB from incurring new debt to cover its anticipated losses for the 1985/86 trading season, and it will ensure that GPMB operates, at minimum, at a break-even point in future years while encouraging farmers to increase groundnut production and marketing through the maintenance of incentive producer prices.

C. Economic Costs and Benefits

The economic analysis examines the program from three perspectives: (i) the internal rate of return (IRR) resulting from the program; (ii) an indicative break-even analysis, which assesses the minimum increases in production required to justify the program's costs; and (iii) a description of the macro-economic changes resulting from the program.

The economic analysis, using relatively conservative assumptions concerning the program's impact, indicates that a favorable economic rate of return will be realized. Depending upon

which initial base year production figures are used, the IRR resulting from the program's investment is between fourteen and twenty-six percent. The break-even analyses demonstrates that even with modest increases in groundnut production, the program will generate a stream of benefits which justifies program-related incremental costs over a ten year period.

The economic analysis, using econometric methods to describe the relationships which will be most affected by the program, describes in detail the beneficial macroeconomic, institutional and sectoral results which will be achieved by this program. These are: (i) reduced pressure on the foreign exchange rate; (ii) increased foreign exchange earnings; (iii) increases in rural incomes and production; (v) curtailing inflation; and (vi) curtailing the hemmorhaging of the groundnut marketing system.

D. Institutional

The marketing of agricultural inputs and produce is carried out by a combination of government, parastatal, and private entities over the entire year. Following the harvest, the Ministry of Agriculture and Natural Resources (MANR) estimates fertilizer needs for the following year, the Gambia Produce Marketing Board (GPMB) procures it, and the Gambia Cooperative Union (GCU) distributes it. Prices for export crops are announced by Cabinet prior to planting and adjusted just prior to harvest, while those for food crops are set by the market forces of supply and demand. About one half of the groundnut seeds for the next season's planting are held back by farmers from their crops while the other half are held back by GPMB from its stock for distribution by GCU. Pesticides are distributed by GCU while the Crop Protection Service conducts district-wide protection campaigns. About eighty percent of the groundnut crop is sold by farmers to the GCU while the other twenty percent is sold to private traders. Cotton and irrigated rice are sold to the GCU while rainfed food crops are consumed on the farm or sold to private traders. The GPMB processes and exports groundnuts and cotton, and it processes irrigated rice for resale on the local market.

There are two basic policy related institutional problems with the marketing system. They arise out of the nature of the system at the time of independence and the way The Gambia indigenized it afterwards. The first problem is that the financial position of the GPMB has become so strained, and the adverse impact of this strain on agricultural production and marketing as well as on macroeconomic variables has become so significant, that any improvement in the agricultural sector and macroeconomic indicators is dependent on resolution of the GPMB's finances. The process leading toward this situation commenced after independence when expatriate private traders withdrew from marketing and processing activities both on their own and with government encouragement. These activities were then assumed by the GPMB. The Government broadened and accelerated the process by adding the implementation and financing of development-related and public service activities to the GPMB's mandate. These peripheral activities and irregular financial relationships depleted GPMB's liquidity, resulting in a complex of interlocking arrears and complete decapitalization of the GPMB.

The second problem is that whereas surveys and analyses strongly suggest private traders are more efficient and reliable marketers of groundnuts, the Government provides the cooperative system a series of advantages that allows it to retain an economically disproportionate share of the market. These advanta also allow the coop system to keep operating despite a lack of financial viability. They include:

(i) more stringent interest and credit requirements for private traders;

(ii) donor contributions of equipment and infrastructure to the cooperatives;

(iii) de facto forgiveness of loans to the cooperative system;

(iv) a difference between the marketing margins allowed to the cooperatives and the private traders; and,

(v) cooperative monopoly power of the marketing of inputs.

These problems have combined to help decapitalize the country's entire financial system to the point where IMF-imposed ceilings make it hard for either the parastatals or the private traders to gain additional credit. This is reflected in deterioration of equipment, facilities, and services. Despite these developments, a potentially effective marketing structure has remained in place and the GPMB has succeeded in keeping its marketing operations costs at appropriate levels.

The USAID-funded study of the GPMB and its relationships and operations was one of the first of several major efforts to find a way back toward viability. The Government has already taken several recommended steps, such as raising retail rice prices and privatizing the rice trade. It is a major purpose of this program to help complete the recovery process as described in the strategy section.

IV. COMMODITY SELECTION AND LEVELS

A. Commodity Import

OAR/Banjul proposes to import rice as the most appropriate commodity under our Section 206 program. Although it may seem to be contradictory for us to provide rice for sale at the same time that we are trying to discourage rice consumption in The Gambia, there are sound economic reasons why rice should be furnished as food aid instead of any other cereal.

First, there is an existing high demand for rice in The Gambia which cannot be met by local production. Supplying rice as food aid will help bridge the gap between current supply and demand. Because of its popularity, rice is certain to sell quickly, thereby generating the local currency required to support the policy reforms OAR/Banjul is encouraging the GOTG to execute and maintain.

Second, providing rice will have no adverse effect on local rice prices or local rice production. As a result of the July 1985 policy reforms, the retail price for rice is now the world market price (plus the import tax and local costs, i.e. transport, operations, profits). As long as private traders purchase the Section 206 rice from OAR/Banjul at a price no less than the current world price, imports of rice under the food aid program will not depress the retail price of rice in The Gambia, hence,there will be no disincentive to merchants making their own commercial rice imports.

Third, bringing rice into The Gambia as food aid will not compete with nor discourage local production of rice. Indeed, at the current higher retail prices for rice, there is some incentive for farmers to reallocate their resources at the margin to produce rice. But even given the high retail rice price, there are ecological and economic constraints on Gambian rice production. The financial returns to labor for rice in the humid zone, where much of the upland rice is grown, are substantially lower than the returns to labor from coarse grain and groundnut production at 1985 producer prices. Therefore, it is unlikely that the increase in relative prices will induce a substantial transfer of resources into rice production. Farmers may make more effort to rehabilitate and protect swamp rice plots though because there is no better crop suited for swamp production than rice. But given the limited amount of swamp land available, there will be limits on increases in rice production there, too.

Fourth, because The Gambia is experiencing a severe fiscal crisis, it has a shortage of foreign exchange in the banking system to pay for essential imports and service its external debt. By providing rice as food aid, OAR/Banjul will relieve The Gambia of the need to use its scarce foreign exchange reserves to import rice commercially. This will help satisfy Gambian demand for food while allowing the nation to devote its foreign exchange earnings to discharging its external arrears, thereby assisting in the overall financial recovery of The Gambia.

Fifth, as a result of the July 1985 reforms, there is a new situation in the commercial rice trade with the ending of GPMB's dominant role and the start of private sector involvement. The cautious approach exhibited by Gambian entrepreneurs to date (between July and December only three local businessmen have imported rice for sale) demonstrates the need to ensure that rice remains available during this critical transitional period. The Section 206 rice can help to bridge the gap for the next three years between previous high commercial import levels by GPMB and current low import levels by the private sector, during which time private entrepreneurs should acquire the confidence in the GOTG commitment to free trade which they need in order to fully commit themselves to this activity. Indeed, by providing its own food aid (rice) for sale to private traders, OAR/Banjul can vividly demonstrate donor support for GOTG reforms and thereby encourage the private sector to act more quickly to enter the commercial rice trade.

Sixth, at this time, coarse grain production is rising to meet domestic demand in The Gambia. If coarse grain production continues to increase and the high retail price for rice is maintained, there should be a declining demand for rice, reducing rice consumption over the long term. Still, The Gambia must maintain rice supplies in the short term while the full effects of recent policy reforms make themselves felt in the markets, changing production and consumption patterns. As the demand for rice declines, the demand for coarse grains will rise and cause an increase in coarse grain prices. This will encourage farmers to produce more coarse grains. This trend will accelerate as high yielding varieties of maize and sorghum are introduced by OAR/Banjul through the GARD project, and by other donors as well.

Seventh, supplying The Gambia with any other cereal, such as sorghum, millet or maize, for food aid would be economically disastrous because of relative prices and other factors, such as the supply of and demand for both rice and coarse grains. For example, if OAR/Banjul brought in coarse grains, foods for which The Gambia has a comparative advantage in production, the effect would be to increase the supply of coarse grains to such an extent that the retail price would fall, ceteris paribus. This would be a disincentive for farmers to produce those foods. This would aggravate, not solve, The Gambia's structural food deficit problem. Therefore, it is economically wise to bring in rice, a food for which The Gambia does not possess a comparative advantage, priced at its full economic cost in order to allow consumption to continue, albeit at a reduced level, while encouraging the shift in demand to coarse grains.

B. Import Levels

In light of the projected structural food deficits over the next three to five years and the anticipated cautious approach to grain imports by the private sector, OAR/Banjul envisions a three to five-year Section 206 program. Any assistance beyond the third year, however, will be conditioned on an in-depth and favorable evaluation of the program which will be conducted in the middle of the third year (see Monitoring and Evaluation Plan).

Commodity Import Plan

Fiscal Year	86	87	88	89	90
Rice (MT)	4,984	8,310[4]	7,000	7,500	8,000
Dollars (000)[1]	1,545[3]	2,493[5]	2,100	2,250	2,400
Dalasis (000)[2]	8,497	13,711	11,550	12,375	13,200

[1]Based on USDA/FAS estimated price for rice of $310 for FY 86 and $300 for FY87-90.
[2]Based on exchange rate of D5.50 = $1 which is anticipated by early CY86 once the inter-bank exchange rate system is in place.
[3]Based on total FY86 Title II level minus estimated value of Catholic Relief Services' Title II MCH program for 40,000 participants.
[4]Increased to compensate for lower than requested FY 86 level.
[5]Based on total FY 87 Title II AAPL level and maintenance of CRS participant level using FY 87 estimated costs.

In view of the significant policy changes already undertaken and anticipated as a result of this forthcoming Section 206 program and The Gambia's overall ERP, OAR/Banjul believes that planning for a three to five-year program is justified. While clear on the objectives (i.e. policy reform and use of proceeds) for the first two to three years, the Mission expects the program to be responsive to the needs and rapidly changing economic environment of The Gambia in the program's later years.

C. Usual Marketing Requirement

The GOTG through the GPMB has commercially imported rice over the past five years in the following amounts:

Crop Year	80/81	81/82	82/83	83/84	84/85
MT	32,000	29,000	36,000	55,000	17,000

The average import level has been 33,800 MT but this is inaccurately high because of the substantial re-export trade in 1983/84. Therefore, in view of the recent privatization of the rice trade and consequent cautious approach by the private sector, as well as the expected decline in retail cross border rice sales and more accurate population figures, the Mission proposes the following UMR levels:

Fiscal Year	86	87	88	89	90
M/T	20,000	25,000	30,000	35,000	35,000

D. Bellmon Determination

As described in the PID and updated through our quarterly CRS call-forwards, local facilities are adequate to store the imported commodity and no substantial disincentive to domestic production and marketing will result from this program.

V. FINANCIAL PLAN

A. Summary Cost Estimates and Funding Sources

PL-480 Title II Program ($000)

	Fiscal Year 86	87	88	89	90
Program Section 206[1]	1,545	2,493	2,100	2,250	2,400
MCH[2]	884	868[3]	868	977	977
Totals	2,429	3,361	2,968	3,227	3,377

[1]Based on USDA/FAS rice price of $310 for FY 86 and $300 for FY 87-90.
[2]Based on 40,000 participants in CRS program in FY 86-88 and 45,000 participants in FY 89 and 90.
[3]Levels for FY 87-90 based on FY 87/88 commodity estimates.

Local Currency Generations and Uses (D000)[1]

	Fiscal Year 86	87	88	89	90
Uses[2]					
Groundnut Marketing Recapitalization[3]	8,467[5]	13,676	11,300	11,875	11,700
Other[4]	30	35	250	500	1,500
Totals	8,497	13,711	11,550	12,375	13,200

[1]Based on recovery of the FAS value.
[2]Potential uses will be: to support groundnut prices, to service the system's debts, or to discharge its arrears. However, very tentative nature of market (i.e. FX rate, world prices for groundnuts, etc.) and possible need to support expected multi-donor activities may dictate uses as estimated above.
[3]Described in Local Currency Uses section.
[4]For example: GOTG commodity handling, storage and transport costs; complementary support for ongoing AID-funded projects; and rehabilitation and maintenance of existing agriculture infrastructure.
[5]The FY 86 Section 206 proceeds will be supplemented by the remaining FY 84 and 85 emergency food aid proceeds totalling 4.10 million Dalasis.

B. Financial Management

As discussed earlier, our emergency food aid assistance in FY 1984 and 1985 served as the precursor in a number of ways to this Section 206 program. For example, monetizing a portion of each year's assistance enabled us, in conjunction with the GOTG, to establish the financial management system necessary to effectively and efficiently monitor the transfer and use of sales proceeds. A Memorandum of Understanding, coupled with the respective Transfer Authorization, served as the Mission's bilateral agreement on the implementation of each year's emergency food aid program. Specifically, the Memorandum detailed, inter alia, the following for the monetized food element of the assistance:

(1) the quantities to be sold, the sales agents, and when it was to be sold;

(2) the establishment of a special joint deposit account at the Central Bank for deposit of generated local currencies;

(3) maintenance of separate accounts for each year's proceeds;

(4) time allowed for transfer of GOTG funds to the account;

(5) authorized use of account funds;

(6) disbursements from the account would require co-signature by the Permanent Secretary to the Vice President and the OAR/Banjul Representative, or their designees;

(7) reporting requirements including information on all aspects of food receipt, storage, distribution and losses; and

(8) procedures for amending the Memorandum.

With the full cooperation of all involved parties (e.g., Ministry of Finance and Trade, Vice President's Office, GPMB, Central Bank and Accountant General's Office), the deposit, management and disbursement of the local currency generated under the sales component of our emergency programs have been carried out efficiently.

Unlike previous years, however, the GPMB will not be involved in the retail sale of the Section 206 rice (see Implementation Plan section below). Instead, the GOTG will receive and either the GPMB or private traders may be designated to hold the first year's shipment of rice as a strategic rice reserve for the GOTG. The GOTG will pay OAR/Banjul the FAS value of the rice and the funds will be deposited in a joint GOTG and AID administered account. Then, in the second and third years of the Section 206 program, the GOTG will receive the rice and hold it for sale to the private sector. Two months before each biannual rice import (imports will be on a biannual basis to lighten demands on the limited storage capacity of most private traders), the GOTG will designate those traders who will be eligible to purchase rice from the GOTG for distribution and

sale. Only those merchants who have been importing rice for sale will be eligible to receive equal shares of the rice provided to the GOTG by USAID. The FAS value will be the established price for the GOTG to purchase the rice from OAR/Banjul. The rice will be sold in minimum lots of 500 MT by the GOTG at a price which includes its documented handling and storage costs. Designated merchants purchasing the Section 206 rice from the GOTG will deposit the Dalasi equivalent of one-third of the total value of the bid into a special, jointly held deposit account (entitled "Rice Sales Receipts") within two weeks after the sale. Any merchants' deposits not received on time will negate their participation. All unclaimed rice lots will then be re-allocated at a mutually acceptable time either before or after the receipt of the rice shipment. The outstanding two-thirds of the final sale price will be deposited in the special account by the merchants before taking possession of the rice. If during the time the GOTG is maintaining the 5000 MT strategic reserve, it becomes imperative to release some rice for sale, it will be distributed and sold to private merchants by the GOTG in the same manner.

The Mission is confident that this system will work because both the GOTG and the private traders will make payment in Dalasis thereby saving scarce foreign exchange for other essential purposes.

Once all sales are concluded and all deposits are made into the "Rice Sales Receipts" account, the funds from the temporary account will be transferred to the interest-bearing "Title II Proceeds" account. This account will be managed in a similar fashion to the one described earlier under our recent emergency food aid programs. As before, any withdrawals and transfer of funds (e.g., to the GPMB for recapitalization) will require approval from both the GOTG and OAR/Banjul. In this case, however, the GOTG approval authority will rest with the Minister of Finance and Trade or his designee (see Implementation Plan).

The overall management of the account also will be the joint responsibility of the Minister of Finance and Trade and the AID Representative or their designees. The Controller of OAR/Banjul will act as accounts advisor to the AID Representative and Minister in order to ensure that the AID accounts management requirements and standards as set forth in the AID Handbook 19 are met. Likewise, the Minister will designate the Accountant General (or his designee) as the Government's counterpart to the AID Controller to ensure that the accounts management requirements and standards of the GOTG are met.

Disbursements from the "Title II Proceeds" account will be limited to the transfer of funds to specific activity accounts (e.g., recapitalization of the GPMB) which have been established under the Section 206 Memorandum of Understanding (including authorized amendments thereto) and for the payment of acceptable GOTG commodity administration, handling, storage and transport costs. The individual activity accounts will be registered with and approved by the Minister and the AID Representative. The Minister and AID Representative will authorize the establishment of each

activity account only after they are satisfied that the activity is at the implementation stage and that funds are required. Each disbursement from the "Title II Proceeds" account to the individual activity accounts will be certified by both the Minister and AID Representative.

The transfer of funds from the main account to the separate activity accounts will range from very short-term (e.g., reimbursement for GOTG costs) to longer-term activity: recapitalizing the groundnut marketing system. Replenishment of separate accounts will require certified expenditure and disbursement vouchers which shall be presented on a quarterly basis, or other mutually acceptable schedule. In the case of recapitalization, replenishment will be on the basis of total GPMB groundnut purchases and provide in short intervals throughout the purchasing season.

The specific activity accounts will be established in the name of the authorized activities as stipulated in the Section 206 Memorandum of Understanding. These accounts will be managed jointly by the GOTG-designated implementing agency and the OAR/Banjul project officer(s).

Disbursements from the accounts will be by mutual consent for approved purposes. The accounts will be managed in compliance with standards established for each account. The AID Controller and the GOTG counterpart (Accountant General or his designee) will provide accounts management advice and guidance to the respective accounts managers. Issues which cannot be resolved at the accounts management level will be referred for settlement to the Minister of Finance and Trade and the AID Representative.

The AID Controller and the Accountant General (or his designee) will: (1) examine and agree that the procedures, documentation, and account reports system of the implementing agencies are acceptable and meet the accounts management and fiscal reports requirements and standards of both the GOTG and AID Handbook 19, or they will jointly design and recommend to the Minister and the AID Representative a system that meets those standards; (2) examine the individual activities' reporting systems to ensure that the reporting on the receipt and use of funds made available meet required standards, or recommend appropriate modifications; and (3) agree on and issue an annual report which will reflect the adequacy and effectiveness of the overall accounts management systems.

The specific accounts are to be reviewed periodically by the Minister and the AID Representative. Those accounts which are not disbursing funds for scheduled activities may have their deposits recalled and, in turn, distributed among other activities, or redeposited in the main account until such time as additional funds are necessary.

The Minister and AID Representative annually will review overall management of the accounts and provide joint certification that both the GOTG and AID management standards have been met. At

that time, interest accruing to the "Title II Proceeds" account will be distributed to individual activity accounts or held in the main account for support of new activities which would require the prior approval of both the GOTG and AID.

The "Title II Proceeds" account and the activity accounts will be available upon request for examination and/or audit by officials of the GOTG and the U.S. Government.

C. Recurrent Cost Implications

The Section 206 program will generate very low recurrent costs for the Gambian Government; in fact it will assist the GOTG reduce costly subsidies and increase productivity, thereby broadening the tax base and generating more resources to cover recurrent government expenditures.

The GOTG will be responsible for handling the importation and sale of the rice given as food aid to The Gambia. Any costs incurred by the GOTG will be reimbursed from the local currency generated by the sale of the Section 206 rice. OAR/Banjul, for example, will use the funds to pay the small costs associated with the GOTG allocation and sale of the food aid to private traders. And the GOTG will be able to recover any storage costs it incurs for its strategic reserve by adding that to the floor price of the rice it sells.

Policy reforms which will be implemented by the GOTG and supported by the Section 206 program will reduce Gambian Government expenses and subsidies, thereby saving revenue. Eliminating government rice and fertilizer subsidies and ending GPMB's domination of the trade in those imported commodities will relieve GPMB of the costly burden of providing unprofitable public services for the Government. Subsequent reforms within GPMB resulting from the execution of its performance agreement with the GOTG will restore commercial viability to that institution. Savings generated by the restructuring of GPMB will enable it to foster increased groundnut production and marketing, thereby increasing foreign exchange earnings for The Gambia and reducing the need of the GOTG to borrow to buy essential imports. Reducing GPMB's demand for credit to cover its overhead will allow national savings to be invested in productive activities that will increase the tax base of the whole nation.

VI. IMPLEMENTATION PLAN

A. General Program Management

Upon notification of program approval and receipt of the Transfer Authorization, OAR/Banjul and the GOTG will develop and sign a Memorandum of Understanding. The Memorandum by reference will incorporate the terms and conditions of the Transfer Authorization, relevant portions of the Section 206 Project Paper (including elements of this implementation plan), and relevant GOTG regulations and operating procedures. See Annex F for detailed Implementation Schedule.

1. Joint OAR/Banjul and GOTG Responsibilities

The GOTG and OAR/Banjul will establish a food for development program executive steering committee to be jointly chaired by the Minister of Finance and Trade and the AID Representative. The committee will be comprised of the joint chairpersons, the GOTG-designated director of program activities and the OAR/Banjul project officer(s). The chairpersons each will appoint one advisor for fiscal management purposes (i.e., OAR/Banjul's Controller and GOTG's Accountant General or his designee). The Regional Food for Peace Officer located in Dakar, Senegal will be a technical advisor to the chairpersons. The purpose of the committee will be to provide leadership for the management, implementation and operation of the Section 206 program including but not limited to:

(i) ensuring that the terms and conditions of the Memorandum of Understanding are understood, accepted and adhered to by all parties concerned;

(ii) ensuring that the policy reform measures are implemented effectively and on a timely basis;

(iii ensuring that the financial management plan is operational at each level of program implementation;

(iv) ensuring that the reporting requirements for accounts, commodities and program activities are in compliance with the GOTG and USAID rules and regulations;

(v) ensuring that program implementation issues are resolved quickly to prevent delays and adverse effects on the program; and

(vi) ensuring that the joint annual evaluations are conducted and that action is taken to correct program deficiencies, if any.

The committee will appoint program activity implementation officers of comparable technical and managerial capabilities. These officers will have joint responsibility for the management of program activities including but not limited to:

(i) providing technical assistance to the implementing agencies at the activities level;

(ii) providing systematic reports to the committee regarding activity performance;

(iii) monitoring implementation and taking action to correct deficiencies as they occur; and

(iv) assisting in annual evaluations to ensure that the purposes, goals and objectives of the program are being attained or to recommend corrective action, program modification or revisions.

2. GOTG Responsibilities

In addition to the above, the GOTG and its appropriate authorities will be responsible for at least the following:

(i) arrange for the receipt and, if necessary, the handling, storage and transport of the rice as detailed in the commodity management plan;

(ii) organize and conduct the sale of the rice to designated private traders;

(iii) manage the sales proceeds accounts as described in the financial management plan and furnish the committee with the required financial reports;

(vi) provide U.S. Government officials free access to program records, ledgers, reports, commodity handling and storage facilities, and funded activities; and

(v) accord the U.S. Government the right to audit the program.

3. OAR/Banjul Responsibilities

In addition to the above joint responsibilities, OAR/Banjul will be responsible for at least the following:

(i) furnish the services of an USAID Food for Peace Officer to assist the GOTG in satisfying the technical requirements of the commodity management plan including the preparation of reports to the committee as well as those required for Title II programs;

(ii) furnish the services of the Mission's Controller to assist the GOTG in meeting the requirements of the financial management plan including the preparation of accounts reports to the committee;

(iii) furnish the services of technical specialists to provide assistance to the implementing agencies and institutions;

(iv) furnish the services of project officers to oversee and monitor policy reform measures and program-funded activities, and report findings to the committee or other appropriate parties; and

(v) furnish all necessary assistance to complete the annual evaluation and issue an annual progress report (see Monitoring and Evaluation Plan).

In view of the scope and diversity of the Section 206 program, OAR/Banjul will establish a program management team comprised of an Agricultural Development Officer, Program Analyst (PSC position) and the Controller. This core team, in coordination with the Program Officer and AID Representative, will jointly manage the day-to-day activities of the program. One of the officers will be appointed team leader and will be the spokesman for the Mission on all day-to-day program implementation matters. As discussed above, however, the AID Representative will jointly chair the program's executive steering committee along with the Minister of Finance and Trade. The management team leader will be a member of the executive steering committee.

B. Commodity Management

1. Joint OAR/Banjul and GOTG Responsibilities

The GOTG and the OAR/Banjul jointly will manage the commodity import activities of the Section 206 program. In implementing the commodity management plan presented below, the following are items of special consideration:

(i) The multi-year nature of the activities (e.g., recapitalization of the groundnut marketing system) to be supported by the local currency generations requires a constant (or, at minimum, a guaranteed) cash flow during implementation. A significant disruption in disbursements to the activities could result in serious implementation problems for the development activities. To avoid such a disruption, an agreed upon volume of commodities will be imported and sold before implementation is initiated. Subsequent commodity imports and sales will be scheduled so as to ensure constant funding for the activities.

(ii) The need for a constant flow of budget support to the activities becomes a more critical issue because of the possible changes in the annual commodity import requirement. The annual import requirement will be based on an update of the supply-demand analysis and may be less or more than the levels given in section IV.C.

(iii) AID Handbook No. 9, Chapter 11, paragraph B6 requires that the information furnished in compliance with the Bellmon Amendment be updated at the time of each Call-Forward for Section 206 programs.

(iv) In the event there is a dispute about the responsibilities for commodity management, the terms and conditions of AID Regulation 11 will prevail.

Taking into account the foregoing, the following are specific joint OAR/Banjul and GOTG responsibilities:

(i) prepare a foodgrain supply-demand analysis prior to the submission of the annual request for Title II commodities; and

(ii) prepare a Bellmon Amendment update at the time of the commodity Call-Forward.

2. GOTG Responsibilities

In addition to the above joint responsibilities, the GOTG will be responsible for at least the following:

(i) arrange for the receipt and handling of the commodities at the port or point of entry;

(ii) payment of discharge costs including but not limited to demurrage, detention, and overtime charges by the delivery carrier unless otherwise arranged in the ocean freight contract (reimbursed from sales proceeds account);

(iii) arrange for an independent cargo survey report (reimbursable);

(iv) secure the ship's outturn report;

(v) payment of wharfage, taxes, dues and port charges assessed against the cargo whenever assessed and collected by local authorities from the consignee (reimbursable);

(vi) payment for lighterage costs (if any) when assessed as a charge separate from the freight rate (reimbursable);

(vii) arrange to receive unsold commodities (i.e., those which are not received by private traders) at ex-customs and provide for storage, maintenance and transport to the points of temporary storage (reimbursable);

(viii) maintain a series of commodity management records which will reflect the volume, condition and disposition of all commodities received including those commodities certified as unfit for human consumption;

(ix) remit gross sales proceeds from the sale of commodities to the Rice Sales Receipts account as discussed in the Financial Management section;

(x promptly notify OAR/Banjul, in writing, of the circumstances pertaining to any damage, misuse or loss of commodities. The notification will include information regarding parties and action taken to recover losses; and

(xi) issue and pursue claims against third parties.

3. OAR/Banjul Responsibilities

In addition to the above joint responsibilities, OAR/Banjul will be responsible for the following:

(i) based upon the annual supply-demand analysis and the desired schedule for the arrival of the rice, submit to AID/Washington the biannual Call-Forward;

(ii) furnish AID/Washington with the annual reassessment of the port, storage and transport capabilities to receive and handle the commodities in the Call-Forward as well as the disincentive effects of the commodities on local production and marketing, if any;

(iii) submit to AID/Washington the appropriate shipping instructions; and

(iv) provide the GOTG with the technical assistance necessary to manage the receipt, handling and monitoring of Section 206 commodities including the preparation of reports required by AID/Washington.

C. Gray Amendment Organizations

Due to the nature of this program and the fact that no technical assistance will be provided directly by the program, there will not be any participation in program implementation by a Gray Amendment organization.

VII. MONITORING AND EVALUATION PLAN

A. Annual Evaluations and Progress Reports

The Memorandum of Understanding will require the GOTG and OAR/Banjul to conduct an Annual Evaluation of the program and issue an Annual Progress Report. It is this Annual Evaluation and Report which will serve as the basis for the authorization of the subsequent year's commodity allocation and continued dispersal of sales proceeds. The scope of the Evaluation will be comprehensive, providing the GOTG and OAR/Banjul with reliable data on overall program performance.

Approximately four months prior to the due date for the Annual Progress Report, the GOTG and OAR/Banjul will commence the Annual Evaluation (see Implementation Schedule, Annex F). At a minimum, the Evaluation will cover the requirements of the Annual Progress Report as listed below. Additional topics or issues will be agreed upon prior to or during the actual evaluation. The Evaluation will be submitted to the executive steering committee for review, comments and recommendations. Specifically, the committee will:

(i) assess the Evaluation in terms of its adequacy in addressing the general and specific topics for the review period;

(ii) assess the feasibility of the recommendations for program modification, if any; and

(iii) based on the Evaluation, prepare and submit to OAR/Banjul for transmittal to AID/Washington the Annual Progress Report including the subsequent year's commodity level request.

NOTE: Since there will be little program activity by the time of the first Annual Evaluation, the Evaluation and Annual Progress Report will address the administrative, managerial and monitoring arrangements established for the program. Subsequent years' reports will emphasize program achievements and the effects of policy reforms.

The Annual Progress Report will present at least the following:

(i) the roles and performance of the GOTG agencies in fulfilling the terms of the Memorandum of Understanding

(ii) a discussion of progress and achievements with reference to the agreed-upon goals, self-help measures and benchmarks. Where there are shortfalls, explanations will be offered;

(iii) a detailed description of how commodities were used and an accounting of local currency generations and their uses. The end-of-year balances will be reported; and

(iv) GOTG and OAR/Banjul recommendations for changes in either the program or its procedures.

B. External Evaluations

Approximately two and a half years after program implementation, OAR/Banjul with support from REDSO/WCA and/or AID/Washington will conduct an evaluation to determine the need for an extension of the Section 206 program. In view of the present state of the Gambian economy and the short- to medium-term outlook, the Mission wants to be prepared to continue the program for up to an additional two years without a hiatus in program implementation. The overall scope of work and individual team member's assignments will be drafted by OAR/Banjul. The Mission will seek funds for this evaluation at the appropriate time.

If the program is extended for an additional two years, a final evaluation will be conducted in October 1990. OAR/Banjul will develop the scope of work and obtain the necessary funds. If the program is not extended, the evaluation discussed above, in conjunction with further Mission work, will serve as the final program evaluation.

ANNEX A

LOGICAL FRAMEWORK

Project Title & Number: PL 480 TITLE II SECTION 206 PROGRAM, THE GAMBIA (635-0222)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: Food self-reliance for The Gambia	**Measures of Goal Achievements:** 1. Increase in the availability of foreign exchange earnings. 2. Reduction in the need for emergency food aid. 3. Increases in domestic food production and consumption of local coarse grains.	1. GOTG records and accounts. 2. Central Bank records and accounts. 3. Records of emergency food aid provided by all donors. 4. GOTG records. (PPMU) 5. Discussions with farmers and traders.	**Assumptions for achieving goal targets** 1. Other donor projects in complementary areas will be implemented effectively. 2. No severe chronic natural disasters especially drought.

ANNEX A - 2

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Purpose: Create policy and institutional conditions promoting an economic balance between food crop production and imported food, as well as between cash crop production and imports of essential materials.	**Conditions that will indicate purpose has been achieved: End-of-Project status.** 1. Sustainable increases in domestic production of coarse grains and groundnuts. 2. Increased domestic consumption of coarse grains, proportionate to imported rice. 3. End the use of official foreign exchange reserves for commercial food imports. 4. Increase the proportionate use of imported materials necessary for activities in which The Gambia has comparative advantage. 5. Economic production of cotton, irrigated rice and any other government-sponsored efforts. 6. Full use of the most economically efficient marketing mechanisms and channels.	1. GOTG and GPMB records 2. Discussions with private sector traders. 3. GOTG - PPMU reports.	**Assumptions for achieving purpose:** 1. Sufficient land and labor exist to continue the expansion and intensification of agricultural production. 2. Changing relative prices will cause changes in production and consumption patterns. 3. Traders will mobilize resources to import rice and market fertilizer. 4. Inputs are available and delivered on time and in sufficient quantity for farmers to use.

69

ANNEX A-3

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Outputs: 1. Domestic groundnut processing and marketing operates on a commercially viable basis. 2. Distribution of agricultural inputs through private channels at market prices. 3. Commercial food imports are handled by the private sector at market prices. 4. Groundnut marketing system is recapitalized.	**Magnitude of Outputs:** 1. Marketing organization operates without a loss, at a break even point, possibly making a profit. 2. Private sector distributes fertilizer, seed, equipment to farmers. 3. Private sector distributes commercially imported rice. 4. Groundnut marketing system is restored to liquidity with infusion of about 40 million Dalasis, sufficient to service existing debts, discharge arrears, and thereby maintain incentive farm-gate prices.	1. Review of marketing organization records and accounts. 2. Discussions with private traders. 3. GOTG records of local currency account fund. 4. Discussions with farmers.	Assumptions for achieving Outputs: 1. Process of assessment of policy reform and adjustment will continue to address identifiable constraints in the marketing system.

ANNEX A - 4

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Inputs: 1. Food aid shipped to Banjul port. 2. Local currency generated by food sales. 3. GOTG policy reforms to provide economic pricing and trade liberalization.	**Implementation Target(Type & Quantity)** 1. About 20,000 MT of rice over a 3 year period. 2. About 40.68 million Dalasis (including 4.10 million Dalasis from FY 1984 and 1985 emergency food aid). 3. GOTG producer price increases for groundnuts, cotton and paddy rice announced in July and November 1985 are sustained. 4. GOTG ending of de facto GPMB monopoly on commercial rice imports and fertilizer trade; opening commerce to private traders. 5. End of fertilizer subsidy. 6. Reduce and then eliminate groundnut export tax over 3 year period. 7. Institute alternative tax on GPMB. 8. Privatization of peripheral GPMB operations; termination of GPMB subsidizing public service; and clearly delineating and regulatizing the interlocking debts between the GPMB and other entities.	1. Shipping and receiving document. 2. GOTG records of sales of rice to private sector or strategic reserve. 3. GOTG decrees or legislation.	**Assumptions for providing Inputs:** 1. Food aid is available fo The Gambia and the Secti 206 program. 2. Policy reforms will stop deterioration of economy and restore growth, especially to agricultur sector.

69

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

August 16, 1985

MEMORANDUM

TO: OAR/Banjul, Mr. Byron Bahl

FROM: PPC/PDPR, Donald G. McClelland

SUBJECT: The Gambia PL 480 Title II, Section 206 Program Development

Attached are two copies of my final report, which I hope will bring the Mission another step forward toward completing the development of the subject program. Please give one copy to Steve Norton. This version of the report is substantively the same as the draft version I left with the Mission on June 11, 1985. Indeed, the Executive Summary is identical to the paper we discussed with the Minister of Finance and the Vice President.

My understanding is that during the past 60 days the Government of The Gambia has begun to modify some of the economic policies that have clearly had an adverse effect on the country's prospects for achieving food self-reliance. For example, upward adjustments in key commodity prices and serious consideration of measures designed to liberalize the import and distribution of rice represent very positive steps.

I believe that the proposed Section 206 Food for Development program can contribute significantly to supporting these and other economic policy reform measures.

cc: FVA/FFP/II, Walter Rockwood
FVA/FFP/I, Paul Wenger
FVA/PPE, Forest Duncan
DAA/FVA, Walter Bollinger
AFR/SWA, Dennis Chandler
AFR/TR/ARD, Richard Apodaca
AFR/TR/ARD, Gloria Steele
AFR/PD/SWAP, Satish Shah
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PPC/PB, Larry Tanner
PPC/PDPR, Alison Rosenberg
DAA/PPC, Allison Herrick
World Bank, Barbara Bruns
Harvard University, Malcolm McPherson
Harvard University, Tyler Biggs
Tufts University, Robert West

EXECUTIVE SUMMARY

A. Problem

The Gambia does not produce enough food domestically to meet its growing food needs. Prospects for purchasing food commercially on the international market are diminishing due to: (a) the decline in world groundnut prices; and (b) the decline in Gambian groundnut production. [The decline in Gambian groundnut production is, in turn, due to: (i) a decline in real producer prices for groundnuts (in part due to the decline in world prices); and (ii) a decline in producer prices for groundnuts relative to food crops.] This has to led to a structural food deficit requiring concessional food assistance. A relatively high population growth rate together with low agricultural productivity suggests that the situation could deteriorate in the future.

B. Discussion

In order to become food self-reliant, The Gambia needs to:

1. Increase (or maintain) groundnut production to earn foreign exchange to import rice (or another commodity in which The Gambia does not have a comparative advantage); and

2. Increase production of coarse grains such as maize, sorghum and millet (commodities in which The Gambia does have a comparative advantage).

A multi-year Food for Development program can support the economic policy reforms needed to increase both groundnut production and coarse grains production. The local currency generated from the sale of the food can be allocated to support increased agricultural production, thereby enhancing the prospects for achieving food self-reliance.

C. Economic Policy Reform

1. The export tax on groundnuts is currently equivalent to about 37% of the producer price. Although the tax generates revenue to finance about 5% of the government budget, it also discourages groundnut production, thereby contributing to decreased foreign exchange earnings needed to import rice and other essential commodities.

   Recommendation. Gradually reduce the export tax on

groundnuts between FY 1985 and FY 1988, and concurrently increase the producer price of groundnuts by the amount of the tax reduction.

2. Farmers currently pay only part of the economic cost of fertilizer. This leads to: (a) re-export of fertilizer to Senegal (where fertilizer is not subsidized); and (b) low fertilizer application rates (and low agricultural productivity) in The Gambia.

Recommendation. Gradually eliminate the subsidy on fertilizer between FY 1985 and FY 1988, and adjust producer prices upward to compensate farmers for the cost increase.

3. Upland rice production is subsidized (and therefore encouraged) in The Gambia because both imported rice and upland rice are sold to consumers at the same price, even though upland rice costs more to produce. The current pricing policy also subsidizes rice consumption, because consumers are able to purchase rice at less than the cost of production. Finally, because the consumer price of rice in The Gambia is lower than the consumer price of rice in Senegal, Gambian rice is sold in Senegal, and this contributes to The Gambia's food deficit and the need for food assistance.

Recommendation. First, immediately increase the consumer price of rice to a level that will make it unprofitable to sell rice in Senegal. Second, gradually decrease the producer subsidy of upland rice production in order to: (a) discourage production of upland rice (and encourage production of coarse grains); and (b) accurately reflect the cost difference between domestically produced upland rice and imported rice.

4. The public sector monopoly on rice and fertilizer distribution is associated with high marketing costs (relative to the costs of marketing coarse grains, which is done by the private sector).

Recommendation. Gradually liberalize the rice and fertilizer distribution system by encouraging active private sector participation.

D. Programming Local Currency

The sales proceeds generated by the Food for Development program might be allocated as follows:

1. To rehabilitate and maintain existing agriculture-related infrastructure, including the transportation network necessary for efficient marketing.

2. To accelerate seed multiplication activities, thereby enhancing prospects for increased agricultural yields.

3. To support activities that complement on-going or planned agriculture-related activities associated with the A.I.D. program in The Gambia.

4. To contribute to revitalization, and partial recapitalization, of the price stabilization fund of The Gambia Produce Marketing Board (GPMB).

E. Legislative Authority

Food assistance provided under Section 206 authority of Title II of PL 480 is highly concessional. It is provided as a grant, not a loan; it typically involves a multi-year commitment of food; the U.S. pays the ocean freight; and the food can be sold on the open market to generate local currency. Like all food aid, it provides balance of payments support. Food assistance provided under these terms creates an opportunity for the recipient government to implement policy-oriented self-help measures designed to contribute to food self-reliance.

I. ANNUAL CEREAL REQUIREMENTS, THE GAMBIA, 1985-1995

This section estimates demand for cereals in The Gambia over the next decade, primarily on the basis of projected population growth; suggests a pattern of cereal consumption during this period that emphasizes coarse grains and de-emphasizes rice; confirms that domestic production will be unable to meet anticipated domestic demand; and concludes that concessional food imports will be required for at least the next five years.

A. Demand Projections

Table 1 estimates annual cereal requirements for The Gambia for the next ten years. The estimates are based on the following assumptions:

-- The population will grow at 3.1% per year; although the annual average growth rate from 1973 to 1983 was 3.5%, this included immigration (0.3%) which is expected to be negligible in the future. This actual rate of growth (3.5%) is substantially higher than the average annual growth rate that has been assumed to date (2.6%).

-- Cereals will account for 70% of calorie requirements, which is equivalent to 170 kg. per capita per year (or 1,844 calories per day); (the remainder of the calorie requirement will be met by fish, livestock and other non-grain commodities); 170 kg. (374 lbs.) of cereals per person per year is comparable to the rule of thumb of 1 lb. per person per day. (The FAO Resident Representative to The Gambia estimates cereal requirements at approximately 160 kg. per capita per year.)

-- 10% of this level of consumption (17 kg. per person per year) is added to reflect storage losses and seed requirements; thus, total estimated production requirements are 187 kg. of cereals per person per year. This method of adjusting demand upward by 10% is consistent with the method used in the draft PP. In contrast, the method used in the PID was to adjust supply downward by 15%. The WFP (and therefore, presumably, the GOTG) adjusts supply downward by 25%.

-- No allowance is made for changes in income.

-- No allowance is made for different consumption patterns in rural and urban areas; instead, the projections reflect the results of a 1969 urban consumer survey.

TABLE 1.--Projected Population Growth and Cereal Demand, 1985-95

Year	Population (000)	Cereal Demand (000 MT)
1985	745.3 (734.4)	139.4 (137.3)
1986	768.4 (756.4)	143.7 (141.5)
1987	792.2 (779.1)	148.1 (145.7)
1988	816.8 (802.5)	152.7 (150.0)
1989	842.1 (826.5)	157.5 (154.6)
1990	877.0	164.1
1991	891.1	166.6
1992	918.8	171.8
1993	947.3	177.1
1994	976.7	182.6
1995	1,021.3	190.8

Note: Figures in parentheses are from the draft PP; figures underlined (1985, 1990, and 1995) are from the FAO Report; the intermediate year figures reflect annual compounding at 3.1% per year.

Source: FAO, "Population Trends and Cereal Requirements," The Gambia Agriculture Sector Review Draft Report, 1984.

Thus, based on the assumptions listed above, cereal requirements for The Gambia will increase by about 37% over the next decade, from about 139,000 MT in 1985 to 191,000 MT in 1995. This compares with current domestic cereal production of about 86,000 MT.

B. Pattern of Consumption

Cereal consumption in The Gambia consists of rice and coarse grains (essentially sorghum, millet and maize). In the late 1970s, rice provided about 42% of total cereal requirements; by 1983/84, the rice share of the diet had increased to 60%. The supply projections below assume a return toward the earlier consumption pattern. While this may be inconsistent with existing preferences that tend to favor rice over coarse grains, the assumption may be legitimate for two reasons.

First, it is financially more profitable for Gambian farmers to produce coarse grains than to produce upland rice. Table 2

shows that average returns to labor from maize, sorghum, and late millet cultivation (ranging from D4 to D11 per manday) are substantially higher than returns to labor for upland rice cultivation (only D2.4 per manday), and generally are higher than returns to labor for groundnuts or cotton. Although returns to land are highest for groundnuts in three of the four zones, it is normally appropriate to maximize returns to the scarce factor of production, which in The Gambia is labor.

TABLE 2.--Returns to Land and Labor for Upland Crops, by Zone, 1985 Producer Prices[a/]

	Cotton		Semi-arid		Riverine		Humid	
	D/ha	D/md	D/ha	D/md	D/ha	D/md	D/ha	D/md
Upland Rice							273	2.4
Groundnuts	661	5.5	743	6.2	743	6.2	537	4.5
Late Millet	568	10.9	568	5.7	486	4.9	431	8.3
Sorghum	541	9.8	431	7.8	431	7.8	513	9.3
Maize	724	10.3	559	8.0	669	9.6	504	7.2
Cotton[b/]	762	6.1						

a/ Price for cereals is assumed to be D550/ton; this is below actual market prices which the FAO coarse grains mission found to be as high as D830/ton in 1984.

b/ Figures do not reflect the cost of inputs which are supplied free to farmers in cotton project areas.

Source: World Bank Working Document and FAO Draft Report.

Second, the FAO estimates that coarse grains production can be increased substantially in The Gambia using existing technology.

Thus, it is both economically desirable and technically feasible to assume that rice will satisfy a decreasing proportion of The Gambia's cereal requirement in the next decade -- 50% in 1985, 47% in 1990, and 45% in 1995 -- as

indicated in Table 3.1/

TABLE 3.--Projected Demand for Rice and Coarse Grains, 1985-95

Year	Population (000)	Gross Demand (000 MT)	Rice[a]/ (000 MT)	Coarse Grains (000 MT)
1985	745.3	139.0	69.5 (213%)	69.5 (131%)
1990	877.0	164.1	77.1 (237%)	87.0 (164%)
1995	1,021.3	190.8	85.8 (263%)	105.0 (198%)

a/ The conversion rate from paddy to rice was assumed to be 60%.

Source: FAO Draft Report.

Thus, based on the assumptions above, rice demand will increase by 23% and coarse grains demand will increase by 51% over the next ten years.

C. Supply Projections

Table 4 indicates the extent to which domestic production can be expected to satisfy projected demand given the consumption pattern set forth above.

1/ The figures in parentheses in Table 3 show these demand projections as a percent of current domestic production. Current production is defined as average production during the three-year period 1981/82, 1982/83, and 1983/84. Thus, "current" rice production is 32,580 tons and "current" coarse grains production is 53,100 tons, for a total of about 86,000 tons.

TABLE 4.--Projected Production of Coarse Grains and Rice, (000 MT), 1985-95

	1985	1990	1995
Gross Cereal Requirements	139.0	164.1	190.8
of which coarse grains	69.5	87.0	105.0
of which rice	69.5	77.1	85.8
Projected Coarse Grains Production	58.0	81.0	90.0
Deficit for Coarse Grains	11.5	6.0	15.0
Projected Rice Production	36.0	51.0	55.8
Deficit for Rice	33.5	26.1	30.0
Total Deficit	45.0	32.1	45.0

Source: FAO Draft Report.

The table shows that coarse grains production may increase from its current level of 53,100 tons to about 90,000 tons in 1995, but at a decreasing rate of growth from 9% per year to 0% per year. Rice production may increase from 32,580 tons to about 55,800 tons in 1995. Based on these assumptions, the total gap between domestic cereals requirements and domestic cereals production is projected to be about the same in 1995 as in 1985, 45,000 tons. Two-thirds of the gap is accounted for by rice, and one-third, by coarse grains.

D. Food Imports

Since domestic production will be inadequate to meet projected demand, the question arises: to what extent will it be met by commercial imports in contrast to concessional imports; and of that provided concessionally, how much should be provided by the U.S. under the proposed Section 206 program. Table 5 puts these questions in perspective by indicating actual cereal shipments to The Gambia (commercial and concessional) over the

past five years.2/

TABLE 5.--Commerical Food Imports and Food Aid Shipments, Cereals, (000 MT), FY 1981-85

	1980/81	1981/82	1982/83	1983/84	1984/85
Commercial Imports	32.0	29.0	36.0	75.0	35.0
Food Aid	13.4	11.1	9.0	22.0	14.0
of which:					
U.S.	3.6	3.7	2.0	9.8	8.1
Emergency	NA	NA	0.0	8.2	6.0
Monetized	NA	NA	0.0	3.3	3.0

Source: U.S. Department of Agriculture.

Thus, The Gambia has received food aid from the U.S. during each of the last five years. It has received emergency food aid from the U.S. during at least two (and possible four) of the past five years.3/

2/ Food import data for The Gambia vary considerably depending on the source. For example, GOTG data reflect the Gambian crop year which is from October through September. In contrast, FAO (and WFP) data reflect the period July through June. USDA data, used in Table 5, reflect the U.S. fiscal year (which happens to be the same as the Gambian crop year). Moreover, food import data sometimes refer to actual arrivals (as in the case of WFP), while other data include pledges of food aid that has not actually arrived. USDA data refer to the year in which the food aid was purchased, as reflected in dollar obligations.

3/ The PID approval cable (State 243056 of August 26, 1983) reports that The Gambia received 1,030 tons of emergency food aid from the U.S. in 1981, and 510 tons of U.S.-financed emergency food aid from WFP in 1982.

E. Food Aid

As indicated in Tables 6 and 7, a continued need for food assistance is projected for at least 1986-88. Table 6 reflects an optimistic scenario, while Table 7 reflects a somewhat more realistic scenario. The magnitude of the need for food aid in both tables is based on the assumption that the population growth rate is 3.1% (rather than 2.6% as previously assumed), implying that there are 745 million Gambians in 1985 rather than 672 million, the figure on which recent projections, including those of USDA, have been based.

Tables 6 and 7 differ in two respects: (a) Table 6 assumes that cereal production will increase at 9% per year (as indicated in Table 4, and which is apparently technically feasible), while Table 7 assumes that production will increase at half that rate, 4.5% per year, which is still high compared to the performance of most developing countries; and (b) Table 6 assumes that The Gambia will be able to meet its UMR for rice, which is 38,200 tons in 1986, and 40,000 tons in 1987, while Table 7 assumes that The Gambia's commercial import capacity will be 32,000 tons in 1986, and 35,000 tons in 1987 (which are USDA's current estimates).

TABLE 6.--Projected Food Aid Requirements, Cereals, (000 MT), FY 1986-90: Optimistic Scenario

	1985/86	1986/87	1987/88	1988/89	1989/90
Requirements	143.7	148.1	152.7	157.5	164.1
Production	93.4	101.8	111.0	121.0	131.9
Deficit	50.3	46.3	41.7	36.5	32.2
UMR	38.2	40.0	40.0	40.0	40.0
Food Aid	12.1	6.3	1.7	--	--
of which:					
U.S.	4.5	2.3	0.6	--	--
Regular Title II	2.2	2.2	0.6	--	--
Balance	2.3	0.1	--	--	--
Section 206	--	--	--	--	--

Source: FAO Draft Report.

8D

TABLE 7.--Projected Food Aid Requirements, Cereals, (000 MT), FY 1986-90: Realistic Scenario

	1985/86	1986/87	1987/88	1988/89	1989/90
Requirements	143.7	148.1	152.7	157.5	164.1
Production	89.6	93.6	97.8	102.2	106.8
Deficit	54.1	54.5	54.9	55.3	57.3
Commercial Imports	32.0	35.0	35.0	35.0	35.0
Food Aid	22.1	19.5	19.9	20.3	22.3
of which:					
U.S.	8.2	7.2	7.4	7.5	8.3
Regular Title II	2.2	2.2	2.2	2.2	2.2
Balance	6.0	5.0	5.2	5.3	6.1
Section 206	5.5	5.5	5.5	5.5	5.5

Source: FAO Draft Report, and U.S Department of Agriculture, Food Aid Needs and Availabilities, July 1985.

Thus, The Gambia's need for food aid is treated as a function of its ability to produce food domestically and to import it commercially. Table 7 reflects this capability more realistically than does Table 6.

The Gambia has imported commercially, on average, 38,200 tons of rice per year during the past five years (1981-85). USDA projects that The Gambia's UMR for rice will need to be relaxed during the next two years. This reflects the country's current balance of payments deficit (due in large part to the declining international price of groundnuts and the increasing debt service ratio).4/

The projected food aid requirement for FY 1986 (22,100 tons) is lower than USDA's "status quo" estimate for that year (25,000 tons), which is the amount of food aid needed to maintain

4/ The 1983 PID estimated The Gambia's UMR for rice at 28,000 tons, and the 1985 draft PP estimated it at 29,400 tons. Thus, 32,000 to 35,000 tons may be on the high side.

existing levels of consumption. Surprisingly, the "status quo" level is somewhat higher than the "nutrition based" level (19,000 tons), which is the amount of food aid needed to provide a nutritionally adequate diet, on average, for the entire population. (It is also higher than food aid levels of recent years, typically less than 15,000 tons.) In the case of The Gambia, however, this anomoly can probably be explained by the re-export trade. That is, some of the food that is produced in, and imported by, The Gambia is not consumed there, but rather is re-exported.

The proportion of food aid provided by the U.S. in the future is assumed to be the same as that provided, on average, during the past five years (37%), 8,200 tons in FY 1986. Of this, the regular Title II program is likely to account for 2,200 tons per year, which was the average level maintained during 1981-85. This would imply a Section 206 program of about 5,500 tons per year, on average, over the next five years.

For a Section 206 program to be justified at a level higher than 5,500 tons per year: (a) the UMR requirement would need to be lower than 32,000 to 35,000 tons; (b) the U.S. would need to begin providing a larger share of total food aid to The Gambia than has been the case in the past; and/or (c) cereal production would need to increase at less than 4.5% per year. In fact, if the country is increasingly successful at becoming food self-reliant, and if price policy measures are established to discourage the re-export of food, then the appropriate level of Section 206 food aid may be less than 5,500 tons.

Assuming that rice would be imported under the proposed Section 206 program, and that the price of rice is $300 per ton, 5,500 tons would cost $1.65 million per year, or $4.95 million over three years; the cost of ocean freight would need to be added to derive the total cost of the program. However, until 1981 rice was not generally provided as food aid to The Gambia. The current practice of providing rice is of questionable merit in view of the pattern of consumption suggested above (less rice and more coarse grains); accordingly, the commodity mix should be reconsidered, as suggested in the recent internal Mission memorandum drafted by Tom Hobgood.

II. SELF-HELP MEASURES: ECONOMIC POLICY REFORM

To become food self-reliant, The Gambia needs to: (a) increase groundnut production to earn foreign exchange to import rice (or another commodity in which the country does not have a comparative advantage); and (b) increase production of coarse grains such as maize, sorghum and millet (commodities in which The Gambia does have a comparative advantage). The proposed Section 206 program will support economic policy reforms designed to help The Gambia achieve both goals: increased groundnut production and increased coarse grains production.

A. Groundnuts

Groundnut Production. Groundnut production in The Gambia has decreased due to:

-- low producer prices for groundnuts relative to food crops, especially maize. At 1985 producer prices, average returns to labor were substantially higher for maize, sorghum and late millet cultivation than for groundnut (or cotton or upland rice) cultivation. (See Table 2)

-- declining real producer prices for groundnuts, from D421/ton (1978/79) to D360/ton (1984/85). (World Bank Working Document, citing FAO Draft Report). This was due to: (a) declining world prices; (b) increasing GPMB overhead costs; and (c) increasing government taxes on groundnut exports.

There is nothing The Gambia can do about declining world prices. The Gambia's groundnut production is less than 1% of world groundnut exports, too small to affect world prices.5/ Thus, if The Gambia is to increase (or perhaps even maintain) its foreign exchange earnings (the principal source of which is groundnuts), this must come from increased production, not increased prices. Fortunately, The Gambia can do something

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5/ Long term price prospects for groundnuts are not favorable. In January 1985, the World Bank projected that the world price for groundnut oil would fall from $805/ton in 1985, to $685/ton in 1990, to $670/ton in 1995 (in 1983 constant prices). (World Bank, Price Prospects for Major Primary Commodities, January 1985.) However, in its July 1985 revised report, the 1985 price is adjusted upward from $805/ton to $921/ton.

about increasing groundnut production.

Groundnut production can be increased through: (a) acreage expansion (since there is uncultivated arable land in The Gambia suitable for groundnut production); and/or (b) the application of yield-increasing technology (especially, improved seed varieties). A key ingredient to encouraging farmers to plant additional acreage and to use yield-increasing technology is incentive prices.

The GOTG and the GPMB are both in a position to improve price incentives: the government, by reducing the export tax on groundnuts and passing this reduction on to farmers in the form of a producer price increase; and the marketing board, by reducing its overall costs (inter alia, by encouraging the private sector to import and distribute rice and fertilizer, operations currently subsidized by the GPMB) and passing these cost reductions on to farmers, either as a producer price increase or as deposits into the price stabilization fund for groundnuts. This section discusses groundnut pricing policy and proposes a reduction in the export tax on groundnuts. Liberalizing rice and fertilizer distribution is discussed in Section II.B.

Groundnut Pricing Policy. The government has three options concerning groundnut pricing policy:

-- Increase the producer price to close to export parity to stimulate production, and then reduce the price in the future as world prices decline.

-- Initiate a pattern of modest annual real price increases, until world prices decline.

-- Let the producer price continue to erode in order to hasten diversification out of groundnuts and into food crops (especially coarse grains).

If the government chooses the first option -- raising producer prices to close to export parity -- in the face of volatile world price fluctuations, it would need a stabilization fund to back up the guarantee. There are problems with a stabilization fund, however, including the following:

-- There is little likelihood that world prices will be high enough to permit the GPMB to accumulate reserves in the medium term.

-- The government would be tempted to use any exceptional earnings from groundnuts to finance its budgetary and

balance of payments deficits.

-- If IBRD price projections are correct, then a stabilization fund would do nothing but postpone the day when a downward price adjustment of groundnut producer prices is necessary.

-- Under the renewed Lome Convention, The Gambia has access to STABEX funds to compensate for both production shortfalls and declines in world prices. Between 1978 and 1983 The Gambia benefitted greatly from this system, receiving D56.6 million. (However, the GPMB received (in 1981) only D2.0 million from the government, suggesting that price stabilization may not be among the government's highest priorities).6/

If the government chooses the third option -- letting the producer price of groundnuts continue to erode -- this will contribute to substantially reduced foreign exchange earnings, since groundnuts are the country's most important source of foreign exchange. In addition, this option fails to recognize that The Gambia has traditionally maintained a groundnut producer price slightly higher than Senegal's. This policy has attracted 10,000 to 20,000 MT of groundnuts from Senegal into The Gambia -- which is equal to about 25% of The Gambia's production. When Senegal raised its groundnut price in 1984/85 by 20%, The Gambia (belatedly) raised its price by 24% (from D500/ton to D620/ton). Although this response had the ancillary effect of benefiting Gambian groundnut producers, its principal objective was to attract groundnuts from Senegal to The Gambia to be exported to earn foreign exchange. Groundnut pricing policy in The Gambia must continue to take into consideration groundnut pricing policy in Senegal.

Therefore, the appropriate policy may be to increase the producer price of groundnuts only gradually; that is, the second option. One way to do this is to reduce the export tax on groundnuts gradually.

Reducing the Export Tax on Groundnuts. Table 8 shows the

6/ If STABEX funds were considered inadequate to recapitalize a price stabilization fund, two other funding sources could be explored. First, the IMF Cereal Financing Facility might be tapped, but this option may be negated as long as The Gambia is in arrears to the IMF. Second, a portion of the local currency generated under the proposed Section 206 program could be used. This latter option is discussed in Section III.B.)

actual cost price structure for decorticated groundnuts in 1983/84 (when the export tax was 10%) and two alternative cost price scenarios. In 1983/84 the groundnut farmer received D450/MT, and the government, through the export tax, received D166/MT -- a tax equal to 37% of the farmer's price. In January 1985, the producer price was increased to D620/MT, but this was still below the export parity price of D988/MT, leaving a large margin to cover both GPMB's costs and profits and the 12% export tax, as shown in Alternative 1. If the export tax were reduced to zero, as in Alternative 2, the GPMB could pay farmers D900/MT and still break even on the groundnut account. A third alternative, perhaps more politically palatable, would be for the GOTG to reduce the export tax on groundnuts gradually, and for the GPMB to increase the producer price of groundnuts gradually, thereby providing an incentive to producers and at the same time partially augmenting the price stabilization fund.

TABLE 8.--Decorticated Groundnuts: Cost Price Structure, (D/MT), 1983/84

	Actual	Alter. 1	Alter. 2
Producer Price	450	620	900
Handling, Transport, Storage, Buying Agents & Decortication	186	186	186
Cost per Ton (Undecorticated)	636	806	1,086
Cost per Ton (Decorticated, (0.7% recovery rate)	909	1,151	1,551
GPMB Overhead and Marketing Costs	79	79	79
Total Cost before Tax	988	1,230	1,630
Export Tax	166	199	--
Total Cost after Tax	1,154	1,429	1,630
Average realized FOB Banjul Price	1,656	1,656	1,656
GPMB Net Trading Profit	502	227	26

Source: World Bank Working Document.

Considerations for and against increasing the producer price of groundnuts by reducing the export tax on groundnuts (rather than by using an alternative mechanism) are as follows:

-- Taxes on exported agricultural commodities (groundnuts, fish, and palm kernals) provide only 5% of overall government revenues, but constitute a significant levy on

producers. The D8 million that will be generated this year from the export tax represents a tax on farmers equivalent to D145/ton of marketed output -- or almost one-fourth of the price they receive (D620/ton). In relative terms, the burden of the tax on farmers is far greater than the benefit of the tax to the government.

-- The loss in revenue resulting from a reduction in the export tax is relatively minor, but still can be compensated for by reducing recurrent costs of the government, possibly by reducing the number of employees in the Ministry of Agriculture and Natural Resources (now about 3,000). Although this measure would contribute to unemployment, it would not require the Ministry to reduce its services or functions; insufficient supplies, not insufficient personnel, is hampering the delivery of government services in the agriculture sector.

-- A reduction in the export tax, when passed along to farmers, has the same effect as a producer price increase, from the farmers' point of view. Assuming farmers are price responsive, a price increase will stimulate a production increase, which when exported, will generate additional foreign exchange. (Table 9 illustrates how much additional foreign exchange might be generated as a result of reducing the export tax.)7/

-- Although farmers would probably allocate a substantial proportion of their incremental income for consumption purposes, it is also true that farmers make productive investment decisions -- probably more productive than those of the GPMB.

-- The export tax discriminates against one group of people (groundnut producers), and therefore may be considered inequitable. Another view, however, is that farmers producing cash crops for export are often better able to bear a tax burden than food crop producers.

7/ Farmers consider several factors in deciding whether or not to produce groundnuts: (a) price; (b) food security; (c) risk aversion; and (d) labor constraints. Although price is only one factor, it is an important one. For example, the export tax on fish is 18% FOB, and this tax has been associated with a decline in fish exports. It is important that producer prices are announced well in advance of the planting season, so farmers can make crop mix decisions accordingly.

TABLE 9.--Financial Implications of Reducing the Export Tax on Groundnuts

Assumptions:

-- world price of decorticated groundnuts: D1,656/MT
-- export tax: 12% of world price
-- export volume: 90,000 MT ("current" production)
-- producer price: D620/MT
-- supply elasticity: 0.3

Calculation of Export Tax:

-- D,1,656/MT x .12 = D199/MT
-- D199/MT x 90,000 MT = D17.9 million
-- D17.9 million = $4.5 million

Revised Assumption:

-- export tax: 10% of world price

Calculation of Export Tax:

-- D1,656/MT x .10 = D166/MT
-- producer price increase: D199/MT - D166/MT = D33/MT
-- % increase: 5.3%
-- production response associated with a 5.3% price increase: 1.6%
-- production increase: 90,000 MT x .016 = 1,440 MT
-- total production: 90,000 MT + 1,440 MT = 91,440 MT
-- value of export tax: 91,440 MT x D166/MT = D15.2 million
-- D15.2 million = $3.8 million

Gain in Foreign Exchange:

-- 1,440 MT x D1,656/MT = D2.4 million
-- D2.4 million = $600,000

Loss in Revenue:

-- D17.9 million - D15.2 million = D2.7 million
-- D2.7 million = $675,000

-- Reducing the export tax on groundnuts was recommended in the PID in 1983, supported by the World Bank, and endorsed in the recent study of the GPMB (An Economic and Operations

Analysis of The Gambia Produce Marketing Board, 1984.) Although the export duty on groundnuts has actually been increased from 9% to 12% in the past three years, the . . . recommendation to reduce it is still sound.

-- On the other hand, export taxes are particularly easy to collect in any country, and in developing countries ease of tax collection is a particularly important consideration.

-- Also, the export tax reduces the relative attractiveness of export production, and provides a more favorable environment for expansion of domestic food production. The issue here is one of comparative advantage. Some food crops (like maize) are more attractive investments in The Gambia than some export crops (like cotton). Groundnuts, however, remain a cost effective activity, and one of the few in which The Gambia can earn foreign exchange.

Thus, a reduction in the export tax on groundnuts will provide an incentive for increased groundnut production (and not necessarily at the expense of coarse grains production); increased rural incomes; and increased foreign exchange earnings -- but at the expense of reduced government revenues.

The Gambia may have reached the point at which taxing the groundnut sector is counterproductive. This is suggested in Table 10 which shows the official financial prices and parity prices of four agricultural commodities in June 1984 (given an exchange rate of $1.00 = D3.6):

TABLE 10.--Official Financial Prices and Parity Prices of Four Agricultural Commodities, 1984

	Groundnuts	Paddy	Cotton	Maize
Official Price	450	510	610	390
Parity Price	911	536	1,559	628

Source: FAO Draft Report.

The export parity price for groundnuts is almost double the official price. The difference between the two prices reflects the government's desire to generate revenue (through the export tax), and to build up a stabilization fund to protect farmers

from price fluctuations on the world market. The difference is relatively large, which lends additional weight to the recommendation that it be narrowed by reducing the export tax.

For paddy, both the import parity price and the official price are similar. However, because of the high marketing and milling costs of GPMB and the fixed consumer price for rice, GPMB absorbs a loss on its domestic rice marketing. Thus, both the producer rice price and the consumer rice price are subsidized, but the consumer rice price is subsidized to a much larger extent.

The export parity price of cotton is almost three times the official price. However, inputs for cotton production are provided free and are not included in the official price.

The GPMB does not want to trade in maize because of the lack of a profitable export market. Although the official price is much lower than the parity price, the price on the informal market tends to be similar to the parity price.

Thus, reduction of the export tax on groundnuts seems to have considerable merit. A possible schedule for a gradual reduction is as follows:

-- July 1, 1985: from 12% to 10% of FOB value (associated with the provision of U.S. emergency food assistance in FY 1985).

-- May 1, 1986: from 10% to 8% (prior to the first shipment of the first year of Section 206 food assistance and prior to the planting season).

-- May 1, 1987: from 8% to 6% (prior to the first shipment of the second year of Section 206 food assistance).

-- May 1, 1988: from 6% to 4% (prior to the first shipment of the third and final year of Section 206 food assistance).

B. Coarse Grains

Food self-reliance for The Gambia requires not only increased groundnut production to earn foreign exchange to import rice commercially. It also requires increased production of coarse grains. And one way to encourage coarse grains production is to stop subsidizing rice and fertilizer consumption.

Rice Pricing Policy. The marketing of coarse grains (which account for about half the cereal consumption in The Gambia) is

handled exclusively by private traders. As a result, prices tend to reflect overall supply and demand for cereals -- and one of the major cereals is rice (including imported rice and domestically produced rice). Tables 11 and 12 show the estimated cost price structure for these commodities in 1983/84.

TABLE 11.--Cost Price Structure for Imported Rice, (D/MT), 1983/84

CIF Value of Rice, Banjul	737
Handling, Marketing, and Port Costs (GPMB)	140
Overhead Costs (GPMB)	48
Total Cost of Milled Rice	925
Official Wholesale Price	877
GPMB Loss before Duty	(48)
Import Duty	195
GPMB Loss after Duty	(243)
Official Price as % of Total Cost before Duty	95%

Source: World Bank Working Document and FAO Draft Report.

TABLE 12.--Cost Price Structure for Domestic Rice, (D/MT), 1983/84

Producer Price (Paddy)	510
Transport Allowance (GPMB)	43
Milling Costs (GPMB)	176
Sub-total (unmilled)	729
Sub-total (milled equivalent, 58%)	1,257
Marketing, Overhead, and Processing/ Milling/Storage Adjustment (GPMB)	296
Total Cost of Milled Rice	1,553
Official Wholesale Price	877
GPMB Loss	(676)
Official Price as % of Total Cost	56%

Source: World Bank Working Document and FAO Draft Report.

A comparison of the two tables shows that in 1983/84 The Gambia would have been better off importing rice at a total cost of D925/ton than producing it domestically at a total cost of D1,553/ton. In spite of this, the government subsidizes domestic rice production by levying an import duty on imported rice (about 26%). Not only does the duty help to protect domestic rice producers (who are uncompetitive with Asian rice producers), but also it generates government revenue, currently D5 to D10 million per year, or almost 10% of total tariff revenues. In spite of the subsidized floor price for domestic paddy, as much as 90% of domestic production is not marketed through official channels, but rather is consumed on the farm or sold through parallel channels.

The consumer price of imported rice in The Gambia is 20% above the world market price as a result of the import duty (which is collected from consumers). In contrast, consumer rice prices in Senegal are 35% higher than the world market price. Senegal's policy is designed to stimulate increased domestic cereals production and to encourage consumers to shift to cheaper, domestically produced coarse grains by manipulating the price of competing imported rice. Thus, rice is sold in Senegal at about D1,200/ton and in The Gambia at D1,100/ton. This price differential is the basic reason for Gambian rice being sold in Senegal. According to the FAO, the amount may have been as high as 15,000 to 20,000 tons in 1983/84 -- about 20% of total consumption in The Gambia and equal to the amount of food aid The Gambia received that year. Unless The Gambia increases the consumer price of rice, Gambian rice will continue to be sold across the border in Senegal, and shortages will occur in Banjul. Conversely, if The Gambia increases the consumer price of rice, then, as in Senegal, demand is likely to shift from rice to coarse grains.

Thus, a policy of keeping consumer rice prices in The Gambia above world market prices seems appropriate in order to:

-- stimulate consumer demand for, and domestic production of, rice substitutes (that is, coarse grains); and

-- match the Senegalese consumer rice price to assure that Gambian rice (including possibly Section 206 rice) is not sold in Senegal.

Producer price levels for coarse grains are already generally higher than producer prices for cash crops, and this may suggest that coarse grains production will increase not only at the expense of upland rice production, but also at the expense of groundnut production. If so, it is likely to be a matter of degree. That is, if the government does <u>not</u> try to stimulate

groundnut production, coarse grains output, rather than growing at 6% per year, could grow even faster. On the other hand, if the government does try to stimulate groundnut production (which is implied by a reduction in the export tax on groundnuts), this would have a dampening effect on coarse grains production. The FAO believes that growth of coarse grains production of about 6% per year can continue without displacement of groundnut production through expansion of upland areas under cultivation.

Over time, as domestic production of coarse grains increases, the volume of imported rice (including rice provided concessionally) will decline. However, government revenues need not decline if they are offset by increased duty levels. That is, a higher import duty levied on a lower volume of rice imports will permit the government to maintain its revenue position.

Rice Distribution Policy. Marketing infrastructure in The Gambia is fairly effective in physically distributing groundnuts, cereals and other crops -- but the system is not always cost-effective. Costs for marketing crops in which the public sector has a monopoly (groundnuts and rice) have increased much more rapidly than marketing costs for coarse grains where a competitive private sector exists. A policy of economic pricing would enable the government to eliminate the present GPMB monopoly on rice importation and allow efficient private traders to handle rice imports and distribution along with other imported commodities such as sugar. Since private traders operate in a competitive market, increased efficiency of rice importation and distribution would result.8/

According to the FAO, there are grain wholesalers in The Gambia who can handle local and inter-regional wholesaling operations and whose costs of operations are lower than those of the GPMB: 12%-20% as compared to 36%. If allowed to do so, they could effectively participate in rice distribution, charging margins for rice marketing similar to those for coarse grains marketing.

The marketing infrastructure needed for imported rice is

8/ Under a system of price deregulation, the GPMB could still, if it chose, maintain a food security stock of rice that could be released if prices were driven "too" high. (A rice stock may be particularly important in The Gambia which has the highest per capita rice consumption in the Sahel.)

exactly the same as that used for domestically produced rice, according to the FAO Rice Industry Study. Therefore, if the private sector were allowed to market one commodity, it could easily be allowed to market the other. However, the import duty on imported rice would pose a problem to private traders who want to re-export the rice and market it in other countries.

Fertilizer Pricing Policy. Fertilizer consumption, like rice consumption, is subsidized, and the GPMB incurs the loss. Table 13 shows the cost price structure for fertilizer in 1983/84.

TABLE 13.--Cost Price Structure for Fertilizer (SSP), (D/ton), 1983/84

CIF Value of Fertlizer, Banjul	484
Handling, Transport and Other Intermediate Costs (included in CIF Price)	--
Total Cost at GPMB Depot	484
Official Retailers' Margin	20
Cost at Secco (Cooperative)	504
Official Retail Price	213
Loss to GPMB	(291)
Official Price as % of Cost at Secco	42%

Source: FAO Draft Report. A subsidy similar to that provided for SSP (single super phosphate), the recommended fertilizer for groundnuts, is provided for compound fertlizer and urea.

Fertilizer subsidies averaged around 70% of their economic cost between 1974/75 and 1983/84. Although Table 13 shows that the subsidy for SSP was only 58% of cost in 1983/84, this was calculated on the basis of the then recently devalued dalasi and did not reflect the higher nutrient content of the fertilizer that was imported that year.

The government intends to abolilsh fertilizer subsidies gradually, according to the schedule set forth in Table 14.

TABLE 14.--Proposed Schedule for Removing Fertilizer Subsidy, D/ton

Type of Fertilizer	1982/83	1983/84	1984/85	1985/86
SSP	160	213	217	320
All Compounds	200	267	333	400
Urea	250	333	415	497

Source: FAO Draft Report.

Fertilizer prices should be increased gradually, rather than rapidly, to help assure that agricultural production does not decline precipitously. In addition, fertilizer price increases should be implemented in conjunction with: (a) producer price increases; and (b) adequate agricultural credit to finance the higher cost of the fertilizer.

Input prices (including fertilizer prices) should not be regulated to promote the production of certain crops relative to other crops, primarily because the private sector invariabaly performs this function more efficiently. Instead, producer prices can be regulated to achieve this objective. This approach is consistent with AID policy on "Pricing and Subsidies".

In Senegal, fertilizer is about 2.5 to 3 times more expensive than in The Gambia because Senegal no longer subsidizes it. Thus, until the Gambian subsidy is removed, there may be substantial transshipments of Gambian fertilizer, like Gambian rice, into Senegal to capture the higher price. The result is:

-- inadequate fertilizer application in The Gambia; and

-- the use of scarce public foreign exchange to subsidize Senegalese farmers.

Fertilizer Distribution Policy. Total consumption of fertilizer (including exports to Senegal) is about 60% below recommended application rates; that is, 12,300 tons rather than 30,000 tons in 1983/84. This is due to:

-- limited purchasing power of farmers; and

-- imperfections in the fertilizer distribution system.

Although fertilizer arrives in the country on time, the GPMB is busy handling the groundnut harvest and does not take the time to reload empty river lighters and trucks to transport loss-incurring fertilizer up-country. The result is:

-- Fertilizer arrives late at the seccos (primary cooperative societies).

-- Its distribution is more expensive because separate transportation must be arranged.

-- Many farmers are excluded (specifically, those who are not members of seccos, which includes all women farmers).

-- The effective demand among the various seccos (of which there are 81) is not known, so fertilizer does not move from surplus to deficit areas.

All economic studies, according to the World Bank, indicate a positive benefit/cost ratio to farmers for fertilizer application at economic prices for both inputs and outputs (crops). In addition to eliminating all fertilizer subsidies and making corresponding adjustments in producer prices, The Gambia should permit the private sector to import, distribute, and handle fertilizer, as it does with sugar, and as we have proposed that it do with rice. In this way, the private sector would supplement or replace not only the GPMB as the sole source of fertilizer that is imported into The Gambia, but also the Gambia Cooperative Union as the sole source of fertilizer at the cooperative level. Although the private sector invariably performs the function of input supply more efficiently than the public sector, the use of private traders was abolished by the government in 1981/82, ostensibly because the "private sector was making large profits from subsidized goods." But since margins were fixed and the volume was small for each trader, the logic supporting this argument is unclear.

III. ALLOCATION OF LOCAL CURRENCY GENERATIONS

The proposed Section 206 program will generate local currency which can be allocated to: (a) handle and distribute the food that is provided under the program; and/or (b) support activities that will help reduce the need for food aid in the future.

A. Summary

Activities that may require local currency as well as meet the second objective of Section 206 programs noted above, and therefore, which warrant further examination, are as follows:

-- recapitalization of the GPMB price stabilization fund for groundnuts, discussed in greater depth below;

-- maintenance and rehabilitation of existing agricultural infrastructure, including river transport (ferry boats, wharves, lighters) and rural roads that are used to transport fertilizer to the farmer and groundnuts to the GPMB;

-- recurrent costs associated with on-going or planned AID projects in the agriculture sector;

-- key line items of the government's Public Investment Program;

-- production credit, the demand for which will increase as the fertilizer subsidy is reduced; however, The Gambia Cooperative Union is apparently not a financially viable entity, and in any event, it is already being assisted under the ADP II project supported by IDA and IFAD;

-- reduction in the number of civil service employees in the Ministry of Agriculture and Natural Resources;

-- non-salary recurrent costs of the Ministry of Agriculture and Natural Resources -- such as fuel and spare parts; vaccines; pesticides; and supplies for seed multiplication.

B. Recapitalization of the Price Stabilization Fund for Groundnuts

Local currency generated from the sale of food aid could be

used to help recapitalize the GPMB's price stabilization fund for groundnuts. Although there are potential problems associated with such a fund (as indicated in Section II.A.), there are also arguments in its favor. As the marketing board study points out: there is great debate among economists concerning the desirability of price stabilization.

Perhaps the most important benefit of price stabilization is that it reduces risk. As a result, producers know they will receive a guaranteed (floor) price even when world prices are low. In the absence of this guarantee, and in view of the extreme volatility of groundnut prices on the international market, many producers would presumably allocate less acreage to groundnut production. This would severely reduce The Gambia's foreign exchange earnings, which are highly dependent on groundnuts. Of course, when world groundnut prices were unusually high, the producer would not reap the benefit (except indirectly); instead, the windfall would accrue to the price stabilization fund.

When the GPMB announces a producer price for groundnuts, it must have adequate financial reserves (in the stabilization fund) to pay that price, even if world prices are lower than anticipated. In order to estimate how large the price stabilization fund needs to be to permit the GPMB to honor this commitment, the marketing board study used simulation analysis based on actual price data from 1975/76 to 1982/83. It provided two estimates: one based on the assumption that a downward price adjustment would be permitted by the GPMB, and the other based on the assumption that it would not be permitted. (Until 1983/84, the GPMB had never adjusted groundnut prices downward.) It also assumed that any upward price adjustment could be no greater than D50/ton (decorticated) in any given year. The simulation shows that D17.9 million was the most that would have been needed to pay producers the guaranteed price if downward price adjustments were not permitted, and D13.7 million would have been needed if downward price adjustments were permitted.

When this method is used to determine the appropriate size of a price stabilization fund, the choice of the base year is critical. For example, if the base year had been 1977/78 (rather than 1975/76), only two years later, then a D37 million price stabilization fund would have been needed (assuming downward price adjustments were permitted), since the fund would have lost over D37 million in five years.

Taking these and other factors into consideration, the study recommends that the appropriate size of a price stabilization fund for groundnuts in The Gambia is about D35 to D40 million,

or about $10 million. (This is about twice the amount of local currency likely to be generated during three years under the proposed Section 206 program.)

As noted above, however, this estimate assumes that the guaranteed producer price for groundnuts will not increase by more than D50/ton in any given year. In contrast, the GOTG recently announced a producer price of D980/ton for 1985/86, which is D360/ton above the 1984/85 price of D620/ton. This substantial price increase demonstrates that GOTG pricing policy is designed not just to achieve price stabilization; it is also designed (as it should be) to assure a maximum level of foreign exchange earnings, and this could not be achieved if a substantial portion of the Gambian groundnut crop were sold in Senegal as occurred in 1984/85. To the contrary, Gambian prices are normally established to be attractive to Senegalese groundnut farmers.

The GOTG should be able to pay groundnut producers the announced price if the world price is high, if the export tax on groundnuts is substantially reduced, if GPMB marketing costs are reasonably low -- or, if none of the above obtains -- if a price stabilization fund is in place.

If these conditions do not obtain, and if there is no stabilization fund in place, the government will need to borrow in order to pay groundnut producers the guaranteed price. Alternatively, if the stabilization fund is in place, but it is too small (for example, because world groundnut prices were lower than anticipated or because the support price was too high), then it would decapitalize rapidly. Producers would receive the support price (or close to it), but funds would not be available to support the price in the following year -- unless the GOTG allocated budgetary revenues to recapitalize the fund, or unless external resources from the donors were used for this purpose.

On the other hand, if an adequate size stabilization fund is in place, then the benefit will accrue not only to groundnut producers, but also to the overall economy in the form of additional foreign exchange needed to import essential commodities, including food.

To help assure that a price stabilization fund for groundnuts works, several principles would need to be enforced:

-- AID would need to approve the rules that triggered release of the funds; this implies an AID role in determining the producer price of groundnuts.

-- The fund would need to apply to groundnuts only, and not to cotton or palm oil.

-- The fund could not be used to pay off past debts incurred by the GPMB -- even if these debts were incurred to stabilize groundnut prices.

-- The GOTG could not borrow from the fund to finance its deficit.

The case in favor of using local currency generations for the price stabilization fund would need to rest on several determinations:

-- There are no better (more beneficial) alternatives in The Gambia for using local currency -- which may, in fact, be the case.

-- The potential costs associated with a substantial decline in groundnut production (reduced foreign exchange and more severe balance of payments difficulties) are far greater than the risks associated with decapitalization of the fund.

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June 1985
Banjul, The Gambia

SUMMARY OF "AN ECONOMIC AND OPERATIONS ANALYSIS OF THE GAMBIA PRODUCE MARKETING BOARD", MAY, 1985*

The recent USAID-funded study of the Gambia Produce Marketing Board (GPMB) describes GPMB as "the most important economic and financial organization in The Gambia" because of the wide range of services it provides and the revenue it generates. GPMB is involved in all aspects of groundnut production, supplying seed and fertilizer to farmers through its agents and then buying, processing and marketing groundnut products. GPMB also has handled rice imports and sales, and it buys and processes domestic rice, cotton, palm kernels, lime, and maize. GPMB is a major source of public revenue, employment and foreign exchange. At present, however, its financial position has become so strained, and the impact of this strain on agricultural production and marketing as well as macroeconomic variables has become so significant, that any improvement in the agricultural sector and macro indicators is dependent on resolution of GPMB's finances.

The principal objectives of GPMB, as contained in the revised GPMB Act of 1973 and GOTG public policy statements, are: (i) efficient marketing and production of agricultural produce and related products; (ii) produce price stabilization; and (iii) provision of resources to meet government fiscal objectives. Historically, the GPMB met the first two objectives but within the past decade its purpose has been skewed towards the third objective and this has adversely affected the ability of the GPMB to operate on a commercially viable basis and thereby fulfill its other objectives.

In the late 1950s and most of the 1960s, GPMB earned trading surpluses by maintaining relatively stable farmgate prices in the face of rising world commodity prices and domestic crop production. This ultimately resulted in the accumulation of significant price stabilization reserves (54.7 M Dalasis) and general reserves (46.9 M Dalasis) at the Central Bank by 1977. But, on the negative side, it increased the taxation of farmers and reduced rural capital accumulation with consequent effects on future production and exports.

Beginning in the early 1970s, the pace of Government-directed development picked up along with programs aimed at indigenization of the economy. The scope and objectives of important institutions like GPMB and the Central Bank were restructured to conform with government development plans and to take up activities that had been performed by the departing expatriate merchant firms. In addition, both Government and donor agencies promulgated a multitude of development projects; Government ordered a series of welfare

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*Copies of the study are available from AFR/PD/SWAP

101

programs such as rice, fertilizer, and cooking oil subsidies; and the public sector was expanded, including the number of parapublic agencies engaged in economic activities. All these efforts required resources and Government increasingly turned to GPMB during the 1970s for fiscal support. GPMB management in most cases acceded to Government requests; at times the Board's Director was intimately involved in planning new programs for use of Board resources. As a result, the Board was rapidly decapitalized -- its accumulated reserves were depleted in a matter of 5 years. By 1979, GPMB's liquid price stabilization reserves were nil. At the same time, the Board was encouraged to take on a host of public service commitments (peripheral and noncommercial activities) which implied extra costs or revenue losses such as rice and fertilizer imports, new production ventures like soap, animal feed, lime processing, and distribution of food aid to name a few. (See Attachment 2 below.)

These peripheral activities had a significant impact on Board management and operations. GPMB's management was now faced with an inter-linked array of essential and peripheral tasks mandated by the broader goals of government policy. In addition, a lack of agreement developed between Government and the Board about what GPMB's primary objectives really were and how these objectives should be weighted in importance. As a result, GPMB's goals and objectives became progressively diffused. This affected the ability of managers to plan and set organizational objectives and reduced the motivation of employees who did not have clear and appropriate goals to achieve. It also substantially reduced the Government's ability to judge the net gain or loss to society from GPMB's operations and thus its ability to formulate optimal public policy.

Shortly after the Board's reserves were depleted and during the period when costs and revenue losses were rising due to increasing public service commitments, GPMB was forced to step up its countercyclical pricing activities. In 1982, as part of its Standby-Agreement with the IMF, the GOTG was forced to raise its producer prices. Thereafter, as prices fell dramatically on international markets, GPMB had to pay subsidies to maintain farmgate prices on groundnuts to conform to the Government-directed price stabilization policy. Without reserves for this purpose the Board had to borrow heavily from the Central Bank. This debt, along with additional borrowing to maintain its public service commitments (payment of subsidies, purchase of government loan stock, etc.) were what eroded GPMB's financial position. These debts also significantly raised interest costs, further decapitalizing the Board. And as GPMB's financial position spiraled downward, so did that of the Gambia River Transport Company (GRT). GRT was already extending to GPMB a subsidy on shipping rates and this subsidy grew as the Board had no funds to increase the freight rates of its subsidiary company to more equitable levels. This decapitalized GRT, eliminating sorely needed replacement investment, and reduced its ability to expeditiously evacuate groundnuts from up-country locations. One of the most important implications of late evacuation has been increasing aflatoxin levels in groundnuts, which reduces the value of groundnut products (and at times precludes their sale).

102

GPMB's borrowing also had macroeconomic repercussions. An increase in domestic credit on the order of that extended to GPMB in the period from 1979 to 1983 (85 million Dalasis, about 52 percent of new domestic credit during that time) increased domestic inflation and, to a larger extent, produced a deterioration in the balance of payments, particularly in an open economy like The Gambia.

Analysis of GPMB's operational efficiency based on its ability to control real costs indicates that the Board has performed reasonably well. GPMB's operating costs have not been excessive based upon a historical view of real cost trends when fluctuations in volume are taken into consideration. However, the oil mill has lost money every year since 1973/74. This is revealed when transfer prices in the oil and cake account are assessed as world prices rather than farmgate prices.[1] The reason is that the oil mill is technologically out of date. A study is needed to determine the feasibility of adopting the more technologically advanced solvent extraction process.

Part of GPMB's role as a fiscal agent has been to pay the costs of government-directed public service commitments (peripheral activities). Subsidies on imported and domestic rice, fertilizers, and domestic groundnut oil sales along with the cost of operating unprofitable rice, lime, soap, and poultry feed (maize) processing plants have been only a few of the major financial burdens shouldered by the Board in the 1970s and early 1980s. This study recommends that GPMB's essential and peripheral activities be separated in order that all the costs and revenue losses that GPMB incurs in pursuit of public service objectives be accounted for and reimbursed (or in other words transferred to the government budget). GPMB should concentrate on the objective of groundnut marketing and production efficiency. To do this effectively, groundnut and public service costs and benefits must be separated and accounted for.

The GPMB study concludes that Government-GPMB relations could be enhanced by the process of timely negotiations to draft an operating arrangement called a performance agreement. Under such an agreement Government would pledge to allow GPMB autonomy to manage its commercial operations free of interference, reimburse it for expenses incurred on behalf of public service commitments, and continue the Board's access to Central Bank financing at negotiated levels. In exchange, GPMB would accept negotiated performance targets and pledge to pay a dividend on public capital invested in its operation.

The OAR/Banjul mission feels that there are activities now under the control of GPMB which might be more effectively handled by the private sector -- distribution of rice, fertilizer, and groundnut seeds, for example. However, the issue of divestiture should be

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[1]World prices are the opportunity cost of using groundnuts in the oil mill versus exporting them decorticated, not farmgate prices.

approached carefully -- the private sector in The Gambia is small and undercapitalized. A beginning has been made to reduce restrictions preventing private businesses from distributing rice and fertilizer, and studies are underway concerning privatization of the groundnut seeds trade. In this way, a slow shift in responsibility can be effected allowing the private sector to become gradually more involved. Previous experience with GPMB's soap and lime operations indicates that rapid divestiture is not effective. A second possibility for divestiture is the produce depots that buy and handle the groundnut crop. These could be taken over by the Gambia Cooperative Union (GCU) or private merchants and the collection of groundnuts left to GCU and the private sector. Private traders should be encouraged through access to credit, licenses and equitable buying agents' allowances to participate more actively in the groundnut trade. The GCU should not be given a monopsony in groundnut buying in the future. A competitive balance between GCU and the private sector will help maintain the efficiency of both.

Attachment 1: The GPMB's Divestiture Experience

A. GPMB's Past Problems With Privatization

In 1983/1984, GPMB moved out of three enterprises: lime processing, soap manufacturing, and feed manufacturing. In each case the GPMB had entered into the operation at the behest of Government as part of the official development effort. The following is a brief description of the process that GPMB had to go through to divest these activities.

1. Soap Operations

The soap making assets (a large cooker, a cutting table and a building) were included as part of the deal when a groundnut oil mill was purchased from Tufick Massory. GPMB and its board of directors were not interested in manufacturing soap but the Government urged them to accept the soap making facility as a development effort. Soap manufacturing was started immediately but the project was not up to standards. (Soap processing used inputs from the oil mill.) Additional inputs were required to improve the soap's quality. Palm oil, caustic soda and solidified free fatty acid had to be imported, raising the foreign exchange costs of the operation.

A Swiss group proposed a joint venture with GPMB to modernize the plant's equipment. But because of concern over excessive non-Gambian control, the Board decided that GPMB would upgrade the soap manufacturing facilities without the Swiss. During this time it was discovered that a private investor was working with the Ministry of Economic Planning and Industrial Development (MEPID) to establish a soap manufacturing firm and, in fact, construction was well underway. When the GPMB Board of Directors approached the businessman with a proposal for a joint venture, he rejected the idea. After the Board learned that the private plant being constructed met the technological requirements of its own plans for

upgrading its facilities, a decision was made by GPMB to close its plant and to withdraw from soap production. An agreement was then made between the GPMB and the private investor whereby GPMB would provide the private investor with inputs for soap manufacturing from the GPMB remaining inventories. The GPMB still retains ownership of a now defunct soap-processing facility.

2. Lime Processing

Initially a private firm, Edgar Massray, processed lime for juice, peal for pectin, and cassava for starch. To keep this private firm in business the Government compelled GPMB to invest in the company. In 1979 the operation went bankrupt despite GPMB's capital but the Government insisted that the GPMB keep the company in business as a subsidiary.

A British organization, the Commonwealth Development Corporation, did a feasibility study and proposed a joint venture between Commercial Development Corporation (CDC), GPMB, Gambian Commercial Development Bank (GCDB), and the Government. The proposal included a management contract between CDC and the GPMB with CDC owning 25 percent of the business. The CDC had also identified a buyer and they insisted upon selling all production to that buyer. The GPMB found this proposal to be excessively stringent.

In response during 1982 the GPMB donated the plant's assets to the new company, Citroproducts, in return for a 40 percent share of ownership. Other Gambian parastatals became owners too; Gambia National Investment Corporation (GNIC) (25 percent), GCDB (25 percent), and the State Pension Board (10 percent). The intent was to improve operations and eventually attract private investors to buy some of GPMB's 40 percent share. As of late 1985, however, no private investor has been found.

Citroproducts needs major plant upgrading. It can produce only single strength lime juice. Yet buyers who previously purchased single strength juice have converted to buying concentrate. Consequently, Citroproducts will have difficulty finding markets until it modernizes and produces concentrate.

3. The Feed Mill

The Government decided to promote poultry farming and, as a part of that effort,it opened a poultry feed mill. When the GOTG Animal Husbandry Department was unable to run the feed mill successfully, GPMB was given control. The EEC donated the original mill after an Israeli group's analysis found the mill to be economically feasible. Yellow maize was brought in from the U.S. and propagated in order to supply the mill.

GPMB's feeds have suffered from a low quality image. Poultry farmers tend to prefer Senegalese food. One of the problems has been that GPMB used groundnut cake as a major input and of late its cake has had high levels of aflatoxin. (Excessive aflatoxin in

poultry diets is reported to reduce egg production markedly.) Consequently, GPMB has had a difficult time selling its product. Money was lost each year the feed mill was in operation.

The original intent with the food mill, as with the lime and soap operation, was for GPMB to show the feasibility of the enterprise and then pass it on to the private sector. However, the mill was put up for sale while it was still a losing venture. the mill's assets were valued at 48,000 Dalasis and initially the highest bidder offered that amount. The other four bids only ranged from 2,000 to 6,500 Dalasis. Unfortunately, the highest bidder was not able to complete payment. A new request for tenders should be forthcoming in 1986. In the meantime the mill has not operated since 1983 and so it is losing value.

B. Summary

In each of the three ventures GPMB acted as the Government's representative in a development effort. As with subsidies and grants, losses in these enterprises were absorbed by Gambian farmers by reductions in producer prices and increases in taxation. These cases are another example of where GPMB's commercial and public purposes are not distinct. The solution is to keep them separate by either having the Government pay GPMB for the losses it incurs for performing public service or by having another organization handle the public objective. In this case the National Investment Board (NIB) is ready to take on that role. Future problems like those caused in lime, feed, and soap should not be allowed to recur.

The problem of identifying capable private investors remains as does the problem of finding government revenue to fund such efforts (in this case, for the NIB's budget). In the past GPMB has been the Government's only solution. Until such time that the GOTG can pay GPMB for operating such ventures, GPMB should be allowed to concentrate on its core activity: oilseeds marketing and processing. Neither the GOTG nor GPMB can afford to have GPMB acting in place of the NIB.

Attachment 2: THE FISCAL IMPACT OF GPMB
(million Dalasis)

	OC*	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	197
I Financial Flows from GPMB to Government and Public Sector													
A. TAXES:													
1. Export Tax and Import Duties		10.2	7.0	8.6	7.5	10.5	10.1	8.4	5.3	5.0	2.7	2.3	
2. Excise Tax		.9	.7	.5	.8	.7	—	.9	.7	.4	-.-	-.-	
3. Payroll Tax and Development	.09	.08	.06	.06	.09	.01	.03	.03	.03	-.-			
B. GRANTS TO GOVERNMENT:		-.-	.5	.5	2.2	9.6	9.3	12.5	3.6	3.5	2.9	1.6	
C. LENDING TO GOVERNMENT AND OTHER PUBLIC AGENCIES:**													
1. Gambian Government Loan for GOTG to purchase the assets of S. Madi Co. Ltd.[1]	12.0						6.2						
2. Gambian Government Loan for Civil Service Transport Allowances (1.0m Dal) and Civil Service Housing Allowances (2.0m Dal).[2]	14.0							3.0					
3. Cotton Project Costs incurred on behalf of GOTG; converted to a loan in 1983.[3]		2.9											
4. MANR Oxcart Loan[4]	1.0							.21					
5. Livestock Marketing	.4						.58						
6. GCU Loan[6]	10.0							2.0					

*OC=Opportunity Cost of the Loan to GPMB in 1983 Dalasis.
**OC is calculated for C1-C6 as 1 percent per annum (real rate).
C[1]GOTG loan was for 8 years at 6 percent nominal interest with a 3 year grace period for the principal only. To date no interest has been paid. Loan was for purchase of the old Atlantic Hotel and housing at 79 Wellington St., Banjul. The Hotel was transferred to the GPMB as payment of loan principal in 1982, at which time the property was appraised at 4.6 million Dalasis.

C[2]GOTG loan for 10 years at 6 percent nominal interest with a 4 year grace period for the principal only. To date no interest or principal have been paid. GOTG claims it has no record of this loan.

C[3]Includes 1.5m Dalasis cost over-runs for the Ginnery and 1.43m Dalasis on fertilizers, pesticides, etc.. GPMB converted it to a loan on its books in 1983 but the GOTG has not yet concurred with this arrangement.

C[4]Made at 6 percent nominal interest, the loan was written off by GPMB in 1981 because of lack of payment.

C[5]Made at nominal interest rate of 5 percent; principal was not repaid until 1981, and no interest was ever paid.

C[6]Made for 8 years at 6 percent nominal interest rate with 3 year grace period for interest. Loan was converted into a grant to the GOTG at Government request in 1979.

D. INVESTMENTS MADE TO BENEFIT THE PUBLIC SECTOR:*

	OC*	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
1. Gambia Commercial & Development Bank[1]	1.0	.17						.06					0.5
2. Gambia National Trading Corporation[2]	3.0	.23	.44					.12				.06	
3. Gambia Government Loan stock[3]											.50		
4. Gambia Government Loan Stock[4]									2.0				
5. Gambia Commercial & Development Bank Bond[5]	1.5							.30					
6. Gambia Commercial & Development Bank Bonds[6]	8.0					2.0							
7. Agricultural Development Bank[7]	.24		.10										

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*OC is valued at a real rate of 5 percent per annum for public funds

D[1]1972=10,000 shares at 5 Dalasis each; 1979: 11,000 shares at 5 Dalasis each; and 1983: 34,000 shares at same price.

D[2]shares purchased for 1 Dalasis each in 1973 (60,000 shares); 1977 (120,000 shares); 1982 (443,529); and 1983 (235,295)

D[3]Stock paying 7.5 percent interest per annum, due to mature in 1977/78.

D[4]Stock paying 8.0 percent interest; due to mature in 1983, it was sold in 1981.

D[5]Bond paying 5.0 percent interest.

D[6]Bonds paying 6.0 percent interest.

D[7]Shares bought (100,000) at 1 Dalasis each.

	OC*	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
E. EXPENSES AND REVENUE LOSSES ARISING FROM PURSUIT OF NONCOMMERCIAL OBJECTIVES:													
1. Subsidies paid on Government's behalf on rice, fertilizer, and local groundnut oil sales		5.5	7.2	10.3	4.3	1.6	2.7	2.4	.8	3.8	4.4	1.3	
2. Bank interest charges incurred to meet producer price stabilization, subsidy, and other noncommercial activities required by Government [1]		6.9	3.6	2.6									
3. Interest on overdrafts at Charter Bank UK (L5m) on 3 occasions) to provide bridging finance for the Central Bank		(+)											
4. Food Aid Distribution Costs		.6											
5. Credit extended in kind to GCU and Dept. of Agriculture for fertilizer and seednuts but not repaid		5.9	6	8.5									
6 Employment (Oil Mill Losses)		5.8	4.3	1.5	.24	3.6	1.6						
F. BELOW-MARKET SUPPLY OF GOODS AND SERVICES TO GOVERNMENT:													
1. Forgone rent for use of old Atlantic Hotel by Senegalese Military		(+)											
II. Financial Flows from Government to GPMB													
A. INCREASES IN ARREARS OF TAX PAYMENTS:													
1. Payroll Tax and Development Levy		.12	.12	.12	.06	-.-							
2. Export Tax and Import Duties[2]		21.4	14.2	9.3	2.7	-.-							

	OC*	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
B. TAX SUBSIDIES:													
1. Conventional Tax Subsidy[3]		1.1	-.-	-.-	-.-	-.-	.11	8.7	1.2	9.1	16.2	2.7	
C. EXPLICIT AND IMPLICIT FLOWS FROM OTHER PUBLIC AGENCIES TO GPMB:													
1. GRT rates as an implicit subsidy on River Transport of produce[4]		1.9	1.1	.39	.65	1.0	-.-						
D. CAPITAL SUBSIDY--PROVISION OF BANK CREDIT TO GPMB AT LESS THAN THE OPPORTUNITY COST OF PUBLIC FUNDS		(+)											
E. UNREQUIRED TRANSFERS TO GPMB;													
1. STABEX Funds from EEC			2.0										

[1]The bank interest charges applicable to price stabilization will be the cost of borrowing the funds required each year.(E2).

[2]GPMB paid D12m of these arrears in 1984. (II,A2).

[3]Corporate tax rate is 50% of net profit. In 1983 corporations also were subject to a minimum 2% tax on turnover. (II,B1).

[4]Subsidy on freight rates to GPMB is estimated at 78 percent from 1980 to 1983, being lower in earlier years: 51 percent in 1978/79, 41 percent in 1977/78, and 28 percent in 1976/77; as a function of GRT's cost structure relative to the appropriate freight rate charged.

Attachment 3: Marketing Process Analysis

A. The Historical Background

The current nature and status of the marketing system, as well as the way in which the system operates, arise from the structure of the Gambian economy at independence and the manner in which it was indigenized following independence. During the early 1960s the GPMB was a control board and export agent with monopoly power over the export of groundnuts, oil palm, and other agricultural produce. European trading firms and their agents purchased groundnuts from farmers and sold farmers agricultural inputs. Lebanese merchants were responsible for processing groundnuts and groundnut products. Thus, the GPMB was an export-marketing agency charged with operating on commercial principles while acting on the behalf of producers to provide price stabilization. A currency board regulated the supply of money consistent with the needs of commerce.

Following independence in 1965, many European and Lebanese trading firms, for different reasons in different cases, departed the scene. The GPMB became the only purchaser and processor of groundnuts and groundnut products. It was authorized to appoint buying agents - either private buyers or buyers from the newly-established Gambia Cooperative Union (GCU) and its member cooperatives (seccos), and it took over depots and transport facilities. The GPMB was authorized to fix the trading margin for private buyers and the cooperatives. Its purpose continued to be exporting cash crops. The cereals trade, primarily maize, millet, sorghum and paddy rice, has remained in the hands of petty traders.

Coincident with further indigenization of the Gambian economy and the onset of ambitious development programs in the early 1970s, the GPMB became engaged in additional activities which encompassed departures from commercial principles, from its original focus on the bulk export of farm produce, and from its agricultural price stabilization role. These activities included: (i) investments in a range of static properties and subsidiary enterprises; (ii) assumption of the role of fiscal agent for the Government; and (iii) engagement in governmental social welfare activities. Major investments in new productive ventures and unrelated properties included soap, animal feed, lime processing, river transport, rice milling, cotton ginning, and the old Atlantic Hotel. As fiscal agent for the Government, GPMB was charged with collecting the export taxes on groundnuts and the import taxes on rice, with making loans and grants to Government, and investing in other public enterprises such as the Gambia Commercial and Development Bank (GCDB). Public service and welfare activities included importing and subsidizing the below-cost sales of rice and fertilizer, transporting donor-provided food aid, and providing transport services for produce.

B. The Marketing Process

With these adjustments in structure and operations made over the years, the marketing of inputs and produce currently is

carried out as follows:

1. Prices: Prices for the coming season are announced prior to planting time based on the Government's estimate of world prices and Senegalese prices. The price is adjusted by the Cabinet just prior to the marketing season and then again during the season in reaction to events.

2. Fertilizer: Fertilizer needs for the coming season are calculated by the Ministry of Agriculture following the previous harvest. Then the GPMB orders supplies from the best available source. Some of the fertilizer which the GPMB buys is turned over to the GCU for delivery by truck up-country and for sale from their seccos. The remainder is shipped by river lighters to the GPMB's up-country stores where it also is turned over to the GCU for sale from their seccos. As part of its ERP, the Government has decontrolled fertilizer prices and opened the trade to private merchants. The system for executing this, however, has not yet been established.

3. Seed: Roughly half of the seed used by farmers is stored by them either on their own compounds or in communal seed stores. The other half is reserved by the GPMB from its groundnut purchases; then it is chemically treated and sent back up-country for sale in the same manner as fertilizer.

4. Pesticides: These are handled much the same as fertilizer. However, farmers can also request the Crop Protection Service to conduct protection campaigns in their locales.

5. Harvests: About eighty percent of the groundnut crop is sold to the eighty-two cooperative seccos of the GCU; the other twenty percent of the crop is sold to the twenty-six licensed private buyers. Both GCU and the private buyers are charged with screening and weighing the groundnuts, paying farmers, and transporting the crop to government depots where the nuts are screened and weighed again. Then the GPMB pays the buyers. Finally, the nuts are taken to GPMB's plant in Banjul, via the GPMB river lighter fleet and GPMB trucks.

6. Processing: The GPMB decides what percentage of groundnuts to sell as decorticated nuts, as hand-picked and selected (HPS) confectionary nuts, and as oil and cake, depending on comparative world prices, the quality and quantity of nuts available, and the desire to use its facilities. Groundnuts are then processed and shipped abroad.

C. Problems Encountered in the Marketing Process

Because of the increased range of GPMB activities and its deepening financial crisis, there are chronic problems at every stage of the process that have become more severe in recent years. These are:

1. Prices: The GPMB'S financial position means that it cannot support prices proportionate with world market prices. Furthermore, the pricing apparatus, involving different bureaucratic layers in the GPMB and the Government, does not allow for quick adjustment to meet changing market conditions and prices. This results in farmers turning to inherently less economic crops, to processing oil in their villages, to selling groundnuts across the border, and in margins too low to keep many private traders, who are inherently more efficient than the cooperatives, in business.

2. Fertilizer: Often the wrong kinds and amounts are obtained and delivered by GPMB; and it is delivered late and to the wrong locations. Fertilizer is sold on credit which cannot be sustained because of the poor repayment record of most seccos; and it is sold across the border because of the relatively low prices in The Gambia.

3. Seed: Expatriate experts judge the quality of seed to be acceptable. Farmer surveys indicate that there is a shortage of supply to meet the expressed demand. This shortage is the result of three factors. First, farmers lack either the cash or the storage capacity, or both, to hold back enough seed for themselves. Second, the GPMB does not do a technically adequate or timely job of selecting, treating, and delivering seeds. Third, seed is subject to loss across the border because of price differentials

4. Pesticides: The crop suffers because the GCU supplies are inadequate and because the Crop Protection Service does not move expeditiously to conduct mass pesticide campaigns.

5. Purchasing the Harvest: Farmers believe that cooperatives under-weigh their groundnuts and that private buyers are more fair. Groundnuts are rescreened at GPMB and its screens are smaller than the buyers' screens which effectively reduces the buyers' margins, too. Transport is decrepit and late, resulting in crop damage. The limited amount of credit available to private traders under the imprest system adds to trading costs and delays in bringing in the crop. All of these factors add to the losses over the border and to additional losses caused by aflotoxin damage, because the groundnuts are processed later in the season than they should be.

6. Processing: Decorticated groundnuts are economically viable with reasonable labor and operating costs; but recent low volumes and low world prices are reducing their profitability. HPS nuts suffer net losses because of low volume and because late season processing means excessive aflotoxin damage. Oil processing has not been profitable for the last several years because of low volume, low margins, and antiquated equipment. Shipping costs are kept too low to allow for the maintenance and replacement of wharves, lighters and other equipment. Administrative decisions also tend to come too late and administrative costs are rising.

D. Core Problems:

The problems encountered at each step of the marketing process can be traced back to a small number of policy decisions that govern

the way the private buyers, the cooperatives, and the GPMB operate and the terms under which they cooperate. These are as follows:

1. Private buyers can offer their services more economically than can the cooperative seccos but they are limited by considerations of marketing volume, limits on the amount of credit available to them, and high interest rates. That is, the Central Bank charges 15 percent interest for crop financing, and this is re-discounted to traders at 17 percent. Criteria for obtaining these loans are stringent and this year several candidates who applied were refused. Assuming one is approved for a loan, the trader then operates on a strict imprest system. The average sum advanced during the 1985/86 marketing season would allow a trader to buy an amount of nuts which is below what he could buy in a week's time at the height of the trading season. Furthermore some traders complain that occasionally there is a delay of several days between the time of transit and the crediting of their account at the bank so that they can continue to buy additional nuts.

2. The cooperatives offer access to inputs on credit but their loan recovery rate is low (below 40 percent) and, because of high administrative and overhead costs, they operate at a loss. The cooperatives draw on a line of credit through GCU at the GCDB to finance these losses but even GCU's own loan recovery rate from its seccos and its own repayment rate to GCDB, are quite low. Furthermore, the coops enjoy several subsidized institutional advantages (some trucks from donors, construction of facilities, and forgiveness of debts), which allow them to keep an economically disproportionate share of the trade even while operating at a loss.

3. The GPMB combination of loans and contributions to the Government (18 million Dalasis in the late 1970s) that remain unpaid, the assumption of the operations of unprofitable enterprises (losses of .5 to 1.0 million Dalasis annually in the early 1980s), and the subsidization of rice and fertilizer trade (annual losses of 15 to 20 million Dalasis in the early 1980s), have decapitalized the GPMB and outstripped its management and operations capability. Consequently, the GPMB has lost its ability to pay economic prices and to perform its core operations effectively. This in turn has contributed to reductions in processing volume which further adds to losses as reflected in sales return to capital and the percent of capacity utilization rates which are too low to sustain any operations in the trading centers other than decorticated groundnuts.

4. A final problem detracting from overall agricultural production has been the sale of fertilizer and other inputs on credit only through the GCU or through subsidized projects such as the Jahally-Pacharr rice scheme and the cotton schemes in the Upper River Division of The Gambia. One provision of this approach is that all output must be marketed through the organization providing the credit. This means that credit and inputs are not as freely available for use on coarse grains which are highly economic crops, according to data from several independent sources.

The Marketing Reform Agenda

The aim of recommendations regarding changes in the domestic marketing system would be to increase production through greater marketing efficiency. The means for doing this would be centered in three areas:

1. Encouraging more private traders to enter the system. This would increase the number of marketing channels open to farmers, resulting in higher producer prices and better services.

2. Encouraging a more efficient allocation of resources. This would be done by structuring the system to encourage all traders to minimize their costs. GCU currently has no incentive to minimize its costs because its deficits are essentially underwritten by the government. This leads to an inefficient allocation of resources to the extent that additional marketing of groundnuts could be carried out at a lower cost by private traders than is currently the case with the GCU.

3. Returning the use of marketing resources, i.e. capital, management and labor, to the promotion of efficient marketing and processing of farm produce for export. This would be done by rationalizing the GPMB's accounts, removing it from its public services role, and divesting it of its peripheral enterprises, as noted in the main text of this annex and previous attachments.

Encouragement of privatization and a more efficient allocation of the resources involved in delivering inputs to farmers and collecting their produce requires addressing several key issues. These are: (i) ending GCU's monopoly over the distribution of fertilizer and other inputs; (ii) allowing traders to deal in seed nuts; (iii) making adjustments for liquidity restraints; and (iv) arriving at an appropriate trading commission.

Restoring the capital, labor, transport and processing facilities so that the efficient marketing, processing, and export of farm produce can be achieved requires several steps and measures. These include: (i) creating or reviving Government means to carry out public service functions. This involves altering the tax structure and collection procedures (which is now underway as part of the USAID-funded EFPA project), and returning the distribution of free rice to the Ministry of Lands and Local Government or transferring it to private entrepreneurs. (ii) Rationalizing GPMB's accounts; and (iii) divesting it of static investments and unproductive assets not related to its core operations, and divesting it of activities in which it does not have a comparative advantage.

MARKET AND CREDIT ANALYSES

As part of its efforts to stabilize the economy and launch the Economic Recovery Program, the Government of The Gambia has taken a number of steps to increase producer incentives and to reduce Government involvement in the marketing of agricultural inputs and outputs. The net impact of these policy changes on agricultural production, farmer income, and government revenue requires careful evaluation to determine whether these policies will achieve their intended effects, especially in the cases where policy changes work at cross purposes. For example, increasing the producer price of groundnuts is expected to stimulate groundnut production. This policy action may be undercut to some extent by the rise in fertilizer prices. The impact of higher fertilizer prices on fertilizer use is difficult to predict, given recent problems that Government has encountered in ensuring the timely distribution of fertilizer to farmers. Farmers may be prepared to pay a higher price for fertilizer if fertilizer use is still economic, provided they have the means to finance the purchase of fertilizer and can acquire it early in the season. Decontrolling the marketing of fertilizer may improve the timeliness of fertilizer distribution. However, in the absence of government credit programs, farmers will be forced to rely on their savings or turn to the informal credit market to finance fertilizer purchases. Thus, fertilizer use is likely to depend on the availability of credit in the informal market and the terms under which it is offered or on the ability and willingness of farmers to finance purchases through savings.

Changes in the price of food relative to groundnuts will also affect the level of groundnut production. The relative groundnut/food price depends not only on the groundnut producer price and the tariff rate on imported rice (policy variables controlled by Government), but also on the parallel market price of the Dalasi relative to the CFA. Food crops including groundnuts are traded across the border, with prices often quoted in CFA in Gambian markets. If the Dalasi continues to depreciate relative to the CFA, food prices will increase in Gambian markets. The net impact of these changes on cropping patterns is not clear.

How farmers respond to these policy changes will depend on the prices established in the informal credit, input, and commodity markets. The question is how rapidly these markets will adjust to policy changes and how efficiently they will perform their task of allocating resources to the most productive uses. The answer to this question is important from the standpoint of both macro and micro policy formulation. To provide the basis for monitoring the actual effects of policy changes and for recommending additional policy measures, information on the functioning of input and commodity markets and their impact on the allocation of resources at the farm level is required.

To this end, two sets of studies are proposed. The first study would provide information on the informal credit market, its role in financing input purchases, and its influence on labor allocation decisions. The study would also examine the extent to which farmers finance agricultural investments through their savings. The second study would focus on the marketing of major food crops, namely rice, millet, sorghum and maize, the impact of the cross-border trade on food prices in The Gambia, and the implications for agricultural production and food security. While the two studies are conceptually distinct, there are important complementarities between them at the level of information gathering, analysis and policy recommendations.

The purpose of these studies is to provide information and analysis that will directly support the PL 480 Title II Section 206 initiative which emphasizes specific policy reforms. These studies will also complement current OAR/Banjul projects: the EFPA Project and the GARD Project. The EFPA Project is conducting policy studies on a variety of topics. To trace out the macro implications of agricultural policy changes, information on the prices farmers face in informal markets and how they respond to those prices is needed on a timely basis. The EFPA Project has neither the resources nor the mandate to do the necessary field level investigations and in-depth analysis of agricultural data that would provide such information.

The proposed studies would be of use to the EFPA Project in the following ways. The credit and savings study would provide information on the extent of the informal credit market, prevailing interest rates, and the extent to which farmers are constrained through lack of access and/or high interest rates from borrowing on the informal market to finance inputs. Such information will help form policy decisions on interest rates and the imposition of credit ceilings and allocation, key variables targetted in the Economic Recovery Program.

The purpose of the marketing study is to determine the factors that influence the level of food prices in the Gambian economy. This would include not only an examination of the degree to which free entry into the marketing system is constrained through lack of credit or access to foreign exchange, but also the effect of the parallel exchange market on food crop prices. This information will lead to better estimates of how changes in the exchange rate and agricultural prices affect the level and composition of agricultural production and, therefore, permit better estimates of the fiscal implications of policy changes.

By focusing on the socioeconomic determinants of farm level productivity, the proposed studies should also provide information that will be of use to the GARD Project. A better appreciation of the credit constraints under which farmers operate and how they influence labor allocation and hiring decisions (the focus of the first study) will be useful in helping researchers to determine the particular crops and interventions on which the Project will focus. This information will also assist project personnel in determining

what kinds of complementary programs are needed to encourage farmer adoption of new technologies developed under the Project.

The study on price formation and marketing of food crops will provide farming systems researchers with greater insight into how changes in the relative prices between food crops and groundnuts affects the allocation of resources at the farm level and the profitability of the various interventions developed under the GARD Project. These studies will help the Project set research priorities and make better use of the limited resources it has available for socioeconomic analysis.

A. Informal Credit Market Study

Given the stringent credit ceiling imposed under the Economic Recovery Program, farmers' access to agricultural credit through government-sponsored credit programs is likely to be significantly reduced over the next few years. This implies that the informal credit market will play an increasingly important role in supplying farmers with credit to purchase inputs and farm implements and hire labor. Therefore, it is important for OAR/Banjul and the GOTG to know whether there is an active informal credit market; whether it is broad enough to serve farmers' needs; and whether it operates to increase the efficiency with which inputs and labor are allocated across production units. Farmers can also finance the purchase of inputs through savings, but the extent to which they do so is not known. If savings are an important source of financing for the purchase of agricultural inputs, then measures to increase rural savings rates would be important.

This study will examine how the informal credit market works, how it is linked to input, labor, and commodity markets, and how it influences the allocation of resources at the farm level. It will also investigate the extent to which purchases are financed through savings rather than credit. The following issues would be addressed:

1. Input supply

   a. Which farmers buy fertilizer and farm implements, at what price and for which crops?

   b. If fertilizer or machinery purchases are financed on credit, from whom is credit obtained (other farmers, traders) and on what terms? To what extent are purchases financed through savings? Are transactions in fertilizer or machinery linked to forward sales of crops? Does this influence the allocation of resources between crops?

   c. Because of differential access to credit within the household or because husbands and wives manage their incomes separately, is fertilizer employed at less than economic rates across crops or production units within the household? Similarly, are there different levels of mechanization on men's and women's fields with consequences for levels of productivity?

2. Labor allocation

a. Do the production patterns of farmers employing hired labor differ from those who do not employ hired labor?

b. What are the different types of hired labor employed and what are the terms of remuneration? Do farmers borrow money to hire labor? To what extent is labor remunerated after harvest? Do the terms under which labor is employed and patterns of labor allocation suggest that credit is a constraint to the efficient allocation of labor?

c. Who hires themselves out? Do they have farms of their own? Is there evidence that suggests they hire themselves out at a wage that is less than the returns to their labor on their own farm? If so, is it because they do not have access to credit to finance purchases of food during the hungry season?

3. Credit for consumption

a. How do farmers finance the purchase of food during the hungry season? Do they engage in forward selling of their crops to traders? What is the implicit interest rate?

4. Informal savings associations

a. Are there informal savings associations? Do they serve as a source of credit for agricultural production or primarily for consumption purposes? To what extent do farmers deposit their savings in banks or with other farmers or with traders?

B. Food Crop Pricing and Marketing Study

Recent policy decisions are expected to have an impact on food crop marketing and prices. Among the most important policy changes are the decontrolling of retail rice prices, liberalization of rice marketing, producer price increases and the imminent devaluation of the Dalasi. In addition, the cross border trade in food, the quantity of food aid supplied, the terms under which it enters the marketing system, and Senegalese pricing policies also affect the level of food prices in Gambian markets. The study will monitor trends in food prices to account for the impact of various policy measures on food prices and on food production. This information will be used in the formulation of macro and agricultural pricing and food security policies.

ECONOMIC AND FINANCIAL ANALYSES

An economic and financial analysis of this program indicates that the series of policy reforms which the Mission is supporting, in conjunction with recapitalization of the groundnut marketing system, will result in substantial economic and financial returns to the program investment. The Section 206 program will have a direct positive impact on food supplies, foreign exchange supply and demand, and the profits and liquidity of the marketing system, with an indirect positive impact on total agricultural output, the foreign exchange rate, domestic credit expansion, and GOTG efficiency in operations and maintenance expenditures and investments.

The financial costs USAID and the GOTG will incur can be specified reasonably accurately and the financial benefits can be estimated to a tolerable level of precision. A rough estimate of the total macroeconomic costs and benefits of the program is possible using econometric analysis that is based on the performance of the Gambian economy during the previous two decades. However, because by definition the policy initiatives are designed to induce macroeconomic change, it is difficult to predict precisely the macroeconomic consequences of the proposed cash and in-kind support. Thus our projections concerning the impact of the Section 206 program are based on comprehensive data concerning macroeconomic relationships and economic performance over the past twenty years. If the policy measures implemented as a result of the support USAID is offering are successful, some important macroeconomic relationships in The Gambia will change. The dimensions of these changes are difficult to predict although we can indicate the most probable direction they will take and, within a certain range, what the effects will be. This does not mean, however, that the economic and/or financial benefits of the program will be small. Indeed, given the current state of the Gambian economy and the demonstrated willingness of the GOTG to make significant changes in its macroeconomic policy, the impact of the program will be positive and significant.

A. Financial Costs and Benefits

The total financial costs of the Section 206 program to USAID will be about $6.29 million for three years. This includes $6.14 million, which represents the cost of supplying about 20,200 MT of rice to the port of Banjul (including commodity cost and freight charges). The administrative costs for USAID are low, representing monitoring the shipment of rice from the U.S., negotiating the Section 206 program, and monitoring the implementation and assessing the impact of the policy reforms executed as part of this program. These costs can be estimated at about $50,000 per annum or $.15 million for three years.

The financial costs to the GOTG will be small and management requirements low. Some GOTG staff time will be required to negotiate the conditions involved, to prepare reports which are mutually agreed to by both USAID and GOTG, to implement the policy reforms which the Section 206 program is designed to support, and to ensure that the receipts of the Title II program are properly accounted for and appropriately dispensed. These administrative costs to the Gambian Government will be approximately $150,000 per annum or $.45 million over three years. Because rice is regularly imported, there will be no additional financial cost associated with the commodity aid (beyond normal port charges, freight and handling charges involved in moving the commodity from the port to its ultimate distribution point, which are charges reimbursable from the local currency account). The Title II rice will not displace rice imports from other sources. Therefore, an assessment of the financial benefits of this program should be based on the $6.29 million cost to USAID and the $.45 million cost to the GOTG.

At one extreme the program could yield no financial benefits. For this to occur the aid given by USAID would have to be ineffective in bridging the food gap, there would have to be no foreign exchange savings to the GOTG, the local currency generated by food sales would have to be ineffective in raising agricultural production, and the series of policy measures taken by the Gambian Government would have to be ineffective in eliciting positive responses from producers, consumers, and merchants. This possibility is extremely unlikely because even if most policy reforms fail to achieve the desired results, the GOTG will realize a savings in foreign exchange from the food aid, and the marketing system will be recapitalized by the local currency from food sales, thereby preventing the hemorrhaging of the GPMB, with additional macroeconomic benefits as noted below.

The local currency generated by the sale of the Section 206 program food aid (rice) will be used to recapitalize the groundnut marketing system. There are several methods by which the groundnut marketing system can be recapitalized. First, a price support fund could be re-established. This would enable the GPMB to reduce risk to farmers by smoothing the vagaries in world prices, and thereby maintain stable groundnut marketing and foreign exchange earnings. Second, the annual interest charges (6.8 million Dalasis in 1985) on GPMB's current debt could be paid. This would enable the GPMB to raise its farmgate price by that amount of money, and thereby maintain incentive producer prices. Third, the current debt (85.0 million Dalasis in 1985) which the GPMB has with the banks could be reduced by paying some of the principal. This would lower the finance charges on that debt. In turn, that would lower GPMB's overhead costs and enable it to raise its producer prices accordingly. Finally, recapitalization will help restore liquidity to GPMB. This should enable it to revitalize its plant and equipment as well as meet its financial obligations. Thus, recapitalization will be of financial benefit to the GPMB because it will prevent the GPMB from incurring debt to cover its anticipated operational losses for the 1985/86 trading season and it will ensure that the GPMB has sufficient liquidity to service its past debts and to avoid further debt. Indeed, recapitalization will help ensure

that GPMB operates, at minimum, at a break-even point in future years while encouraging farmers to increase groundnut production and marketing through the maintenance of incentive producer prices.

The financial benefits afforded by maintaining incentive producer prices can be estimated in the following manner. Based on analyses of farmer responsiveness to changes in producer prices over the past twenty years, economists estimate, conservatively, that there is between a .3 and .4 elasticity relationship between groundnut production and farmgate prices. Using the more conservative .3 estimate, in response to the 58 percent increase in producer prices made in July 1985 as recommended by OAR/Banjul[1], there should be at least a 17.4 percent (58 x .3) increase in groundnut production spread out over the three years of this program. Furthermore, as a result of the price increase of November 1985, bringing near parity between Senegalese and Gambian prices, the GPMB should capture The Gambia's harvest with little loss to cross-border trade. Increasing production by 17.4 percent and curtailing leakages in trade should result in a net increase in groundnut marketing of at least 17.4 percent through the GPMB over the three years of the program. This is a conservative estimate of the increase in marketing - in fact, if leakage is curtailed, as much as an additional 10 to 15 percent of total production would be captured by the GPMB.

Using 1984/85 figures as the base year (45,000 MT purchased by the GPMB from a harvest of 75,000 MT)[2], an increase of 5.8 percent per annum (17.4 divided equally over 3 years) equals an aggregate increase of 16,273 MT bought by GPMB, during the three years of the program, representing a rise in foreign exchange earnings of $6.18 million. An additional financial benefit is the rise in tax revenue on these groundnut exports, even while the tax is being reduced. Estimating average annual increases in marketing of 5.8 percent, with groundnut export taxes being 8 percent of the FOB price in year one, 4 percent in year two, and no tax in year three, will generate about $.16 million in additional tax revenue for the GOTG during the three years of the program. Hence the total financial benefit is $6.34 million over three years. For USAID, investing $6.29 million yields net financial benefits worth $.05 million, representing a return on the investment of about .8 percent. For the GOTG, the net financial benefit is extraordinary, with The Gambia realizing additional foreign exchange earnings ($6.18 million) and tax revenue ($.16 million) equal to a rate of return of about 1408 percent during this three year period.

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[1]While OAR/Banjul was an active participant in the discussions resulting in further increases in groundnut prices in November 1985, so were other donors and private traders. Thus we do not include that increase as part of the return to this program.

[2]There is considerable disagreement over the precise production figures for 1984/85. Estimates range from 75,000 MT by the IBRD to about 100,000 by the GOTG. We will use the more conservative estimate in our calculations here.

B. Economic Costs and Benefits

For USAID, the economic costs are the opportunities foregone from not using the rice in other PL 480 programs around the world. (The November 1985 issue of Agricultural Outlook, pages 10 and 33, makes it clear that the U.S. has few opportunities to export the grain held by the CCC at the current world market price. The rice will have to remain in storage or be used as aid.) Therefore, we assume that the resources USAID spends in The Gambia are the best possible use the Agency has for the funds.

For The Gambia the rice will provide a buffer as the GOTG encourages the private sector to become more active in the importation and distribution of rice. However, the economic value of the rice to the GOTG is less than the value USAID sets because of the over-valuation of the U.S. dollar. For The Gambia, the relevant world price is the cost of 80 to 100 percent broken, ex-Burma, which at present is significantly less that the U.S. price of rice. Nevertheless, given the current foreign exchange crisis in The Gambia, the uncertainty in the private sector concerning the viability of commercial rice imports and their doubts about the GOTG commitment to free trade in rice, the benefits deriving from guaranteed supplies of rice at U.S. prices (CIF Banjul) outweigh the extra cost involved to local merchants who will handle the rice. Indeed, it can be argued that the cost of the U.S. rice is actually less than the real costs private traders pay when importing Burmese or Thai rice, given their high cost of foreign exchange (i.e. they must procure it at parallel market rates). Paying for U.S. rice which costs $310 CIF per MT at the official exchange rate of 3.54 Dalasis per $1 would cost a trader 1097 Dalasis, whereas to pay for Thai rice which costs $240 CIF per MT at the parallel market rate of 5.50 Dalasis per $1 would cost a trader 1320 Dalasis. Hence, private traders will benefit by purchasing the U.S. Section 206 rice for sale, because they will save money compared to what the real cost of other rice would be for them. When the Dalasi is devalued, the cost of the US rice will rise above the price of Thai or Burmese rice. But this will reinforce the Section 206 program objectives because the higher price will cause consumers to eat less rice and more coarse grain.

Supplying rice to The Gambia will save the GOTG the foreign exchange costs of buying rice. Initially, OAR/Banjul will import about 5000 MT of rice which could become the Gambian strategic reserve. This will save The Gambia $1.54 M in foreign exchange. In the second and third years of our Section 206 program, a two year total of about 15,300 MT of rice will be transferred to GOTG for sale and/or replacement of the strategic reserve. If there continues to be 5000 MT in reserve, the 15,300 MT will be sold, saving $4.6 M in foreign exchange for The Gambia. Thus, total savings (benefits) to the GOTG equal the $6.14 M USAID will expend on rice imports, and the macroeconomic return on the local currency as invested through recapitalization of the groundnut marketing system will be significant.

1. Internal Rate of Return (IRR)

The proposed Section 206 program promises to have a high return. The IRR is estimated to range from approximately fourteen to twenty-six percent over a ten year period (See Tables 11 and 12).[1] A sensitivity analysis indicates that with benefits decreased by five percent and ten percent, the IRR is still between thirteen and eight percent (for 75,000 MT as the base year), or between twenty-four percent and seventeen percent for (100,000 MT as the base year).

A break-even analysis also confirms the potentially high economic returns of the program. As another type of sensitivity analysis, this approach was used to estimate the minimum increase in output required to justify the program's cost. The approach requires that a stream of benefits be estimated, whose present value at least equals the present value of projected incremental costs. The ten and fifteen year benefit streams presented in Tables 13, 14, 15, and 16 discounted at ten percent, indicate that relatively modest increases in groundnut production (between 10 and 13 percent over 10 years or between 7.9 and 10.5 percent over 20 years) are required to justify program costs.

The following paragraphs discuss the assumptions made with respect to the output and input projections.

a. Outputs or Program Benefits

As indicated above, Gambian farmers are responsive to changes in agricultural prices. Economists have estimated that there is between a .3 and .4 elasticity relationship between the production of and farmgate prices for groundnuts in The Gambia. Based on these estimates, the output assumptions used in the break-even analysis are achievable and, in fact, modest. The extremely high adoption rates and increases in the output of maize under the USAID-financed Mixed Farming Project confirm not only farmers' responsiveness to improved technologies but also their responsiveness to increases in producer prices.

Additional assumptions used in calculating the IRR are as follows:

(i) The estimated increases in output are only those resulting from support provided by the program (incremental benefits), i.e., the increase in groundnut output due to increases in the farmgate price for groundnuts as suggested by OAR/Banjul and the ability

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[1]This range is relative according to which initial production estimate is used (75,000 MT or 100,000 MT) as the base year.

of the Government to sustain the price increases by investing the proceeds of the rice sales into recapitalization of the groundnut marketing system.

(ii) The analysis assumes current levels of technology and effectiveness of the extension service.

(iii) The more conservative price elasticity of .3 for groundnuts was used. The analysis assumes that the Government will be able to maintain the 58 percent increase in groundnut producer prices, resulting in a 17 percent increase in groundnut output over a three year period and maintain that level of output through year 10.

(iv) Due to the disagreement over the initial production figures for groundnuts, both the economic and break-even analysis were calculated using both 75,000 MT (IBRD's figures), and 100,000 MT (GOTG figures).

The economic value of projected outputs was taken from the World Bank estimates used in their 1984 economic analysis of the Gambian Agricultural Development Project II (ADPII). These are estimates of the full value at the farmgate and they differ from observed farmgate prices by the amount of local distortion due to taxes, marketing charges, and subsidies. Economic value at the farmgate was calculated by starting with the international price, subtracting real costs for transport, processing, and distribution from the farm to Banjul.

b. Inputs or Costs

Inputs included in this analysis are farm labor (family and hired), cash costs of seed, fertilizer, and implements, and program costs. Both the labor and cash costs included are only the increments in costs required to achieve the incremental groundnut output. This information was derived from the World Bank ADP II appraisal and from Ministry of Agriculture and Mixed Farming Project surveys. Farmer labor was valued at 5.50 Dalasis per day, an estimate of agricultural wages in rural areas during the peak agricultural season. All costs were calculated on a per ton basis using 1.2 tons per hectare as the current yield.

TABLE 11: ECONOMIC ANALYSIS OF THE PL480-206 PROGRAM

(Initial Gdnut Output 75000 Tons)

YEARS	1	2	3	4	5	6	7	8	9	10
GROUNDNUT OUTPUT										
INCREASED OUTPUT (000 TONS)	4.3	8.5	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8
INITIAL OUTPUT (000 tons)	75									
% TOTAL INCREASE	5.7%	5.7%	5.7%	Total:	17.4%					
TOTAL OUTPUT (000 tons)	4.3	8.5	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8
$/TON	218	225	237	246	257	255	253	251	251	251
TOTAL BENEFITS ($000)	926.5	1912.5	3021.8	3136.5	3276.8	3251.3	3225.8	3200.3	3200.3	3200.3
TOTAL BENEFITS (-5%)	880.2	1816.9	2870.7	2979.7	3112.9	3088.7	3064.5	3040.2	3040.2	3040.2
TOTAL BENEFITS (-10%)	833.9	1721.3	2719.6	2822.9	2949.1	2926.1	2903.2	2880.2	2880.2	2880.2
TOTAL BENEFITS (-15%)	787.5	1625.6	2568.5	2666.0	2785.2	2763.6	2741.9	2720.2	2720.2	2720.2
LABOR COSTS										
INCREASED OUTPUT (000 TONS)	4.3	8.5	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8
MANDAY/TON	101	101	101	101	101	101	101	101	101	101
TOTAL MANDAYS (000)	429.3	858.5	1287.8	1287.8	1287.8	1287.8	1287.8	1287.8	1287.8	1287.8
$/MANDAY	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13
TOTAL VALUE ($000)	485.1	970.1	1455.2	1455.2	1455.2	1455.2	1455.2	1455.2	1455.2	1455.2
CASH COSTS										
INCREASED OUTPUT (000 TONS)	4.3	8.5	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8
SEED/TON	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8
FERT/TON	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8
TOOLS/TON	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
TOTAL COST/TON	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9
TOTAL VALUE ($000)	156.8	313.7	470.5	470.5	470.5	470.5	470.5	470.5	470.5	470.5
PROGRAM COSTS										
RICE IMPORTS ($000)	1545	2493	2100	0	0	0	0	0	0	0
ADMIN COSTS ($000)	200	200	200							
TOTAL ($000)	1745	2693	2300							
NET BENEFITS	-1460.4	-2064.3	-1203.9	1210.9	1351.1	1325.6	1300.1	1274.6	1274.6	1274.6
NET BENEFITS (-5%)	-1306.7	-1959.9	-1155.0	1054.0	1187.3	1163.1	1138.8	1114.6	1114.6	1114.6
NET BENEFITS (-10%)	-1353.0	-2055.5	-1306.1	897.2	1023.4	1000.5	977.5	954.6	954.6	954.6
NET BENEFITS (-15%)	-1399.4	-2151.1	-1457.1	740.4	859.6	837.9	816.3	794.6	794.6	794.6

	10 YEARS
NPV @ 10%	769.9
NPV @ 10% (-5%)	445.1
NPV @ 10% (-10%)	-377.2
NPV @ 10% (-15%)	-1199.4
IRR	14%
IRR (-5%)	13%
IRR (-10%)	8%
IRR (-15%)	2%

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TABLE 12: ECONOMIC ANALYSIS OF THE PL480-206 PROGRAM.

(Initial Gdnut Output 100,000 Tons)

YEARS	1	2	3	4	5	6	7	8	9	10
GROUNDNUT OUTPUT										
INCREASED OUTPUT (000 TONS)	5.7	11.3	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
INITIAL OUTPUT (000 tons)	100									
% TOTAL INCREASE	5.7%	5.7%	5.7%	Total:	17.4%					
TOTAL OUTPUT (000 tons)	5.7	11.3	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
$/TON	218	225	237	246	257	255	253	251	251	251
TOTAL BENEFITS ($000)	1235.3	2550.0	4029.0	4182.0	4369.0	4335.0	4301.0	4267.0	4267.0	4267.0
TOTAL BENEFITS (-5%)	1173.6	2422.5	3827.6	3972.9	4150.6	4118.3	4086.0	4053.7	4053.7	4053.7
TOTAL BENEFITS (-10%)	1111.8	2295.0	3626.1	3763.8	3932.1	3901.5	3870.9	3840.3	3840.3	3840.3
TOTAL BENEFITS (-15%)	1050.0	2167.5	3424.7	3554.7	3713.7	3684.8	3655.9	3627.0	3627.0	3627.0
LABOR COSTS										
INCREASED OUTPUT (000 TONS)	5.7	11.3	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
MANDAY/TON	101	101	101	101	101	101	101	101	101	101
TOTAL MANDAYS (000)	572.3	1144.7	1717.0	1717.0	1717.0	1717.0	1717.0	1717.0	1717.0	1717.0
$/MANDAY	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13
TOTAL VALUE ($000)	646.7	1293.5	1940.2	1940.2	1940.2	1940.2	1940.2	1940.2	1940.2	1940.2
CASH COSTS										
INCREASED OUTPUT (000 TONS)	5.7	11.3	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
SEED/TON	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8
FERT/TON	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8
TOOLS/TON	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
TOTAL COST/TON	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9
TOTAL VALUE ($000)	209.1	418.2	627.3	627.3	627.3	627.3	627.3	627.3	627.3	627.3
PROGRAM COSTS										
RICE IMPORTS ($000)	1545	2493	2100	0	0	0	0	0	0	0
ADMIN COSTS ($000)	200	200	200							
TOTAL ($000)	1745	2693	2300							
NET BENEFITS	-1365.5	-1854.7	-838.5	1614.5	1801.5	1767.5	1733.5	1699.5	1699.5	1699.5
NET BENEFITS (-5%)	-1227.3	-1782.2	-840.0	1405.4	1583.0	1550.7	1518.4	1486.1	1486.1	1486.1
NET BENEFITS (-10%)	-1289.0	-1909.7	-1041.4	1196.3	1364.6	1334.0	1303.4	1272.8	1272.8	1272.8
NET BENEFITS (-15%)	-1350.8	-2037.2	-1242.9	987.2	1146.1	1117.2	1088.3	1059.4	1059.4	1059.4

	10 YEARS
NPV @ 10%	2873.2
NPV @ 10% (-5%)	2274.3
NPV @ 10% (-10%)	1178.0
NPV @ 10% (-15%)	81.7
IRR	26%
IRR (-5%)	24%
IRR (-10%)	17%
IRR (-15%)	10%

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TABLE 13: BREAK-EVEN ANALYSIS FOR TEN YEARS
(10 YEARS/INITIAL OUTPUT 75,000 TONS)

YEARS	1	2	3	4	5	6	7	8	9	10
GROUNDNUT OUTPUT										
INCREASED OUTPUT (000 TONS)	3.4	6.8	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2
INITIAL OUTPUT (000 tons)	75									
% TOTAL INCREASE	4.5%	4.5%	4.5%	Total:	13.6%					
TOTAL OUTPUT (000 tons)	3.4	6.8	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2
$/TON	218	225	237	246	257	255	253	251	251	251
TOTAL BENEFITS ($000)	740.4	1528.4	2414.8	2506.5	2618.6	2598.2	2577.9	2557.5	2557.5	2557.5
LABOR COSTS										
INCREASED OUTPUT (000 TONS)	3.4	6.8	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2
MANDAY/TON	101	101	101	101	101	101	101	101	101	101
TOTAL MANDAYS (000)	343.0	686.1	1029.1	1029.1	1029.1	1029.1	1029.1	1029.1	1029.1	1029.1
$/MANDAY	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13
TOTAL VALUE ($000)	387.6	775.3	1162.9	1162.9	1162.9	1162.9	1162.9	1162.9	1162.9	1162.9
CASH COSTS										
INCREASED OUTPUT (000 TONS)	3.4	6.8	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2
SEED/TON	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8
FERT/TON	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8
TOOLS/TON	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
TOTAL COST/TON	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9
TOTAL VALUE ($000)	125.3	250.7	376.0	376.0	376.0	376.0	376.0	376.0	376.0	376.0
PROGRAM COSTS										
RICE IMPORTS ($000)	1545	2493	2100	0	0	0	0	0	0	0
ADMIN COSTS ($000)	200	200	200							
TOTAL ($000)	1745	2693	2300							
NET BENEFITS	-1317.5	-1990.5	-1224.0	967.7	1079.7	1059.4	1039.0	1018.6	1018.6	1018.6

	10 YEARS
NPV @ 10%	.0

% INCREASE TO BREAK-EVEN AFTER 10 YEARS: 13.6%

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TABLE 14: BREAK-EVEN ANALYSIS FOR TEN YEARS
(10 YEARS/INITIAL OUTPUT 100,000 TONS)

YEARS	1	2	3	4	5	6	7	8	9	10
GROUNDNUT OUTPUT										
INCREASED OUTPUT (000 TONS)	3.4	6.8	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2
INITIAL OUTPUT (000 tons)	100									
% TOTAL INCREASE	3.4%	3.4%	3.4%	Total:	10.2%					
TOTAL OUTPUT (000 tons)	3.4	6.8	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2
$/TON	218	225	237	246	257	255	253	251	251	251
TOTAL BENEFITS ($000)	740.4	1528.4	2414.9	2506.6	2618.7	2598.3	2577.9	2557.5	2557.5	2557.5
LABOR COSTS										
INCREASED OUTPUT (000 TONS)	3.4	6.8	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2
MANDAY/TON	101	101	101	101	101	101	101	101	101	101
TOTAL MANDAYS (000)	343.0	686.1	1029.1	1029.1	1029.1	1029.1	1029.1	1029.1	1029.1	1029.1
$/MANDAY	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13
TOTAL VALUE ($000)	387.6	775.3	1162.9	1162.9	1162.9	1162.9	1162.9	1162.9	1162.9	1162.9
CASH COSTS										
INCREASED OUTPUT (000 TONS)	3.4	6.8	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2
SEED/TON	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8
FERT/TON	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8
TOOLS/TON	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
TOTAL COST/TON	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9
TOTAL VALUE ($000)	125.3	250.7	376.0	376.0	376.0	376.0	376.0	376.0	376.0	376.0
PROGRAM COSTS										
RICE IMPORTS ($000)	1545	2493	2100	0	0	0	0	0	0	0
ADMIN COSTS ($000)	200	200	200							
TOTAL ($000)	1745	2693	2300							
NET BENEFITS	-1317.5	-1990.5	-1224.0	967.7	1079.8	1059.4	1039.0	1018.6	1018.6	1018.6

	10 YEARS
NPV @ 10%	.0

% INCREASE TO BREAK-EVEN AFTER 10 YEARS: 10.2%

BRK10_10/TDH/av

TABLE 15: BREAK-EVEN ANALYSIS FOR FIFTEEN YEARS
(15 YEARS/INITIAL OUTPUT 75,000 TONS)

YEARS	1	2	3	4	5	6	7	8	9	10
GROUNDNUT OUTPUT										
INCREASED OUTPUT (000 TONS)	2.6	5.2	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9
INITIAL OUTPUT (000 tons)	75									
% TOTAL INCREASE	3.5%	3.5%	3.5%	Total:	10.5%					
TOTAL OUTPUT (000 tons)	2.6	5.2	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9
$/TON	218	225	237	246	257	255	253	251	251	251
TOTAL BENEFITS ($000)	571.7	1180.0	1864.4	1935.2	2021.8	2006.0	1990.3	1974.6	1974.6	1974.6
LABOR COSTS										
INCREASED OUTPUT (000 TONS)	2.6	5.2	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9
MANDAY/TON	101	101	101	101	101	101	101	101	101	101
TOTAL MANDAYS (000)	264.8	529.7	794.5	794.5	794.5	794.5	794.5	794.5	794.5	794.5
$/MANDAY	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13
TOTAL VALUE ($000)	299.3	598.6	897.8	897.8	897.8	897.8	897.8	897.8	897.8	897.8
CASH COSTS										
INCREASED OUTPUT (000 TONS)	2.6	5.2	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9
SEED/TON	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8
FERT/TON	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8
TOOLS/TON	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
TOTAL COST/TON	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9
TOTAL VALUE ($000)	96.8	193.5	290.3	290.3	290.3	290.3	290.3	290.3	290.3	290.3
PROGRAM COSTS										
RICE IMPORTS ($000)	1545	2493	2100	0	0	0	0	0	0	0
ADMIN COSTS ($000)	200	200	200							
TOTAL ($000)	1745	2693	2300							
NET BENEFITS	-1369.4	-2105.1	-1423.7	747.1	833.6	817.9	802.2	786.4	786.4	786.4

	15 YEARS
NPV @ 10%	.0

% INCREASE TO BREAK-EVEN AFTER 15 YEARS: 10.5%

BRK15_7E/TDH/mv

YEARS	11	12	13	14	15
GROUNDNUT OUTPUT					
INCREASED OUTPUT (000 TONS)	7.9	7.9	7.9	7.9	7.9
INITIAL OUTPUT (000 tons)					
% TOTAL INCREASE					
TOTAL OUTPUT (000 tons)	7.9	7.9	7.9	7.9	7.9
$/TON	251	251	251	251	251
TOTAL BENEFITS ($000)	1974.6	1974.6	1974.6	1974.6	1974.6
LABOR COSTS					
INCREASED OUTPUT (000 TONS)	7.9	7.9	7.9	7.9	7.9
MANDAY/TON	101	101	101	101	101
TOTAL MANDAYS (000)	794.5	794.5	794.5	794.5	794.5
$/MANDAY	1.13	1.13	1.13	1.13	1.13
TOTAL VALUE ($000)	897.8	897.8	897.8	897.8	897.8
CASH COSTS					
INCREASED OUTPUT (000 TONS)	7.9	7.9	7.9	7.9	7.9
SEED/TON	22.8	22.8	22.8	22.8	22.8
FERT/TON	10.8	10.8	10.8	10.8	10.8
TOOLS/TON	3.3	3.3	3.3	3.3	3.3
TOTAL COST/TON	36.9	36.9	36.9	36.9	36.9
TOTAL VALUE ($000)	290.3	290.3	290.3	290.3	290.3
PROGRAM COSTS					
RICE IMPORTS ($000)	0	0	0	0	0
ADMIN COSTS ($000)					
TOTAL ($000)					
NET BENEFITS	786.4	786.4	786.4	786.4	786.4

BRK15_75/TDH/mv

TABLE 16: BREAK-EVEN ANALYSIS FOR FIFTEEN YEARS
(15 YEARS/INITIAL OUTPUT 100,000 TONS)

YEARS	1	2	3	4	5	6	7	8	9	10
GROUNDNUT OUTPUT										
INCREASED OUTPUT (000 TONS)	2.6	5.2	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9
INITIAL OUTPUT (000 tons)	100									
% TOTAL INCREASE	2.6%	2.6%	2.6%	Total:	7.9%					
TOTAL OUTPUT (000 tons)	2.6	5.2	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9
$/TON	218	225	237	246	257	255	253	251	251	251
TOTAL BENEFITS ($000)	571.7	1180.0	1864.4	1935.2	2021.8	2006.0	1990.3	1974.6	1974.6	1974.6
LABOR COSTS										
INCREASED OUTPUT (000 TONS)	2.6	5.2	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9
MANDAY/TON	101	101	101	101	101	101	101	101	101	101
TOTAL MANDAYS (000)	264.8	529.7	794.5	794.5	794.5	794.5	794.5	794.5	794.5	794.5
$/MANDAY	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13
TOTAL VALUE ($000)	299.3	598.6	897.8	897.8	897.8	897.8	897.8	897.8	897.8	897.8
CASH COSTS										
INCREASED OUTPUT (000 TONS)	2.6	5.2	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9
SEED/TON	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8
FERT/TON	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8
TOOLS/TON	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
TOTAL COST/TON	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9
TOTAL VALUE ($000)	96.8	193.5	290.3	290.3	290.3	290.3	290.3	290.3	290.3	290.3
PROGRAM COSTS										
RICE IMPORTS ($000)	1545	2493	2100	0	0	0	0	0	0	0
ADMIN COSTS ($000)	200	200	200							
TOTAL ($000)	1745.	2693	2300							
NET BENEFITS	-1369.4	-2105.1	-1423.7	747.1	833.6	817.9	802.2	786.4	786.4	786.4

	15 YEARS
NPV @ 10%	.0

% INCREASE TO BREAK-EVEN AFTER 15 YEARS: 7.9%

BRK15_10/TDH/av

YEARS	11	12	13	14	15
GROUNDNUT OUTPUT					
INCREASED OUTPUT (000 TONS)	7.9	7.9	7.9	7.9	7.9
INITIAL OUTPUT (000 tons)					
% TOTAL INCREASE					
TOTAL OUTPUT (000 tons)	7.9	7.9	7.9	7.9	7.9
$/TON	251	251	251	251	251
TOTAL BENEFITS ($000)	1974.6	1974.6	1974.6	1974.6	1974.6
LABOR COSTS					
INCREASED OUTPUT (000 TONS)	7.9	7.9	7.9	7.9	7.9
MANDAY/TON	101	101	101	101	101
TOTAL MANDAYS (000)	794.5	794.5	794.5	794.5	794.5
$/MANDAY	1.13	1.13	1.13	1.13	1.13
TOTAL VALUE ($000)	897.8	897.8	897.8	897.8	897.8
CASH COSTS					
INCREASED OUTPUT (000 TONS)	7.9	7.9	7.9	7.9	7.9
SEED/TON	22.8	22.8	22.8	22.8	22.8
FERT/TON	10.8	10.8	10.8	10.8	10.8
TOOLS/TON	3.3	3.3	3.3	3.3	3.3
TOTAL COST/TON	36.9	36.9	36.9	36.9	36.9
TOTAL VALUE ($000)	290.3	290.3	290.3	290.3	290.3
PROGRAM COSTS					
RICE IMPORTS ($000)	0	0	0	0	0
ADMIN COSTS ($000)					
TOTAL ($000)					
NET BENEFITS	786.4	786.4	786.4	786.4	786.4

BRK15_10/TDH/mv

2. Macro-Economic Benefits

In addition to the benefits which can be quantified and which have been analyzed above, there are a series of macroeconomic effects which will result from the program. These are: (i) a net increase in the liquidity of the groundnut marketing system; (ii) a net increase in total agricultural output, including coarse grains; (iii) a net increase in credit available to the private sector as the GPMB decreases its own use of credit; and (iv) a net increase in foreign exchange in the banking system.

Econometric estimates of the linkages between some of the major aggregates in the Gambian economy enable us to derive the direct and indirect benefits of the policy reform measures leveraged by the Section 206 program. These estimates are not to be seen as institutional constants portraying what will actually happen for two reasons: (i) any economic model we construct is, at best, only a partial reflection of reality; and (ii) by the very nature of the macroeconomic changes induced by the policy reforms resulting from the Section 206 program, the structural relationships between the major economic aggregates will change. With these qualifications in mind, however, the estimates we derive do indicate clearly the direction of association; for purposes of deriving the economic effects of the changes, they indicate the general magnitude of the connections among the relevant economic aggregates; and they provide order of magnitude estimates of the total economic effect.

The results reported below highlight, first, the relation between the production of groundnuts and the producer price of groundnuts; second, the relation between groundnut production and GPMB net profits and reserves; and third, the connection between the financial performance of the GPMB and net domestic credit and the balance of payments.

The first relationship is the key to the Section 206 program. As noted in Section IIB, the decline of groundnut production can be attributed, in large part, to the relatively low producer price. Therefore, economic prices and marketing reform which the Section 206 program is encouraging, are essential to restoring dynamism to the groundnut sector and the rest of the agricultural sector. Furthermore, the high price responsiveness of groundnut producers is the basis for using the program's counterpart resources to recapitalize the groundnut marketing system.

The second and third set of relationships helps us to estimate the potential institutional and macroeconomic impact of the support provided by the commodity aid. Because of the critical balance of payments situation in The Gambia, this support has particularly important multiplier effects. The primary effect is that the supply of Section 206 rice reduces the need for foreign exchange which in turn reduces pressure on the foreign exchange rate. Reduced pressure on the foreign exchange rate has the dual effect of, first, lowering the rate by which domestic costs rise and, second, increasing the funds available for operations and maintenance expenditures and investments. The former reduces the need for domestic credit expansion as domestic businesses attempt to cover

the costs of the imported commodities they require. The latter shows up especially clearly in Government spending. That is, the Government's fixed heavy commitment of its funds to debt service and its current commitment to freeze wages and reduce Civil Service employment, means that any further budget cuts to ease pressure on foreign exchange must come from operations and maintenance expenditure. Such cuts, however, will further reduce the efficiency of Government operations and also reduce the economy's already declining productive capacity.

Based on annual data from 1965/66 to 1984/85, the most relevant regression results for the groundnut sector, and for this Section 206 Program are the following:[1]

a. Microeconomic Relationships:

(1) Groundnut Production:

(i) ZPGN = 1.38 - .98 ZAGTT - .59 ZEERX + 1.86 ZRDPAG
(1.3) (-2.6) (-3.1) (6.3)
R^2 = .77 DW = 1.72 F = 18.1

(The log of groundnut production is a function of the log of the agricultural terms of trade, the real exchange rate for groundnut exports and real output in agriculture. In other words, holding the other variables constant, if the agricultural terms of trade improve by 10 percent, groundnut production will increase by 9.8 percent; if the real exchange rate for groundnut exports increases by 10 percent, groundnut production will increase by 5.9 percent; and if real output in agriculture increases by 10 percent, groundnut production will increase by 18.6 percent.)

(ii)ZPGN = 1.44 - .42 ZPIPP - .11 ZEERX + 1.23 ZRDPAG
(1.5) (-3.4) (-.4) (6.8)
R^2 = .81 DW = 1.49 F = 23.2

(The log of groundnut production is a function of the log of the producer price of groundnuts, the real exchange rate for groundnut exports and real output in agriculture. In other words, holding the other variables constant, if the groundnut producer price increases by 10 percent, groundnut production will rise by 4.2 percent; if the real exchange rate for groundnut exports goes up 10 percent, groundnut production will increase by 1.1 percent; and if real output in agriculture rises by 10 percent, groundnut production will increase by 12.3 percent.)

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[1]These equations show the linear relation between the dependent variable (regressand) and a set of independent variables (regressors). The coefficients of log-linear regressions (such as in a. above) are the elasticities of the regressand with respect to the regressor, i.e. the ratio of the percentage change in the former and the percentage change in the latter. In mixed log-absolute value regressions (such as in b. above) the regression coefficients have to be transformed to derive the relevant elasticities.

b. Institutional Linkages:

(1) GPMB Net Profits.:

$$\begin{array}{lrrrrrr} GPMBPL = & -158.9 + & 31.87\ ZPGN + & 1.48\ ZGDPNA + & 8.75\ ZEER \\ & (-1.9) & (2.5) & (0.2) & (0.5) \\ & ELAST.: & 8.66 & & \\ & R^2 = & .29 \quad DW = & 1.48 \quad F = & 2.1 \end{array}$$

(The net profits of GPMB are a function of the log of groundnut production, net income in non-agriculture, and the effective exchange rate. In other words, holding the other variables constant, if groundnut production increases by 10 percent, the net profits of the GPMB will rise by 86.6 percent.)

2. GPMB Reserves:

$$\begin{array}{lrrrrr} GPMBRE = & -600.5 + & 143.99\ ZAGTT - & 4.11\ ZGDE + & 6.42\ ZPGN \\ & (-3.5) & (3.3) & (-0.6) & (0.2) \\ & & & ELAST.: & .19 \\ & R^2 = & .49 \quad DW = & 1.13 \quad F = & 5.1 \end{array}$$

(GPMB's reserves are a function of the log of the agricultural terms-of-trade, government development expenditure, and groundnut production. In other words, holding the other variables constant, if groundnut production increases by 10 percent, the GPMB's reserves will rise by 1.9 percent.)

c. Key Macroeconomic Aggregates:

1. Agricultural Output

$$\begin{array}{lrrrrr} (i)\ ZRDPAG = & 1.27 + & .79\ ZAGTT + & .41\ ZPGN + & .15\ ZEER \\ & (-2.9) & (8.9) & (6.8) & (2.7) \\ & R^2 = .90 & DW = 2.22 & F = 53.2 & \end{array}$$

(The log of real output in agriculture is a function of the log of the agricultural terms-of-trade, groundnut production, and the effective exchange rate. In other words, holding the other variables constant, if the agricultural terms of trade improve by 10 percent, real total agricultural output will increase by 7.9 percent; if groundnut production rises by 10 percent, real total agricultural output will go up by 4.1 percent; and if the effective exchange rate improves by 10 percent, real total agricultural output will increase by 1.5 percent.)

$$\begin{array}{lrrrrr} (ii)ZRDPAG = & .08 + & .28\ ZAVTT + & .46\ ZPGN + & .41\ ZEERX \\ & (0.1) & (3.0) & (6.2) & (4.0) \\ & R^2 = .83 & DW = 1.51 & F = 25.6 & \end{array}$$

(The log of real output in agriculture is a function of the log of the terms of trade for the GPMB, groundnut production, and the effective exchange rate for groundnut producers. In other words, holding the other variables constant, if GPMB's terms of trade improve by 10 percent real total output in agriculture will increase

by 2.8 percent; if groundnut production increases by 10 percent, real total agricultural output will go up by 4.6 percent; and if the effective exchange rate for groundnut producers improves by 10 percent, real total agricultural output will increase by 4.1 percent.)

(2) Credit and Balance of Payments.

(i) NCP = -30.07 + .37 GDP - .60 GPMBPL .33 GPMBRE
(-4.3) (20.7) (-3.2) (-3.9)
ELAST.: 1.68 -.03 -.17
R^2 = .97 DW = 2.04 F = 164.1

(Net credit to the public is a function of gross domestic product, the net profits of GPMB and GPMB's reserves. In other words, holding the other variables constant, if the gross domestic product increases by 10 percent, net credit available to the public will go up 16.8 percent; if the net profits of GPMB improve by 10 percent, net credit available to the public (including private investors) will rise by .3 percent; and if GPMB's reserves increase by 10 percent, net credit available to the public will increase by 1.7 percent.)

(ii)NFA = 77.8 - .62 NCP - 34.42 EER + .84 GPMBRE
(4.5) (-3.6) (-2.7) (4.6)
ELAST.: 2.36 4.80 -1.66
R^2 = .92 DW = 1.91 F = 62.0

(Net foreign assets of the banking system are a function of net credit to the public, the effective exchange rate, and GPMB's reserves. In other words, holding the other variables constant, if net credit to the public increases by 10 percent, net foreign assets will decrease by 23.6 percent; if the effective exchange rate increases, through devaluation for example, by 10 percent, net foreign assets will increase by 48.0 percent; and if GPMB's reserves improve by 10 percent, net foreign assets will increase by 16.6 percent.)

where:

ZPGN	log of groundnut production (thousand tons)
ZAVGT	log of agricultural terms of trade i.e. the ratio of the producer price of groundnuts (PIPP) to the GDP deflator
ZEERX	log of effective exchange rate for groundnut producers (EERX) defined as the official exchange rate (D/$) multiplied by the ratio of the index of the producer price of groundnuts to the unit value of imports
ZRDPAG	log of real output (GDP) in agriculture
ZPIPP	log of index of groundnut producer price (PIPP)
ZEER	log of the effective exchange rate defined as the official exchange rate multiplied by the ratio of the unit value index for exports divided by the unit value of imports and adjusted for average import duties.

139

ZGDPNA	log of GDP in the non-agricultural sector of the economy (i.e. GDPNA = GDP - GDPAG)
ZGDE	log of government development expenditure
ZAVTT	log of terms of trade faced by GPMB defined as the average price (FOB) of groundnuts divided by the GDP deflator
NCP	net credit to the public and parastatal organizations
GDP	gross domestic product
GPMBPL	net profits of the GPMB
GPMBRE	gross reserves of the GPMB
NFA	net foreign assets of the banking system
EER	effective exchange rate
(...)	t statistic[1]
ELAST.	mean elasticity of regressor with respect to the regressand
R^2	coefficient of determination[2]
DW	Durbin-Watson statistic[3]
F	F statistic on significance of the regression[4]

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[1]The t-statistics indicate whether each regression coefficient is statistically different from zero. Values above 2 broadly indicate that it is improbable that the coefficient is in fact zero.

[2]The Coefficient of Determination (R^2) is a measure of the variation of the regressand which is explained by the regression relation. Values close to unity indicate that the regression captures a significant proportion of the variation in the regressand (or left-hand variable).

[3]The Durbin-Waston statistic measures the degree of autocorrelation (i.e. the relation between a variable and its immediate past values) in the residual terms of the regression. Values below 1.4 suggest negative autocorrelation; values above 2.6 suggest positive autocorrelation. Values within this range indicate the general absence of autocorrelation.

[4]Finally,, the F-statistic is based on a composite test of the statistical significance of the whole regression i.e. whether the regression coefficients, taken as a group, are statistically significant. Values close to zero indicate that the regression, as a whole, is not statistically significant.

Taking these results one block at a time, several points stand out.

First, the regressions in a.(1) confirm that the price elasticity of groundnut production is highly statistically significant with respect to relative prices (ZAGTT) and absolute prices (ZPIPP). The former was approximately 1.0, while the latter was around -.4. On this basis the 58 percent increase in the producer price of groundnuts made in July 1985 would, if sustained, result in a 23 percent increase in the volume of groundnuts produced and marketed.

Second, the regressions in a.(1) indicate that the Gambian Government's decision to float the Dalasi (which should devalue the currency by approximately 50 percent) will give sharp impetus to groundnut production because the elasticity of groundnut production with respect to the effective exchange rate for groundnut producers has been large and highly significant statistically i.e. it is about -6. For several years it has been clear (and the econometric evidence confirms this) that the overvalued exchange rate has been a major disincentive to groundnut production because it has kept farmgate prices artificially low. The combined effect of the increased groundnut producer price and exchange rate adjustment will help to re-establish the dynamism of the groundnut sector and, with it, wholesale trade and other segments of the agricultural sector as well.

Third, the regressions in c.(1) confirm that total real output in agriculture will increase as the agricultural terms of trade and the effective exchange rate improve. Real output in the whole sector has been strongly influenced by both variables, indicating that policies which tend to stimulate the groundnut sector will also stimulate the rest of the agricultural sector. Thus, if the recent price changes have the effect on groundnut production noted above, the direct result will be an approximate expansion of 9.4 percent (i.e. .41 x 23%) in total agricultural output. Given the recent productivity gains in maize, sorghum and livestock production in The Gambia, this increase in groundnut production will not necessarily occur at the expense of other food crops. Indeed, because of the contribution groundnuts make to restoring soil fertility and to the supply of dry season forage for livestock, a major rebound in groundnut production will be complementary to both food crop and livestock production.

Fourth, the regressions in c.(2) confirm that the financial performance of the GPMB, especially its net profit position, has had a major impact on the level of net credit to the public. That is, the diversion of credit towards the GPMB has left less credit available for investments in agricultural production. This in turn has had an adverse effect on the overall balance of payments (as reflected in the banking system's holdings of net foreign assets). The behavior of GPMB's reserves has also had an important independent effect on the balance of payments because a decrease in GPMB's reserves leads to a decline in net foreign assets in the banking system. Indeed, the marginal impact of the GPMB's net profits and reserves, respectively, on net domestic credit to the public (i.e., .03 and .17 elasticities) and net foreign assets of the banking system (i.e., an 1.66 elasticity) have been high. Thus, any policies which serve to bolster the GPMB's net profit and reserve position will have a direct, significant macroeconomic impact: i.e., reducing net domestic credit and improving the net foreign assets of the banking system.

It is in this regard that the use of counterpart funds from the sale of USAID rice to support the 1985/86 producer price will be so useful. By reducing GPMB's trading losses, the counterpart funds

will have a beneficial impact on net domestic credit and the balance of payments. To illustrate, if 6.14 million Dalasis of counterpart funds (derived from the sale of 5000 tons of rice at the Dalasi equivalent of $310 per ton) are used to support the current producer price, GPMB's net loss will decline by 6 million Dalasis. This will reduce net domestic credit by 3.6 million Dalasis (6 x .60) which will make more credit available for private investors to increase production to benefit The Gambia. In turn, this will help The Gambia meet the IMF credit ceilings and thereby qualify for a Stand-by Agreement. Furthermore, reducing net credit will help ease the pressure on the balance of payments by 2.2 million Dalasis (3.6 x .62) which will allow the nation to import materials essential to sustaining increases in production. These benefits will occur in year one of the program.

The equations noted above show that the multiplier effects of the Section 206 rice are significant. In the first place, the program directly reduces pressure on the balance of payments by providing a commodity that the country requires and would have to find foreign exchange to purchase. In the second place, it reduces net domestic credit resulting in a further reduction in pressure on the balance of payments.

Other important relationships relevant to the variables influenced by the Section 206 program are documented in the equations above. Equation b.(1) shows that the net profits of GPMB have been dominated by what has happened to the volume of groundnut production (i.e. the elasticity is 8.66). Activity elsewhere in the economy (GDPNA) and even the movements in the effective exchange rate have not had a significant impact on its profitability. This is further support for the Section 206 program's focus on stimulating groundnut production through price incentives. As groundnut production revives, the net profits of the GPMB will increase with the beneficial effects noted above. Equation b.(2) shows that the main factors influencing the level of GPMB's reserves have been the agricultural terms of trade and government development expenditure. With improvements in the producer price of groundnuts, the former has turned back in favor of the farmer and, hence, the GPMB. And with the decision by the Government to rationalize its relationship with the GPMB (and other parastatals) through performance contracts, the heretofore negative impact of transfers made by GPMB to the Development Budget will be eliminated.[1]

3. Distribution of Benefits and Costs

In economic terms, i.e. when measured in terms of changes in the flow of real resources in the economy, the Section 206 program generates some obvious benefits and costs. Several groups benefit. These are groundnut farmers (through higher producer prices); food

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[1]While this outcome is not directly related to the Section 206 program, it demonstrates the complementary nature of USAID activities in The Gambia. It was the USAID-funded study of GPMB which led the Government to decide to rationalize its relationship with the parastatals through a series of performance agreements.

crop and livestock producers (through the complementary effects of increased groundnut production); rural dwellers in general because of the improvement in rural incomes and economic activity; wholesale traders (through the expansion of groundnut volume); the GPMB (through an improvement in its overall net profit and reserve situation); and, indirectly, all Gambians (through the reduction in net credit to the public and the consequent easing of inflation and pressure on the balance of payments). For example, providing rice as food aid will ensure that urban civil servants have access to that commodity, albeit at higher prices, as the effects of the Gambian ERP are felt. At the same time, the rise in demand for coarse grains will call forth increases in production and marketing, making these less expensive cereals available in greater quantity for the urban poor who cannot afford expensive imported rice. Thus, urban consumers will reap some benefits but they will bear most of the costs of these policy changes precisely because the GOTG Economic Recovery Program is designed to end the prevailing economic bias which has discriminated against rural producers while protecting urban consumers.

The economic costs are more immediate and are largely concentrated among the urban groups whose wages remain fixed while the price of rice and other food crops increase. The most significant economic cost results from the shift in the distribution of national income from the urban areas to the rural areas. This cost, however, will be concentrated in the short to medium term as the major elements of the Government's ERP take effect (i.e., the stimulation of agricultural production; floating the Dalasi; privatization of rice marketing; rationalization of the parastatal sector; and reform of the Civil Service). But this particular cost has to be kept in perspective. The financial viability of GPMB and the agricultural sector generally were severely affected by the large redistribution of income which occurred in the economy from the mid-1970's as GPMB's surpluses (derived from groundnut producers) and agricultural taxes (principally the groundnut export tax) were used to support consumer subsidies to urban dwellers and to develop the urban infrastructure. That is, the economic costs currently being borne by the urban population as a result of Section 206 induced policy reforms are, in fact, the counterpart of economic benefits the urban population has already enjoyed. Moreover, if the policy reform measures adopted by the Government succeed, they will return the economy to its long-term path of growth and development to the benefit of all Gambians, rural and urban.

C. Alternative Uses of Section 206 Funds

Among the economic costs OAR/Banjul considered are the opportunity cost of using the local currency for recapitalization of the groundnut marketing system instead of some other activity. Based on our analyses of the financial and economic benefits that should be realized from recapitalizing the groundnut marketing system, the Mission concluded that this provides the best rate of return on the Section 206 funds compared to any other alternative activity.

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The Gambian financial contribution to the Section 206 program is so small that there is little point in adjusting the program to reflect the social opportunity cost of using their manpower and resources elsewhere. The time and effort necessary for the GOTG staff to engage in program activities is small and they could be employed productively elsewhere, too. But the macroeconomic benefits of alternative activity would not be as great as they are for engaging in efforts to support the Section 206 program.

For USAID, the opportunity cost of not using the funds for other projects or non-project action in The Gambia is low. Conversely, the opportunity cost of diverting the Section 206 funds from recapitalization to some other activity are high, because no other use of funds will generate the same net returns, economically or financially.

There are no other feasible uses for the Section 206 local currency funds. Among the alternatives is to divert the funds for use in existing CAR/Banjul projects. But not one of those projects could use all the funds within the projected time span (3 years) of the program because they lack the absorptive capacity. For example, the GARD project will spend $18 million over 7 years on adaptive agricultural research, by definition a long-term activity with returns coming over the long-term. Furthermore, the local cost component of the GARD project is only 230,000 Dalasis per annum, an insignificant amount when compared to the local currency which must be expended under the Section 206 program. The Mixed Farming Project spent $9 million but it took 7 years to do so. The Soil and Water Management Project is spending about $2.75 million over 8 years, while the Forestry Project spent only about $1.6 million over 7 years. Clearly none of these projects could spend the $6.10 million wisely and economically to yield the same rate of return such as recapitalization promises to do.

The USAID Mission also considered involvement in a seeds multiplication project. But to test, develop and multiply improved groundnut or cereal seeds would take between 3 and 5 years, and then an additional 3 to 5 years to disseminate the proven new varieties to farmers through research stations and model farms. This would also involve intensive management by the OAR/Banjul staff equivalent to a project activity which is beyond the capability of our limited staff at this time. An effective seeds multiplication project would also require that technical assistance and infrastructure be provided. These would require foreign exchange which is not available under the program. Finally, such an activity would not utilize all the funds available quickly enough.

Providing line item support for the GOTG budget was also considered, but there is no single line item big enough to absorb all the local currency to be generated by the Section 206 program. For example, the whole MANR annual budget was 12.76 million Dalasis in FY 1985. While USAID could provide enough funds to pay the entire MANR budget for about three years, it would involve an intensive management activity far beyond the capability of our current staff to supervise the allocation of those funds. Breaking

down the MANR budget in order to seek a more manageable activity, such as helping the GOTG pay for its Crop Protection Services (.72 million Dalasis in FY 1985), would mean selecting an activity that could not absorb all the local currency within the time of the program. Furthermore, it could involve OAR/Banjul in the procurement of materials (such as pesticides and chemicals) that are rigidly restricted by current USAID regulations.

IMPLEMENTATION SCHEDULE

Month/Year	Activity	Action Agents
May 86	Project approved by DCC.	AID/W
June 86	Transfer Authorization and Memorandum of Understanding signed.	GOTG and OAR/Banjul
	First biannual Call-Forward submitted to AID/W.	OAR/Banjul
July-September 86	Begin and conclude the establishment of implementation procedures and responsibilities for all aspects of commodity sales and use of proceeds.	GOTG and OAR/Banjul
September 86	Receipt and sales of first commodity tranche and transfer of of proceeds to Title II Proceeds Account and individual activity accounts.	GOTG and OAR/Banjul
November 86	Begin Annual Evaluation.	GOTG and OAR/Banjul
December 86	Second biannual Call-Forward submitted to AID/W.	OAR/Banjul
January 87	Annual Evaluation submitted to executive steering committee.	GOTG and OAR/Banjul
February 87	Annual Progress Report submitted to AID/W.	GOTG and OAR/Banjul
March 87	Receipt and sales of second commodity tranche and transfer of proceeds to appropriate accounts.	GOTG and OAR/Banjul
	DCC Food Aid Subcommittee reviews Annual Progress Report and approves second year's commodity level.	AID/W
	Third biannual Call-Forward submitted to AID/W.	OAR/Banjul

May 87	Executive steering committee conducts biannual review of policy reforms and program-funded activities, and approves respective goals for next 6-month period.	GOTG and OAR/Banjul
June 87	Receipt and sales of third commodity tranche and transfer of proceeds to appropriate accounts.	GOTG and OAR/Banjul
September 87	Fourth biannual Call-Forward submitted to AID/W.	OAR/Banjul
November 87	Begin Annual Evaluation.	GOTG and OAR/Banjul
	Executive steering committee conducts biannual program review and planning sessions.	GOTG and OAR/Banjul
December 87	Receipt and sales of fourth commodity tranche and transfer of proceeds to appropriate accounts.	GOTG and OAR/Banjul
	Annual Evaluation submitted to executive steering committee.	GOTG and OAR/Banjul
February 88	Annual Progress Report submitted to AID/W.	GOTG and OAR/Banjul
March 88	DCC Food Aid Subcommittee reviews Annual Progress Report and approves third year's commodity level.	AID/W
	Fifth biannual Call-Forward submitted to AID/W.	OAR/Banjul
May 88	Executive steering committee conducts biannual program review and planning sessions.	GOTG and OAR/Banjul
June 88	Receipt and sales of fifth commodity tranche and transfer of proceeds to appropriate accounts.	GOTG and OAR/Banjul
September 88	Sixth biannual Call-Forward submitted to AID/W.	OAR/Banjul
October 88	External evaluation conducted to assess program extension for an additional two years.	AID/W, OAR/Banjul and GOTG

November 88	Begin Annual Evaluation.	GOTG and OAR/Banjul
	Executive steering committee conducts biannual program review and planning sessions.	GOTG and OAR/Banjul
December 88	Receipt and sales of sixth commodity tranche and transfer of proceeds to appropriate accounts.	GOTG and OAR/Banjul
	Annual Evaluation submitted to executive steering committee.	GOTG and OAR/Banjul
February 89	External evaluation and Annual Progress Report submitted to AID/W.	GOTG and OAR/Banjul

ANNEX G

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DATE RECEIVED 91 08 30
ACTION TO: [redacted]
DATE DUE: 9/8
ACTION TAKEN:
DATE OF ACTION:
BY:

EO. 12356 N/A
TAGS:
SUBJECT: THE GAMBIA - FOOD FOR DEVELOPMENT (PL 480 TITLE II, SECTION 206) PROJECT (635-0222)

1. SUMMARY: ECPR HELD ON 4/22/83 TO REVIEW SUBJECT PID. AFTER DETERMINING THAT: 1) THE GAMBIA QUALIFIES FOR A TITLE II SECTION 206 FOOD FOR DEVELOPMENT PROGRAM ON THE PASIS OF DRAFT AID/FVA GUIDELINES, AND 2) PID CONFORMS WITH DRAFT AID/FVA GUIDELINES FOR TITLE II SECTION 206 ASSISTANCE, ACTING AA/AFR HEREBY APPROVES PI;. HOWEVER, OMB QUESTIONED WHETHER THE GAMBIA QUALIFIED ON THE BASIS OF CURRENT USG GUIDELINES, AND THE DRAFT GUIDELINES HAVE YET TO BE APPROVED BY AID/W OR THE DCC. OAR/BANJUL AUTHORIZED TO PREPARE PP, WHICH MUST BE SUBMITTED TO AID/W AND USG INTERAGENCY COMMITTEE FOR REVIEW AND APPROVAL. THE AVERAGE ANNUAL LEVEL OF PAST TITLE II EMERGENCY FOOD AID TO THE GAMBIA INDICATES THAT THE VOLUME OF FOOD AID REQUESTED IN THE PP SHOULD BE LESS THAN THE PID REQUEST. PARAGRAPHS BELOW EXPLAIN FOOD AID POLICY AND ALLOCATION ISSUES DISCUSSED IN AID/W AND REQUEST FURTHER ANALYTICAL WORK TO BE DONE BY OAR IN PREPARATION OF PP. END SUMMARY.

2. TITLE II, SECTION 206 POLICY, ALLOCATION, AND ELIGIBILITY:

A. ALTHOUGH THE GAMBIA QUALIFIES FOR TITLE II, SECTION 206 FOOD AID UNDER THE DRAFT AID/FVA GUIDELINES, CURRENT USG INTERAGENCY GUIDANCE LIMITS ELIGIBILITY FOR SECTION 206 PROGRAMS TO THOSE COUNTRIES WHICH ARE CHRONIC RECIPIENTS OF EMERGENCY FOOD AID. ONLY PL 480 EMERGENCY FOOD AID IS RECOGNIZED FOR THIS PURPOSE, THOUGH A GIVEN COUNTRY MIGHT BE RECEIVING EMERGENCY FOOD AID FROM OTHER DONORS. THE GAMBIA HAS RECEIVED PL 480 EMERGENCY FOOD AID BILATERALLY OR THROUGH THE WFP IN 7 OUT OF THE LAST 10 YEARS AND 4 OUT OF THE LAST 5 YEARS (SEE PARA. 4.A.). WHILE THE CHRONIC NATURE OF THE GAMBIA'S NEED FOR EMERGENCY FOOD ASSISTANCE SEEMS CLEAR, USG GUIDANCE DOES NOT DEFINE QUOTE CHRONIC UNQUOTE. IN ANY CASE, THE AVERAGE ANNUAL LEVEL OF PL 480 EMERGENCY FOOD AID HAS BEEN FAR BELOW THE 10,000 TONS PER YEAR PROPOSED IN THE PID.

148

B. AFTER ECPR, AFR/PD/SWAP DISCUSSED PID WITH AFR/TR/ARD (PL480) AND FVA/FFP, WHO ALL AGREED THAT: 1) THE GAMBIA QUALIFIES FOR A TITLE II, SECTION 206 PROGRAM UNDER CURRENT AND DRAFT GUIDELINES, AND 2) PID CONFORMS TO FVA/FFP TITLE II, SECTION 206 DRAFT GUIDELINES. OAR MAY THEREFORE PROCEED WITH PP PREPARATION, BUT OAR SHOULD BE CAUTIONED THAT GUIDELINES STILL REQUIRE AID/W AND DCC APPROVAL. MOREOVER, OMB HAS QUESTIONED THE GAMBIA'S ELIGIBILITY UNDER CURRENT USG GUIDELINES. OAR SHOULD ALSO BE CAUTIONED THAT ITS PROPOSAL IS RANKED ONLY 5 OF 8 IN AID/AFR FOR FY 84 AND 6 OF 8 FOR FY 85. THIS RANKING, IN ADDITION TO THE LIMITED FOOD AVAILABILITY UNDER TITLE II, SECTION 206, INDICATES THAT APPROVAL OF PP IS LESS CERTAIN THAN IT MIGHT OTHERWISE BE. FYI. SECTION 206 FOOD AID IS ALLOCATED FROM THE TITLE II UNALLOCATED RESERVE (APPROXIMATELY 500,000 METRIC TONS), AND EMERGENCY/REFUGEE NEEDS HAVE HIGHER PRIORITY THAN SECTION 206 PROGRAMS. END FYI.

3. ANALYTICAL ISSUES:

SUMMARY - THERE ARE THREE ANALYTICAL TASKS WHICH WILL ASSIST IN THE DESIGN OF THE FFD PROGRAM (AND HELP IN THE DESIGN OF FOLLOW-ON TO THE MIXED FARMING PROJECT AND OVERALL DEVELOPMENT OF THE OAR PROGRAM). THESE INCLUDE: (1) IDENTIFICATION OF THOSE CONSTRAINTS TO INCREASED PRODUCTIVITY FOR WHICH SOLUTIONS ARE APPARENT; (2) ANALYSIS OF THE POTENTIAL FOR COMMERCIALIZATION OF MAIZE; AND (3) IDENTIFICATION OF INTERVENTIONS TO DECREASE FARMERS' DEPENDENCE ON A SINGLE CASH CROP. AID/W NOTES THE OAR HAS ALREADY BEGUN THESE TASKS AND WHAT FOLLOWS HERE IS GUIDANCE FOR FURTHER ANALYTICAL WORK NEEDED FOR THE FFD PROGRAM AND OTHER ELEMENTS OF THE MISSION PROGRAM AS APPROPRIATE.

A. A CONCERN EXPRESSED BY TECHNICAL REVIEWERS FROM AFR/TR/ARD AND S AND T/AGR WAS THAT THE PID CONTAINED VERY LITTLE DISCUSSION OF THE OVERALL PRODUCTIVITY ISSUE IN AGRICULTURE. THESE REVIEWERS FELT THAT SOME OF THE CAUSES OF LOW AGRICULTURAL PRODUCTIVITY BEAR AS MUCH, IF NOT MORE, ON THE FOOD PROBLEM AS THE RICE-GROUNDNUT INTERDEPENDENCY DESCRIBED IN THE PID. FOR EXAMPLE, PROBLEMS OF LOW YIELDS MAY BE CAUSED BY INADEQUATE CROP CULTIVATION PRACTICES, POOR WEEDING, ROTATION AND OTHER LAND USE PRACTICES. UNDER THESE CONDITIONS, A CROP DIVERSIFICATION STRATEGY BY ITSELF WILL NOT ATTACK THE FUNDAMENTAL CAUSES OF THE FOOD PROBLEM AND LOW AGRICULTURAL PRODUCTIVITY.

B. TECHNICAL REVIEWERS CITED OTHER EXAMPLES, SUCH AS JUTE IN BANGLADESH AND SISAL IN EAST AFRICA, WHERE

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DIVERSIFICATION BY ITSELF HAD FAILED AS A STRATEGY TO STABILIZE RURAL INCOMES AND FOREIGN EXCHANGE EARNINGS IN THE LONG RUN. DIVERSIFICATION EFFORTS HAVE BEEN MOST SUCCESSFUL WHERE THEY HAVE BEEN COUPLED WITH MEASURES TO RAISE AGRICULTURAL PRODUCTIVITY. THUS A DIVERSIFICATION STRATEGY MAY HAVE GREATER IMPACT IN ATTACKING THE FOOD PROBLEM IN THE GAMBIA IF MEASURES TO RAISE PRODUCTIVITY ARE UNDERTAKEN AS WELL.

C. THE IMPLICATION OF THIS FOR ADDITIONAL ANALYTICAL WORK IS THAT THE OAR SHOULD DEMONSTRATE HOW ITS AGRICULTURAL ASSISTANCE STRATEGY AND THE PROPOSED FOOD AID PROGRAM WILL BE CONSISTENT WITH STRATEGY OPTION NUMBER FOUR ON PAGE 14 OF THE PID: QUOTE TO RAISE FARM PRODUCTIVITY ON EXISTING AND ALTERNATIVE CROPPING AND LAND USE PATTERNS THROUGH IMPROVED HUSBANDRY, ROTATION AND INTER-CROPPING UNQUOTE. ALSO, THE OAR SHOULD CONSIDER ADDITIONAL MEASURES AND/OR SOLUTIONS FOR ALLEVIATING KEY INSTITUTIONAL CONSTRAINTS THAT MAY HAVE BEEN IDENTIFIED IN THE EVALUATION OF THE MIXED FARMING PROJECT AND/OR OTHER ON-GOING RESEARCH ACTIVITIES. FOR EXAMPLE, FARM BUDGET STUDIES UNDERTAKEN WITH THE PREPARATION OF THE FOOD SECTOR STRATEGY BY ODA INDICATE

THAT RETURNS TO LABOR AND LAND FOR MAIZE AND COTTON WERE HIGHER THAN RETURNS FOR GROUNDNUTS, EVEN IN 1979 WHEN GROUNDNUT PRICES (RELATIVE TO MAIZE AND COTTON) WERE MORE FAVORABLE THAN THEY ARE NOW. THERE MAY BE THUS A STRONG CASE FOR PROMOTING MAIZE AND COTTON PRODUCTION. WHAT IS NEEDED NOW IS AN ANALYSIS OF CONSTRAINTS TO THE AG SUPPORT SYSTEM SUCH AS MARKETING, ADAPTIVE RESEARCH, FIELD SUPPORT FOR THESE AND, PERHAPS, OTHER CROPS AND LIVESTOCK.

D. REVIEWERS WERE CONCERNED WHETHER GROUNDNUT FARMERS WOULD BE ABLE TO AFFORD TO PURCHASE THE RICE TO BE PROVIDED UNDER THE PROPOSED MULTI-YEAR FOOD AID PROGRAM. ADDITIONAL ANALYSIS IS RECOMMENDED OF THE CASH FLOW POSITION OF FARMERS DURING THE QUOTE HUNGRY SEASON UNQUOTE TO DETERMINE WHETHER GROUNDNUT FARMERS HAD SUFFICIENT INCOME TO PURCHASE RICE AT THE EXISTING AND/OR ALTERNATIVE RICE PRICES.

E. THE POLICY ENVIRONMENT - THE RELATION BETWEEN FARM GATE PRICES AND COSTS SHOULD ALSO BE EXAMINED. SOME REVIEWERS FELT THE MOST EFFECTIVE AND EFFICIENT WAY TO IMPLEMENT A DIVERSIFICATION STRATEGY IN THE SHORT-RUN MAY BE THROUGH PRICE/COST ADJUSTMENTS.

15D

F. OTHER REVIEWERS FELT THAT THE OPTIMUM STRATEGY TO HELP THE GAMBIA AND GROUNDNUT FARMERS ADJUST TO A LONGER TERM, PERSISTENT DECLINE I I INTERNATIONAL GROUNDNUT PRICES RELATIVE TO RICE, IS TO DO NOTHING. THIS WOULD ENABLE GROUNDNUT FARMERS TO MAKE THE ADJUSTMENT TO CHANGING MARKET FORCES THAT THEY HAVE BEEN SHIELDED FROM IN THE PAST DUE TO QUOTE THE INSTITUTIONAL PREOCCUPATION UNQUOTE BY THE GOTG WITH GROUNDNUTS AND RICE. THESE REVIEWERS FELT THAT THE MULTI-YEAR FOOD AID PROGRAM AS PRESENTLY STRUCTURED WOULD ONLY FURTHER ENTRENCH GROUNDNUT FARMERS AND THE ECONOMY INTO THE RICE-GROUNDNUT INTERDEPENDENCY. ADDITIONAL ANALYTICAL WORK SHOULD DEMONSTRATE HOW APPROPRIATE POLICY REFORMS, INSTITUTIONAL CHANGES AND DISCRETE ACTIVITIES SUPPORTED BY THE LOCAL CURRENCY GENERATIONS WOULD GIVE GROUNDNUT FARMERS MORE OPPORTUNITY TO ADJUST TO MARKET FORCES RATHER THAN TO THE CAMPAIGNS AND EDICTS OF GOTG.

G. WITH RESPECT TO THE ABOVE, S AND T IS ABLE TO PROVIDE A VARIETY OF SERVICES FROM THEIR CENTRALLY FUNDED PROJECTS, PARTICULARLY THE COLLABORATIVE RESEARCH

SUPPORT PROGRAM GRANTS (CRSP). IN MOST CASES SALARY IS PAID BY THE S AND T PROJECT; LOGISTICS, TRAVEL AND PER DIEM IS FUNDED BY THE MISSION. A PACKAGE OF MATERIAL WAS POUCHED TO AID REPRESENTATIVE ON JUNE 2. IN ADDITION, KEN SWANBERG, NOW STATIONED IN REDSO/W, CAN BE OF ASSIS,ANCE WITH RESPECT TO THE SERVICES AVAILABLE FROM THE SMALL FARMER MARKETING PROJECT.

4. SPECIFIC GUIDANCE

A. THE CALCULATION OF THE HISTORIC AVERAGE OF EMERGENCY SHIPMENTS OF FOOD AID FROM THE U.S. IS TOO HIGH. THE AVERAGE ANNUAL PL 480 TITLE II EMERGENCY FOOD AID LEVEL TO THE GAMBIA OVER THE PAST TEN YEARS HAS BEEN 1961 METRIC TONS (MT) AS CALCULATED BELOW FROM FVA FIGURES.

--	GOVT.-GOVT.(MT)	WFP (MT)
-- 1973	0	0
-- 1974	3000	2000
-- 1975	2372	0
-- 1976	0	0
-- 1977	1000	0
-- 1978	1002	2698

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--	1979	0	0
--	1980	4000	2000
--	1981	1030	0
--	1982	0	510
-	TOTAL	12404	7208
-	AVERAGE	1240	721

B. SOME REVIEWERS REQUESTED GREATER SPECIFICITY WITH RESPECT TO THE LOCAL CURRENCY FUNDED ACTIVITIES. AT A MINIMUM, CRITERIA SHOULD BE DEVELOPED AND AGREED UPON BY THE OAR AND GOTG AND PRESENTED AS INTEGRAL PART OF PP. EXAMPLES OF APPROPRIATE CRITERIA INCLUDE: (1) THE CONTRIBUTION TO PRODUCTIVITY AND AG DIVERSIFICATION, AS STATED IN THE PID; (2) THE EFFECT ON FARMERS' INCOMES, AS ALSO STATED IN THE PID; (3) EFFECT ON WOMEN'S INCOMES, LABOR REQUIREMENTS; (4) IMPROVED TECHNOLOGIES AND AREA SPECIFIC AGRONOMIC RECOMMENDATIONS; (5) GREATER PRIVATE SECTOR INVOLVEMENT IN PROVIDING AG SUPPORT SERVICES; (6) MORE TIMELY AVAILABILITIES OF FOOD IN VILLAGES; (7) ACTIVITIES WHICH DIRECTLY AFFECT THE PRODUCER GROUPS; (8) ACTIVITIES WHICH ENABLE GOTG TO

UNDERTAKE SELF-HELP MEASURES; ETC. IN ADDITION, AN ILLUSTRATIVE LIST AND BRIEF DESCRIPTION OF POSSIBLE PROJECTS AND THE REQUIRED FUNDING SHOULD BE DEVELOPED. IT IS POSSIBLE THAT THE TOTAL FUNDING FOR THESE PROJECTS WOULD EXCEED AVAILABLE LOCAL CURRENCY PROCEEDS. THEREFORE, THE CRITERIA SHOULD DESCRIBE WHAT PRIORITIES WILL BE APPLIED IN SELECTING ACTIVITIES FOR LOCAL CURRENCY FINANCING.

5. A DRAFT LOGFRAME WAS DEVELOPED FOR PRESENTATION OF PROGRAM AT ECPR. IT WAS NOT DISCUSSED AT THE ECPR, BUT IT IS PROVIDED FOR YOUR INFO AND CONSIDERATION.

--PROGRAM GOAL - TO PROMOTE FOOD SELF-RELIANCE.

--FFD GOAL - TO INCREASE FOOD-SECURITY IN VILLAGES.

--FFD PURPOSE - TO PROMOTE A MORE PRODUCTIVE, PROFITABLE AND DIVERSIFIED PATTERN OF AGRICULTURAL PRODUCTION WHICH PROVIDES ALTERNATIVE SOURCES OF FARM INCOME FOR GROUNDNUT FARMERS, FOOD FOR VILLAGES AND/OR FOREIGN EXCHANGE FOR THE GAMBIA.

--OUTPUTS -

----NEW TECHNOLOGIES AND RECOMMENDATIONS FROM AGRICULTURE RESEARCH;

----INCREASED EFFICIENCY IN AGRICULTURAL MARKETING THROUGH GREATER PRIVATE SECTOR PARTICIPATION;

----STREAMLINED CREDIT SYSTEMS;

----MORE RATIONAL PRICING POLICIES;

----IMPROVED FOOD STORAGE AND MARKETING FACILITIES IN VILLAGES;

----MORE TIMELY FOOD AVAILABILITIES IN VILLAGES DURING THE HUNGRY SEASON;

----REDUCED GOTG INVOLVEMENT IN IRRIGATED RICE PRODUCTION.

INPUTS
----AID - FOOD ASSISTANCE

----GOTG - LOCAL CURRENCY PROCEEDS AND AGRICULTURAL/FOOD SECTOR POLICY REFORMS

6. OAR AUTHORIZED TO PREPARE PROJECT PAPER FOR TITLE II SECTION 206 FOOD FOR DEVELOPMENT ASSISTANCE. PP MUST BE PREPARED IN CONFORMANCE WITH DRAFT AID/FVA GUIDELINES AND BE SUBMITTED TO AID/W AND USG INTERAGENCY FOOD AID COMMITTEE FOR REVIEW AND APPROVAL.

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INFO RUTADS/AMEMBASSY DAKAR 5142
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ANNEX G - 7

ACTION
DATE OF ACTION:
BY:
File 635-

AIDAC ABIDJAN FOR REDSO, DAKAR FOR LAFOY

E.O. 12356: N/A
TAGS:
SUBJECT: THE GAMBIA - PL 480 TITLE II SECTION 206 PP DESIGN

1. A MEETING WAS HELD 25 JULY TO REVIEW THE PAPER DRAFTED BY AID REP. BAHL ON THE USE OF PROCEEDS AND SELF HELP MEASURES FOR THE PROPOSED PL 480 TITLE II SECTION 206 PROGRAM FOR THE GAMBIA.

2. THE DISCUSSION PAPER IDENTIFIED A NUMBER OF THE CAUSES FOR THE MACRO-ECONOMIC PROBLEMS AND CORRESPONDING DECLINE OF THE AGRICULTURAL SECTOR FACING THE GAMBIA TODAY. ALTHOUGH A STRONGER JUSTIFICATION FOR THE PROPOSED 206 PROGRAM WILL HAVE TO BE INCLUDED IN THE PP, THE REVIEW CONCLUDED THAT FOCUSING THE PROPOSED PROGRAM ON REVITALIZING AND IMPROVING THE EFFECTIVENESS AND EFFECIENCY OF THE GPMB WOULD PROBABLY BE AN APPROPRIATE AND WORTHY USE OF THE LOCAL CURRENCY PROCEEDS. HOWEVER, THE PP SHOULD JUSTIFY THE APPROPRIATENESS OF STRENGTHENING THE GPMB. ALSO, OAR/BANJUL SHOULD EXPLORE WITH THE GOTG MEANS OF DIMINISHING THE GOTG OPERATION OF THE GPMB AND PHASING OVER TO GREATER PRIVATE SECTOR MANAGEMENT. ALTHOUGH IT MAY BE APPROPRIATE TO ATTEMPT TO IMPROVE THE OPERATIONS OF THE GPMB, THIS SHOULD NOT

BE DONE AT THE EXPENSE OF THE PRIVATE SECTOR. THE RESULTS OF THE GPMB STUDY SHOULD BE INCLUDED IN THE FINAL PP BEFORE SUBMISSION TO AID/W.

3. THE STUDY OF THE GPMB PROPOSED FOR SEPTEMBER SHOULD INCLUDE AN INSTITUTIONAL ANALYSIS, EXAMINING THE OPERATIONAL PROCEDURES, STAFFING, DECISION MAKING CHANNELS, PRICING POLICIES, CAPITALIZATION LEVELS, INVOLVEMENT OF THE PRIVATE SECTOR, CREDIT FACILITIES, OTHER DONOR SUPPORT, ETC. THE GPMB STUDY SHOULD DESCRIBE ITS SPECIFIC FUNCTIONS AND IDENTIFY THOSE AREAS THAT WOULD BE APPROPRIATE FOR GREATER INVOLVEMENT OF OR TOTAL ASSUMPTION BY THE PRIVATE SECTOR IN PROVIDING AGRICULTURAL SUPPORT AND MARKETING SERVICES. THESE SHOULD BE DISCUSSED WITH THE GOTG.

4. SELF-HELP MEASURES SHOULD BE LINKED DIRECTLY TO IMPROVING THE GPMB OPERATIONS AND ITS POSITIVE IMPACT ON AGRICULTURAL PRODUCTION. A SUGGESTED SELF-HELP MEASURE WOULD ALSO BE FOR THE GOTG TO UNDERTAKE A COUNTRY WIDE FOOD SYSTEMS STUDY TO DETERMINE FOOD CONSUMPTION PATTERNS, FOOD PRICE FLUCTUATIONS BY AREA AND TIME OF YEAR, FOOD AVAILABILITY AT VARIOUS TIMES OF THE YEAR, STORAGE AND PROCESSING FACILITIES, MARKETING CHANNELS, ETC.

5. THE FINAL PP SHOULD SPECIFY IN SOME DETAIL HOW THE LOCAL CURRENCY PROCEEDS WILL BE ALLOCATED AND WHAT SPECIFIC SELF-HELP MEASURES AND APPROPRIATE POLICY REFORMS ARE TO BE IMPLEMENTED BY THE GOTG.

154

ANNEX H

GOTG REQUEST FOR ASSISTANCE

(forthcoming)

165

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 ELIGIBILITY

1. FAA Sec. 481; FY 1984 Continuing Resolution. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States government personnel or their dependents or from entering the United States 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(a)(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.	FAA 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
	FAA Sec. 620(e). 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? (b) If so, has any deduction required by the Fishermen's Protective Act been made?	No
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) N/A, 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. FAA Sec. 620(t). 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. FAA Sec. 620(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.)

A) They are in arrears
B) Unknown

13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520. 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

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 26 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

18. FY 1984 Continuing Resolution. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? No

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. ISDCA of 1981, Sec. 725(b). 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. ISDCA of 1981, Sec. 726(b). 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 not 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) FY 86 Congressional Presenta
b) Yes

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $100,000, 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) Anticipated government policy changes may increase trade.
b) Policy changes definitely will foster private sector involvem
c) Use of Gambia Cooperative Unic likely will increase.
d) Yes, in a number of areas, e.g rice and fertilizer importatic
e) Not 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).

Government policy changes which c up the Gambian market place may encourage U.S. private sector inv ment.

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.	Proceeds from sales of PL-480 Title Section 206 food will satisfy all lo currency requirements.
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?	N/A, as this is a Title II program.
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?	No
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) Anticipated government polic changes will increase their involvement through promoti farming.

b) Cooperatives may strengthen to policy changes and more be left to the farmers and communities.

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) Very likely because of anticipated policy changes. d) Very likely as women are becoming more involved in foo cash cropping. e) More cooperation with Senegal is 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 leas developed" country.

e. FAA Sec. 110(b). 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. FAA Sec. 122(b). 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, most definitely.
g. FAA Sec. 281(b). 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 program will assist the government and rural farmers in their efforts to free up, expand and diversify agricult production and thereby promote food se reliance for The Gambia.

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)

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

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? N/A

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)? N/A

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic or political N/A

(7D

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? N/A

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? N/A

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? N/A

ANNEX J

COMPARISON OF GOTG AND GOS POLICIES
(November, 1985)

	SENEGAL (GOS)	THE GAMBIA (GOTG)
RICE:	1. Fixed prices by GOS	1. Market prices
	2. CPSP (GOS parastatal) controls import, distribution and sale.	2. Parastatal holds strategic reserves; private traders import and sell rice.
OTHER CEREALS: Maize	1. Prices fixed by GOS	1. Market Prices
	2. All traders licensed by GOS	2. Private traders dominate market
Millet Sorghum	3. Parastatal monopoly	3. GPMB holds reserves only for maize - for animal feed.
GROUNDNUTS:	1. Parastatal (SONACOS) control of the processing, pressing, export and marketing of oil and cake and other products	1. Parastatal (GPMB) control of the processing, pressing, export and marketing of oil and cake, etc.
	2. Oil mills receive GOS subsidy	2. Oil mills receive GPMB subsidy; Internal cross subsidization of GPMB operations.
	3. Licensed traders buy crop - GOS	3. Licensed traders buy crop - GOTG
	4. Parallel market - marabouts(Mourides in Touba), and the Mauritanians. Also diversion to The Gambia. Artisanal presses.	4. Parallel market - some small scale sales to Senegalese and Mauritanians. Artisanal presses.
GROUNDNUT SEEDS:	1. Parastatal firms (GOS) distribute seeds (SONAR).	1. GOTG distributes seeds through GCU.
	2. Privatization coming in '86.	2. Privatization thru Section 206 Program.
FERTILIZER:	1. Parastatal monopoly abolished	1. GCU handles distribution

	SENEGAL	THE GAMBIA
FERTILIZER:	2. USAID subsidy to allow private traders to enter commerce (to end after FY 1987).	2. End of GOTG subsidy by Dec. 31, 1985.
	3. Customs tax on urea and fertilizer components.	3. GOTG encourages private traders to sell fertilizer.
PARASTATALS:	1. Planned abolition of fertilizer and seed distribution (SONAR & STN).	1. Privatize seed and fertilizer distribution.
	2. Reduce personnel in SODEVA (groundnuts) by 1500 workers - fund for adjustment supplemented by USAID and GOS.	2. Audits in progress to reduce personnel.
	3. Performance contracts, planned, especially for SAED.	3.Agreements to be signed with GOTG.
	4. CPSP (rice importer) due to collect past arrears on rice sales.	
CIVIL SERVICE:	1. USAID and GOS fund an account for relocation of civil servants.	1. Initial reductions in temporary workers taking place.
	2. Reduce SODEVA workers	2. Audit ongoing to reduce permanent personnel.
		3. Freeze on government hiring; freeze on wages.
PRICES:	1. Farmgate prices for domestic goods raised - fixed prices.	1. Farmgate prices raised in July & November 1985.
	2. Fixed retail rice prices.	2. Decontrol retail rice prices
	3. Fixed retail grain prices	3. Free market prices for all foodstuffs.
TAXES:	1. Restrictive import duties, range from 80% to 190%.	1. Low import duties

	SENEGAL	THE GAMBIA
TAXES:	2. Discourages competition - inefficiency in import substitution industries	2. Encourages trade - competes with local goods and results in large entrepot trade to the region.
POPULATION:	6,150,000 (83/84)	734,500 (84/85)
USAID BUDGET:	$20 M (1985/86)	$4 M (1985/86)
ADDITIONAL US FUNDS:	1. ESF (1984) $15M	1. None
	2. PL 480, Title I: $8 M	2. PL 480, Title II Section 206 proposed
	3. AEPRP proposal pending.	3. AEPRP proposal pending

ANNEX K

STABEX AND THE GAMBIA

Under the renewed Lome Convention (Lome III, 1985-1990), The Gambia has access to STABEX (Stabilization of Export Earnings) funds from the EEC (European Economic Community) to compensate for declines in export earnings which result either from decreases in aggregate production (caused by drought, pestilence, or other natural causes), or from declines in world prices (FOB price, Banjul), or from a combination of both factors. Between 1978 and 1983 The Gambia benefitted greatly from this system, receiving about 21.8 million ECU (European Currency Units), the equivalent of about 56.6 million Dalasis, because of declines in groundnut export earnings.

There are no restrictions on the use of funds transferred under STABEX although the Lome Convention suggests that the funds be utilized to maintain financial flows in the sector suffering the losses. Thus, the Gambian Government was able to use the foreign exchange or Dalasis equivalent available from STABEX for its own purposes. Apparently, providing financial assistance to groundnut farmers through GPMB did not receive high priority during recent years because GPMB only received about 2.0 million Dalasis of the STABEX funds and that came in 1981.

The Gambia is scheduled to receive 2.0 million ECU during 1985/86, or about 6.0 to 11.0 million Dalasis, depending on the exchange rate. This is to compensate The Gambia for its low export earnings during the 1984/85 trading season which were the result of declines in groundnut production and exports. It is not clear yet what the GOTG intends to do with those funds it will be receiving soon (1.0 million ECU is in the pipeline now and should be available in early 1986). But given past performance, its current fiscal crisis and foreign exchange problems, it is reasonable to assume that the GOTG will not allocate all those STABEX funds to GPMB for price support or other purposes. Instead, the GOTG will probably use the foreign exchange to discharge some of its external arrears or to buy essential imports such as fuel. Hence, OAR/Banjul does not anticipate any conflict between its intended uses of local currency available under the Section 206 program and the funds available to The Gambia under STABEX.