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Country Development Strategy Statement

FY 1991-1995

THE GAMBIA

MAY 1989

Agency for International Development
Washington, D.C. 20523

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF THE AID REPRESENTATIVE, BANJUL

COUNTRY DEVELOPMENT STRATEGY STATEMENT

FOR

THE GAMBIA

FY 1991 - 1995

APRIL 24, 1989

EMBASSY OF THE
UNITED STATES OF AMERICA
Banjul, The Gambia

April 24, 1989

Edward L. Saiers
AA/AFR
Room 6944 NS
Agency for International
Development
Washington, DC 20523

Dear Mr. Saiers:

I would like you to know that I fully endorse the 1991-1995 Country Development Strategy Statement for The Gambia. Development assistance has always been an important element of the U.S. relationship with The Gambia and the AID Mission in Banjul has done a superb job in promoting Gambian economic reform and U.S. interests. The CDSS anticipates a further important step. It's preparation has been a major undertaking that has fully engaged Jimmie Stone, his small staff and visiting consultants for some months. It proposes a sensible strategy that builds on what we have accomplished here, and is keyed to furthering progress toward self-sufficiency.

The U.S. has an interest in encouraging the development of The Gambia as a stable democratic nation with a liberal economy. With its history of free and fair elections and leadership in international human rights forums, The Gambia demonstrates a commitment to multi-party democracy and the rule of law. In the UN, the Organization of African Unity, the Organization of Islamic Conference, and other organizations, The Gambia is a voice of moderation and often supports U.S. positions. As a trading nation, with an open economy and the most comprehensive and successful structural adjustment program in West Africa, The Gambia provides an example of the potential for growth through economic liberalization. It is important to encourage these developments so as to assure that they deliver equitable, demonstrable economic results.

While current U.S. commercial investments in The Gambia are small, there is potential for investments in areas such as fisheries, agriculture and agribusiness where the U.S. has a comparative advantage. The English-speaking Gambia with its excellent port and climate could be a congenial location from which American firms could enter the West African market. Indeed, as a result of the interest generated by the PL-480 Title II Section 206 Program, commercial American rice exports have reached The Gambia and, through it, other West African countries.

Although its economic problems are staggering, The Gambia has turned a corner and found a path of growth. In my view, the role of AID technical assistance was critical to this success, and there is a continuing need for AID to assist with economic policy analyses and private sector development for some time to come. In these respects, the USAID Mission meets essential needs that cannot be met by visiting IMF and World Bank teams or by other donors with less experience in policy. Likewise, AID's presence is essential to the development and reform of policies and programs in agriculture and natural resource management. No other donor approaches these sectors with the same depth and breadth of experience.

The optimistic view of the CDSS with respect to The Gambia's growth prospects is sound. Many consultants have pointed out that The Gambia has the most liberal economy in West Africa. Investors find favorable tax rates, low tariffs and a degree of political stability that is unusual in the developing world. While the infrastructure leaves something to be desired, The Gambia, with donor assistance, is working to improve it.

The task before us is to encourage the continuity of economic reform and institutional change and thereby create an environment for sustained growth that will deliver benefits to the vast majority of the Gambian people. I believe the strategy proposed in the CDSS is essential to that goal.

Sincerely,

Herbert E. Horowitz
Ambassador

TABLE OF CONTENTS

LIST OF ABBREVIATIONS

ADB - African Development Bank

AGE - Association of Gambian Entrepreneurs

CRS - Catholic Relief Services (USA)

ECOWAS - Economic Community of West African States

EEC - European Economic Community

EFPA - Economic and Financial Policy Analyses project

ERP - Economic Recovery Program

FAO - Food and Agricultural Organization (UN)

GARD - Gambian Agricultural Research and Diversification project

GCCI - Gambia Chamber of Commerce and Industry

GCDB - Gambia Commercial and Development Bank

GCU - Gambia Cooperatives Union

GDP - Gross Domestic Product

GNIC - Gambia National Insurance Corporation

GOTG - Government of The Gambia

GPMB - Gambia Produce Marketing Board

GTTI - Gambia Technical Training Institute

GWFC - Gambia Women's Finance Corporation

GUC - Gambia Utilities Corporation

HRDA - Human Resource Development Assistance project

IBAS - Indigenous Business Advisory Service

IBRD - International Bank for Reconstruction and Development (The World Bank)

IDA - International Development Association (of the World Bank)

IESC - International Executive Service Corps

IFPRI - International Food Policy Research Institute

IMF - International Monetary Fund

ITC - International Trypanotolerance Center

LMB - Livestock Marketing Board

MOA - Ministry of Agriculture (GOTG)

MDI - Management Development Institute

MRC - Medical Research Council

NIB - National Investment Board

NGO - Non-Governmental Organization

OAR/Banjul - Office of the AID Representative/Banjul

ODA - Overseas Development Agency (UK)

OMVG - The Gambia River Basin Authority

PCVs - Peace Corps Volunteers

PVO - Private Voluntary Organization

SDRs - Special Drawing Rights (IMF Currency Basket)

SME(s) - Small & Medium-Sized Enterprise(s)

SOE(s) - State-Owned Enterprise(s)

SSE(s) - Small-Scale Enterprise(s)

STC - Save The Children (US)

SWM - Soil and Water Management project

UNDP - United Nations Development Program

USAID - United States Agency for International Development

WAMU - West African Monetary Union

CURRENCY EQUIVALENTS

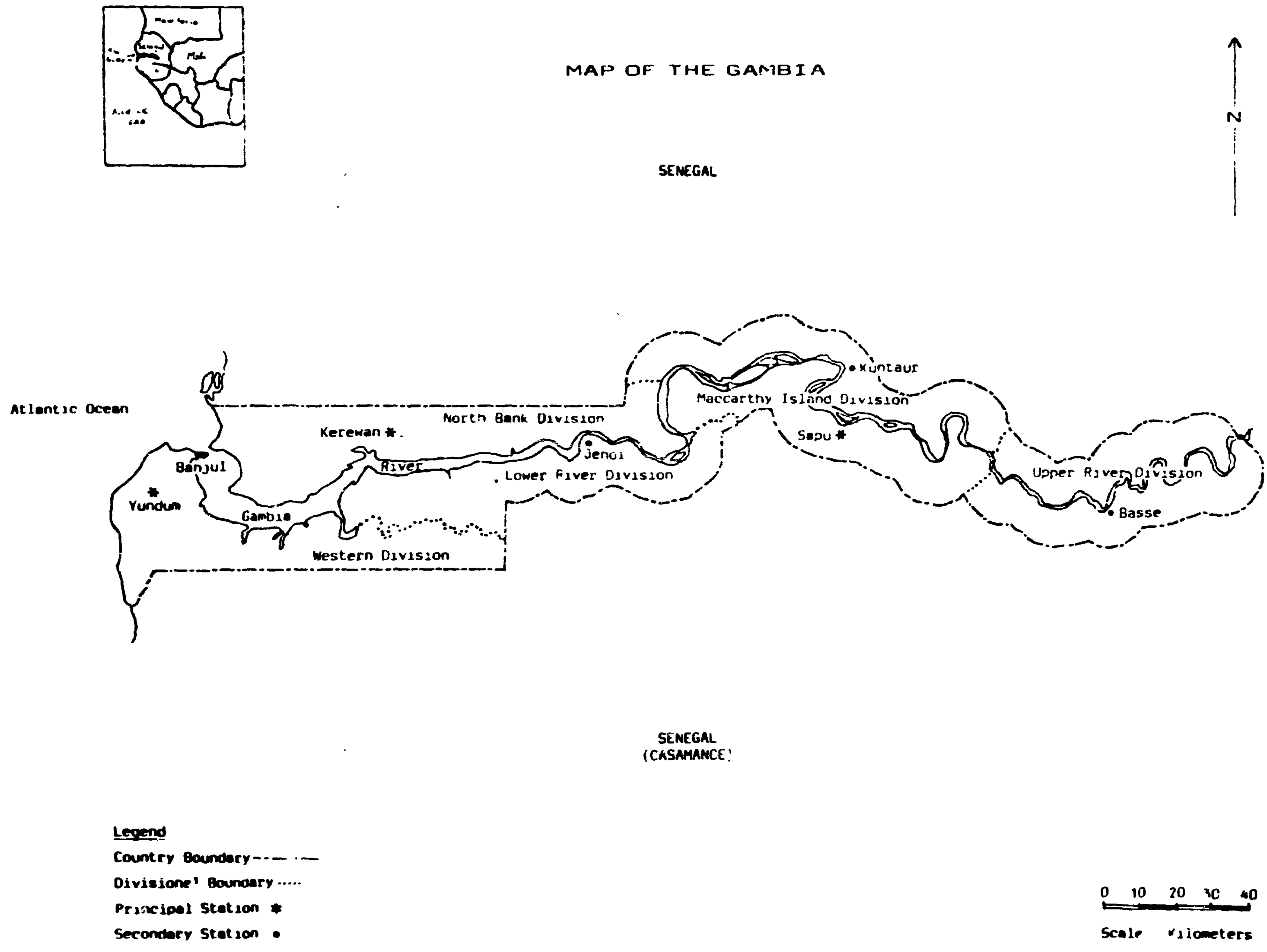
7.00 Dalasis = 1.00 US Dollar

12.00 Dalasis = 1.00 UK Pound Sterling

1.30 US Dollar = 1.00 SDR

Government of The Gambia Fiscal Year: July 1 - June 30

MAP OF THE GAMBIA



EXECUTIVE SUMMARY

The Gambia is a democracy with a liberal economy undergoing successful structural adjustment, having experienced growth rates of 5% over the last three years. However, its low per capita GNP of $230 still makes its one of the world's poorest countries. The country has a poor natural resource base and relies on agriculture, trade, tourism and a few light industries for its livelihood. Under its Economic Recovery Program (ERP) unusually high levels of donor assistance helped reduce debt arrearages and build up foreign reserves. In addition, inflation came under control, the exchange rate was stabilized and Government borrowing was reduced.

While The Gambia remains vulnerable to natural disasters and turmoil in world markets, the CDSS period should see it move through the recovery phase and into a sustainable growth path based on continuing reforms and adjustments. Its most significant macroeconomic problems are external debt (185 percent of GDP in 1988), debt servicing requirements equal to 43% of net export earnings and a budget deficit standing at 12.5 percent of GDP. The Gambia is borrowing to pay existing debt but only at concessional (IMF and IDA) rates. The principal tasks facing the country are to increase domestic savings, to attract increased private investment and to raise agricultural productivity.

Historically, The Gambia's development has been inhibited by weak public institutions, especially its state-owned-enterprises (SOEs). Agriculture, where 70 percent of the population work, has stagnated over the last ten years. The country's infrastructure needs improvement, its human resource base is narrow and its small, impoverished population offers a small domestic market.

Despite these constraints, the Mission has identified significant opportunities for productive private investment in agribusiness, light industry and services as well as in agriculture that can contribute to increased productivity, income and exports. In agriculture, sesame production, horticulture, cattle, and poultry are examples of sound opportunities to generate growth. Examples of profitable investment potential in other areas are vertically organized fruit and vegetable export; fruit and vegetable processing and use of by-products; shrimp-farming; tourism; assembly and textiles; and feed milling.

In these efforts, The Gambia's comparative advantages are: a stable democracy, an open economy with an attractive investment code, low labor costs, an excellent port, good coastal climate, an experienced trading community and a favorable location vis-a-vis both regional and European markets.

For the CDSS period, the Mission proposes two sector grant programs, one for economic policy and private sector development and a second for agriculture and natural resources assistance. The Mission's objectives are to sustain and enhance a policy environment conducive to increased savings and investment and to support policy reforms and institutional changes which will protect the natural resource base and lead to sustainable growth in agricultural productivity.

The Economic Policy Reform and Private Sector Development Program Grant would involve cash transfers, technical assistance and training aimed at strengthening financial sector institutions, improving the investment climate and procedures, promoting productive investment, assisting in privatization of SOEs, and aiding in economic and financial policy analyses in support of continuing structural adjustment. These functions would be managed under a technical assistance contract with an experienced management and/or venture capital firm.

The Agricultural and Natural Resources Sector Assistance Program Grant would continue agricultural sector reforms and the successful research efforts of the current program while broadening the scope of natural resource management approaches to include agroforestry, biological diversity and tropical forest protection, in accordance with its Natural Resource Management Action Plan. The program would strengthen institutions and linkages between institutions involved in agricultural development and natural resource management. The focus would be on policy measures and action programs needed to involve rural communities in the active protection of the environment, including forest parks, community forests and pastures, and national parks. This program also will involve cash grants and a training element. A technical assistance contract would be used to implement the program.

Design of the Economic Policy Reform and Private Sector Development program would be undertaken in FY 1990, using AID/W, REDSO/WCA and Mission staff along with private sector consultants and Gambian counterparts. The design would center on opportunities and strategies for investment, means of improving the investment climate, and the institutional needs of financial sector institutions.

The Agriculture and Natural Resources Assistance Sector Program will be designed in FY 1991, based on a sectoral assessment in late FY 1990. The design will focus on institutional arrangements, policy change, human resource development needs and research requirements.

I. OVERVIEW: THE ENVIRONMENT FOR DEVELOPMENT

A. GENERAL BACKGROUND: The Republic of The Gambia is a Sahelian country situated on the coast of West Africa at 13 degrees above the Equator. It is the smallest country in continental Africa and it has one of Africa's highest population densities. With a GNP per capita of $ 230 (1988) it is also one of the poorest countries in the world. Its area of 11,295 square kilometers, inhabited by some 800,000 people (1988), forms an enclave within Senegal stretching about 350 kilometers up both sides of The Gambia River. The width of the country varies from 26 to 48 kilometers, making the river the principal geographic feature.

1. THE POLITICAL ENVIRONMENT: Politically, The Gambia is one of the few functioning, multi-party democracies in Africa. In the most recent election (March, 1987), five political parties fielded candidates for the 36 member Parliament and three candidates, including the incumbent President Dawda Jawara, vied for the Presidency. All observers agree that the election was conducted in an open and fair atmosphere. The election was widely viewed as a popular referendum on the Government's structural adjustment reform effort which had been underway for 20 months at that time (see below, "The Economic Recovery Program"). The President was re-elected with 60% of the popular vote and the ruling People's Progressive Party won the majority of Parliamentary seats (32).

Because The Gambia's tariffs are considerably lower than those of its neighbors, there is a sufficient price differential for Gambian merchants to import bulk commodities (e.g. textiles, sugar, rice, flour, cement), pay The Gambia's customs duty, sell the goods at a profit to foreign traders, and still leave sufficient margin for the foreign traders to cover their own transport costs and provide a profit as well. These sales, known as re-exports, are legitimate commerce in The Gambia but are viewed as smuggling particularly by the Government of Senegal (GOS) because traders do not pay the Senegalese duties for goods entering Senegal and because some Gambian re-exports are believed to compete with Senegalese manufactured goods. Thus, one problem for The Gambia is how to keep good relations with its neighbors while maintaining a favorable tariff structure. Given the growing importance of the re-export trade to the balance of payments (BOP) situation since 1985, this may be difficult.

2. THE SOCIAL ENVIRONMENT: The Gambia, like most African countries, is not ethnically homogeneous. It is predominantly Muslim and comprised of many of the same peoples that live in Senegal and other neighboring countries, with the dominant ethnic groups being: Mandinka (40% of the population), Fula (17%), Wolof (13%), Jola (10%) and Serahuli (7%), according to the 1983 national census. The population has been growing at a rate of about 3.0% per annum, and 0.5% of that increase is due to immigration from surrounding nations. Indeed, an estimated 10% of the population is comprised of non-Gambians who are trying to escape harsher conditions in their own countries or searching for opportunities in the liberal market economy of The Gambia (ref: Swindell, 1982).

Most Gambians (70%) earn their livelihood from farming, supplemented by fishing and other activities. But recently, more people have come to reside in towns and in the semi-urban area near Banjul, the capital. According to the most recent census (1983), 21% of the nation's population resides in Banjul and its environs. Being an island has limited Banjul's expansion to only 12% over the ten years since the previous census (1973). However, the nearby Kanifing Municipality grew 157% during that same period, from 39,404 (1973) to 101,431 residents (1983).

Much urban growth has been directly related to the expansion of Government employment which took place during the decade from 1975 through 1985 when there was heavy investment in urban infrastructure and a rapid expansion of the public sector. To fund this public investment program, the Government borrowed heavily, both internally and externally. Unfortunately, the investments and expansion of public sector employment did not result in a commensurate increase in productivity, leaving the Government with a heavy debt burden but little additional capacity to service it, except through taxation of the core productive sectors of agriculture and trade. These policies exacerbated the outflow of productive labor from the agricultural sector, contributing to stagnation in that sector. Thus, an important task for the Government is to create sufficient incentives to encourage private sector expansion to absorb the urban work force. At the same time, it must provide for growth in rural employment opportunities.

3. <u>ENVIRONMENTAL FACTORS</u>: Like other Sahelian states, The Gambia's economic potential is strongly influenced by its environment. Its location on the Atlantic Ocean and its river make fishing and bulk transport important economic activities. The Gambia River is tidal, with salt water reaching as far as 250 kilometers up-river during the dry season and 150 kilometers during the rainy season. It is fully navigable by ocean-going freighters as far as Kuntaur, which is 160 miles (240

kilometers) up-river from the port of Banjul. In the recent past, the river was the most important transportation route but the construction of a tarmac road parallel to the river and the effective decapitalization of the Gambia River Transport Company (GRTC) by its parent company, the Gambia Produce Marketing Board (GPMB), has led to a dramatic decline in river-borne commerce.

The movement of bulk goods between the north and south banks of the country is difficult and time consuming. There are no bridges across the Gambia River. The Government of The Gambia (GOTG) has an ambitious plan to build a bridge-barrage across the river, with the bridge providing a transport link while the barrage would provide a reservoir of water for irrigating several thousand hectares of land. A bridge would benefit The Gambia but it would be of more use to Senegal because it would make transport and communications between the capital, Dakar, and the southern province of Casamance much easier. However, several studies, including a comprehensive 5 volume report completed for the Gambia River Basin Authority (OMVG), show that a barrage is neither economically feasible nor an environmentally sound idea (ref: USAID: OMVG studies, 1985, and Webb, 1984.). To date no donor has been willing to provide financial assistance for this very expensive (estimates of $ 400 million) and highly risky endeavor.

The Gambia's climate is characterized by a short, humid, rainy season from July through October, when most farming is done, and a more temperate, dry season for the remaining eight months of the year. Average annual rainfall varies from about 1000 millimeters in the west to approximately 650 millimeters in the middle and eastern parts of the country. However, there has been a long-term decline in total annual rainfall during the past twenty years. Thus, one important development problem for The Gambia is to maintain agricultural productivity in the face of declining rainfall.

Indeed, because of low rainfall during the late 1970s and the early 1980s, salinization in the Gambia River increased, making the adjacent swamp rice lands useless for farming. In addition, the increasing use of firewood for fuel has reduced the nation's forests and, combined with the unmanaged burning of the remaining vegetation, led to a rapid loss in soil cover and soil fertility. Thus, another important development problem for The Gambia has been to reclaim land lost to salinization and to protect the cover of upland farming areas.

4. HEALTH AND POPULATION: The primary health care system is well supported by the GOTG and the donors. There is 70% immunization coverage by the age of one year as estimated by the UK-funded Medical Research Council (MRC). Access to primary health care facilities is widespread in this small, but densely populated country. Indeed, infant mortality rates have dropped steadily from 220 deaths per 1000 births in the mid-1960's to 142 per 1000 in 1987. However, life expectancy remains low, being 39.9 years for women and 38.4 for men, partly because of the high mortality rate in the one to five year old age group. Because of the high immunization rate, childhood deaths are principally due to neonatal causes, acute respiratory infections and malaria followed by meningitis, and chronic diarrhea. Most of these peak during the rainy season (refs: Greenwood, 1987; Thompson, 1967; and GOTG, MOH 1987 Report.)

According to a recent (1989) FAO study, the level of nutrition among Gambians is about 1800 kilo-calories per day, which is 81% of the recommended FAO level of caloric intake of 2230 kilo-calories per day. Urban residents consume about 2200 kilo-calories per day (97% of the recommended level), whereas rural dwellers average only 1660 kilo-calories per day (75% of the recommended level). An MRC study of Keneba (Lower River Division), indicates that women have the lowest intake levels at 1200 kilo-calories per day with pregnant and lactating women consuming slightly more at 1550 and 1700 kilo-calories, respectively.

However, MRC professionals do not consider that these figures indicate a crisis. They believe that disease is a more important cause of malnutrition than dietary factors because diseases depress appetites, leading to malnutrition and immune system breakdown. The critical interventions are therefore seen as preventive medicine rather than nutritional. Moreover, some MRC professionals believe that FAO recommended calorie levels are too high and that rural African populations are more efficient users of energy than urban Western statistical reference groups. Nonetheless, malnutrition is a serious harvest season problem (September/October), which especially affects women and young children. Most studies agree that malnutrition in pregnant and lactating women leads to low birth weights and high risks of infant malnutrition, especially in rural areas, and that children between the ages of 7 and 19 months are the most malnourished age group in The Gambia (refs: Greenwood, 1987; Thompson, 1967; and GOTG, MOH Reports, 1987 and 1989).

Despite a relatively high mortality rate and low life expectancy, the population of The Gambia is estimated to be increasing at an average annual rate of about 3.0%. One-half of a percent of this increase is attributable to immigration. Family planning services are available through the Gambia Family Planning Association (GFPA), an indigenous NGO, and through government health centers nationwide. GOTG data indicates that only about 6.4% of the population use the services of the GFPA. A nationwide survey at the end of 1988 documented a total fertility rate of 6.4% and a contraceptive prevalence rate of 15%.

5. EDUCATIONAL FACTORS: The adult literacy rate is about 25%. No more than 36% of Gambian males and 15% of Gambian females are literate, according to data gathered in 1985. Since independence, the GOTG has increased its budget support for education, and primary school enrollment has risen from under 20% in the mid-1960s to about 51% today. Nearly 65% of the boys of primary school age are enrolled, while only 37% of the girls are in school. The GOTG has set a goal of 75% enrollment for both sexes in primary school by the year 2000. In support of that goal, the World Bank is expected to provide an IDA loan of about $20.0 million for primary education.

Among adolescents, a total of only 14.4% of the total age group attend secondary school. More young men (16.7%) than young women (6.8%) attend secondary schools. Post-secondary enrollment is even lower, with only 0.5% of the total age group enrolled (0.8% of the young men and only 0.2% of the young women). One reason for these low enrollment figures is that The Gambia has only three post-secondary schools: Gambia Technical Training Institute, The Gambia College and a School of Nursing. The

Gambia College offers a three year associate degree but there are plans to upgrade its capacity to a four-year BS/BA institution over the next several years with help from several donors.

6. THE ECONOMY: Agriculture and trade are the mainstays of The Gambia's economy. Groundnuts and groundnut by-products are the leading domestically-produced exports but fish and shrimp are also becoming important. The Gambia's location, open borders, and low tariff structure make it an active entrepot for trade with the rest of the region, and the re-export trade has become a major economic activity.

The Gambia's economy can be divided into three major sectors: agriculture, industry and services. Seventy percent of the workforce is engaged in agriculture, contributing 28% of the Gross Domestic Product (GDP). Industry, with 9% of the labor force, comprises 10% of GDP, while services (including trade) employ 21% of the workforce but contribute 62% of GDP. Thus, per capita contribution to GDP is greatest in the services sector and lowest in the agricultural sector.

Agricultural sector activities include: groundnut farming which is about 8% of GDP; all other crops (maize, millet, sorghum, rice, and small amounts of fruits and vegetables, cotton and sesame) are about 9% of GDP; livestock contributes about 8% of GDP; and fishing adds about 2% of GDP. Industry consists of manufacturing, which is about 5% of GDP, and construction, which contributes 4% of GDP. Among services, trade dominates with a 26% share of GDP. Only one-fourth of trading activity is related to groundnuts, indicating the importance of other kinds of commerce, especially the re-export trade, to GDP. Government services comprise 12%; transport and communications contribute 9%; and tourist services (e.g. hotels and restaurants) account for 5% of GDP.

Since FY 1985, the re-export trade has been one of the most dynamic sectors of the economy, expanding to meet the strong regional demand for goods from Senegal, Guinea-Conakry, Mali, Mauritania and Guinea-Bissau. The importance of the re-export trade to the economy can be illustrated by examining the FY 1987 balance of payments (BOP). In that year, total domestically produced exports had a value of 12.1 million SDRs, with groundnuts comprising 81% at 9.8 million SDRs. However, total exports (including re-exports) were 57.4 million SDRs, with re-exports having a value of 45.3 million SDRs, fully 79% of the value of all exports. When imported, these commodities were worth about 25.9 million SDRs. Thus, approximately 19.4 million, or 43% of the re-export value, represents value added to these commodities by GOTG duty, local handling and storage costs, and profits (ref: GOTG and IMF data).

With no known important mineral or natural resources, except its river and tourist beaches, The Gambia is heavily dependent on the foreign exchange earned from agricultural exports and the re-export trade for the importation of essential goods and services. From its independence in 1965 through the mid-1970s, The Gambia maintained broad balance of payments equilibrium and achieved impressive rates of real economic growth. However, the economy deteriorated in the late 1970s and by the early 1980s The Gambia faced a severe BOP crisis caused by both external and internal factors. By January, 1985, foreign exchange reserves were exhausted and the GOTG had accumulated an enormous external debt and budget deficit that undermined its development efforts. To address this crisis, the GOTG launched a comprehensive structural adjustment effort known as the Economic Recovery Program (ERP).

B. <u>THE GOTG ECONOMIC RECOVERY PROGRAM</u>: Through its ERP, which began in June, 1985, the GOTG has halted the deterioration of the economy and begun the process of economic recovery. The implementation of a series of mutually reinforcing and complementary policy reforms, combined with favorable weather and heavy donor support, has led to three consecutive years of economic growth. Among the most effective policy reforms of the ERP has been the flexible exchange rate system. It closed the gap between the official bank rate and parallel market rate for foreign exchange and, combined with a liberal interest rate policy, restored private business confidence in the banking system and led to a flow of hard currency into the banks. The GOTG also expanded its liberal trade policies by ending the parastatal monopolies over the rice and fertilizer trades, and ending subsidies and retail price controls. These policies re-oriented the economy towards free market forces and encouraged the private sector to expand its activities. Moreover, the GOTG embarked on a comprehensive public sector reform program designed to reduce the role of government in the economy and give impetus to private enterprise. The Civil Service was dramatically reduced and currently is being reorganized; state-owned enterprises (SOEs) are being put under performance contracts based on commercial standards of operation; and assets and operations of some SOEs are being divested and privatized. About 3800 employees (26%) of the Civil Service were cut and offered adjustment loans through the Indigenous Business Advisory Service (IBAS). While there is no statistical data on where the terminated workers found employment, anecdotal evidence indicates that many returned to farming while others found employment in the rapidly expanding private sector: in services, manufacturing and construction.

These successful policies helped The Gambia achieved a real GDP growth rate of 5.5% per year from FY 1986 through FY 1988. For 1988, The Gambia's GDP reached 1257.8 million Dalasis (about $182.5 million) in nominal terms, which is about $150 per capita. During 1988/89 agricultural production increased for the third consecutive year, tourism continued to grow, construction activity expanded, the range of financial services broadened, and wholesale and retail trading activity rose, which increased incomes. As a result, there was a 2% increase in GDP per capita, the third consecutive year of real growth in per capita incomes. According to GOTG statistics, the sharpest increase in incomes occurred in the rural areas where, after years of poor harvests, low producer prices and neglect of agriculture in the national development effort, incomes rose a total of 15% per worker during the FY 1986-88 period. By redirecting incomes to the poor, rural members of Gambian society, the ERP has been one of the most potent forces for development in The Gambia since Independence. Prudent monetary and fiscal policies brought inflation down. By March, 1989 inflation was running at an annual rate of 7.5%, well on track to the 1990 target of 5% per annum. In addition, the GOTG continues to reduce its budget deficit (excluding grants), lowering it from 21.9% of GDP in FY 1986 to a projected 6.0% in FY 1989. These statistics indicate that a strong foundation for economic growth has been put in place. However, part of that foundation rests heavily on official development assistance. Hence, one important development task for The Gambia will be to mobilize the domestic and foreign private investment needed to generate sustained growth while donor support is reduced to sustainable levels.

The ERP has succeeded in revitalizing the economy and the country is well into the recovery phase, which to date has been characterized by a determined, sustained effort by the GOTG to deepen the process of reform. By October 1, 1990, the commencement of the CDSS period, studies should be completed covering major economic institutions; performance contracts will have been signed between the Government and the major parastatals; detailed content of major reforms in the agriculture sector will have been decided; the complex process of privatization should have become well defined; and financial sector reforms will also have been clearly identified.

Barring natural disaster or turmoil in world markets, the CDSS period should see The Gambia move through the recovery phase of the ERP and on to sustainable, renewed growth based upon successful competition in regional and world markets. Throughout the period, further reforms and adjustments will continue to be implemented, particularly in the financial and agricultural sectors. It should be a period of continuity for the AID program, since many of the studies and reforms will have been sponsored or co-sponsored by OAR/Banjul and follow-through actions are likely to receive AID support. In the early part of the CDSS period the OAR/Banjul role will be basically facilitative, provided that the over-all process of adjustment continues to be productive, well coordinated and transparently trustworthy.

The ERP has been a conservative, market-based program from its inception, as described by the IMF in late 1988: "The Gambian authorities are again to be commended for their continued implementation of prudent financial policies" (ref: IMF, SM/88/245). Annex 1 presents projections of key external finance indicators developed by the GOTG and the IMF through FY 1993, three-fifths of the CDSS period. (Projections are based on the October, 1988 Policy Framework Paper negotiated between the GOTG, and the IBRD and IMF.) These projections show the continuation of the fundamentally conservative nature of the ERP. The basic objective in the external accounts is to reduce the vulnerability of the Gambian economy by building up foreign exchange reserves to the equivalent of six months of imports. If The Gambia continues to build up confidence in this eminently sound manner, interest rates may be expected to decline as the need to restrict monetary growth in order to protect the exchange rate is eased (provided that world interest rates do not rise). During the early part of the CDSS period, however, Gambian interest rates may be high, although they will continue to be market determined because any type of subsidized credit program is contrary to the ERP.

A <u>sine qua non</u> for the continuation of the ERP is that external arrears be retired as soon as possible. By the beginning of the CDSS period that task, involving total payments of roughly $114 million, is scheduled to be completed. The debt service ratio is projected to drop sharply in FY 1991 after arrears are retired, rise by roughly ten percent in FY 1992 as Paris and London Club rescheduled debt becomes due, and thereafter to decline slowly from a level of 25% of receipts from exports of goods and nonfactor services. Debt service payments are projected to decline as a percent of GDP from an extraordinary 49% (FY 1987) to 11.8% in FY 1993, and to decline slowly thereafter. According to the projections in Annex 1, exceptional finance to support the ERP, including participation by AID, will cease roughly coincident with final retirement of arrears.

The debt management program implicit in Annex 1 is predicated upon strong growth in the volume of Gambian exports and for slow growth in import prices. The low scenario in Annex 1 sketches the consequences if these two trends are not realized. Under that scenario, in order to service the external debt while maintaining an essential level of imports, The Gambia would be forced to start drawing down its foreign exchange reserves about a year after retiring all arrears. The goal of maintaining a confidence-inducing level of reserves would slip out of reach, illustrating how delicately the recovery scenario is balanced between the need to protect the external accounts and the need to resume rapid growth, especially in imports.

It is reasonable to postulate that donor assistance would increase if emerging problems under the low scenario were due to exogenous market conditions. The economy's vulnerability and dependence upon the donors would then be prolonged, even increased. Annex 1 projections show a steady decline in the current account deficit as a percentage of GDP under the high scenario but stagnation at around a quarter of GDP under the low scenario. The high scenario would enable the GOTG to realize its objective of financing the current account deficit by FY 1991 totally by normal concessional inflows. In theory, since only modest but sustained private capital account surpluses are anticipated in the medium term, sharply increased private investment could offset some portion of the requirement for concessional assistance. Such a trade-off would be plausible only under buoyant market conditions.

It is important to note that The Gambia is not building a case for great increases in aid, exceptional financing or further debt relief. The GOTG has mapped out a medium-term external finance strategy predicated upon normal concessional inflows and a continuing moratorium on non-concessional finance. If this intent is not realized, the phase of recovery and consolidation likely will be extended. However, while such a development would be disappointing, measures introduced under the ERP could continue.

Domestic financing of the ERP is expected to increase as the GOTG continues to implement a conservative fiscal policy designed to both constrain growth in expenditures by the public sector (including parastatals) and hold revenues at roughly 25% of an expanding GDP. Expenditures would drop from an estimated 48% of GDP in FY 1988 to 30% in FY 1991. Private saving and investment behavior is projected to increase by the early 1990s as confidence continues to build and as interest rates drop with declining public sector claims upon credit. While the investment/GDP ratio is projected to remain at roughly 19% between FY 1988 and FY 1993, the domestic savings ratio is projected to more than double, from 6.4% (FY 1988) to about 14.5% during FY 1991-1993. Over the same period, official aid receipts are expected to drop by nearly one-third. This projected substitution of domestic for external financing of public investment is essential to sustain economic growth with moderate debt service levels.

Donor assistance in the form of BOP support (cash and commodities), debt relief, development grants and technical assistance, has played a vital role in the progress achieved under the ERP. In the first three years of the ERP (FY 1986-88), support of approximately SDR 77.2 million was provided by the International Monetary Fund (IMF), the World Bank (IBRD), the European Economic Community (EEC), the United Kingdom, the African Development Bank (ADB), the Netherlands, the United States, Japan and Saudi Arabia. SDR 13.4 million of the support was in the form of commodity aid. Technical assistance amounting to about SDR 57.3 million was also provided by bilateral and multilateral organizations as well as PVOs. Gambian commercial and official debts of SDR 25.2 million were rescheduled through the London and Paris Clubs, respectively. Total external assistance amounted to SDR 31 million in FY 1986 (19.7% of GDP), SDR 74.4 million in FY 1987 (63.2% of GDP), and SDR 41.5 million in FY 1988 (29.7% of GDP). Approximately SDR 59.4 million in external aid (37.8% of GDP) is expected in FY 1989.

While the amount of donor assistance has been significant and essential to the success of the ERP, the GOTG does not expect such high levels of aid to be sustained over the long term. Development is to be increasingly financed through the budget by running a current account surplus. Furthermore, the GOTG is laying the groundwork to attract increased domestic and foreign private investment. A comprehensive new investment code was enacted through the 1988 Development Act. Export-oriented industries are being encouraged under the terms of the new code, and new investments have come in the fisheries sector, especially in shrimp, in the tourism sector, and in assembly industries. Government divestment of its shares in fisheries and tourism has also promoted private investment in these activities.

II. CONSTRAINTS AND OPPORTUNITIES

A. MACROECONOMIC FACTORS: Despite the economic progress made through the comprehensive and courageous policy reform efforts of the

Economic Recovery Program, there are still several constraints which impede the ability of The Gambia to sustain development. The Gambian economy remains highly vulnerable to adverse shifts in external conditions and to any lessening of commitment to maintain the pace and direction of the reform effort. This vulnerability is especially evident in the size of the consolidated budget deficit (excluding foreign grants) and in the external debt and arrears. The vulnerability will persist until at least the mid-1990s when the effects of the London and Paris Club reschedulings of debt will work their way through the economy. Finally, business and consumer confidence that has contributed to the economic revival could evaporate if the Government were to abandon key elements of the ERP, such as the floating exchange rate, a realistic interest rate policy, the commitment to avoid non-concessional borrowing, or its encouragement of private sector activity, particularly its privatization efforts.

1. THE DEBT PROBLEM: The Gambia's most severe macroeconomic constraints are the large current account deficit, an enormous external public debt and debt service requirements, and chronic budget deficits (excluding grants). The Gambia's current account deficit (excluding official transfers) in June 1988 was estimated at $41.5 million, or about 24% of GDP (see Annex 1). The total external public debt stands at about $338.6 million and, while not large when compared to other LDC national debts, as a proportion of GDP it is an enormous 185%. Moreover, debt servicing requires about 128% of domestic merchandise export earnings, or 49% of total export earnings. Total external arrears, while falling as a result of intensive GOTG repayment efforts, still stand at $32.5 million,

and they will not be completely eliminated until FY 1991 and then only if the nation meets the IMF performance criteria and receives all of the aid for which it is programmed. Similarly, while the GOTG has made commendable efforts to reduce its budget deficit (excluding grants) to only 6% of GDP for FY 1989, the gap is still significant, being about $10.0 million (or 70.0 M Dalasis).

With these external and domestic financing constraints, continued borrowing to finance development will only leave The Gambia on a debt treadmill. To ensure that the external debt burden does not increase, the GOTG should encourage domestic savings, reduce public investment in areas where private investment is expanding, improve the productivity of capital, and encourage greater foreign equity investment.

2. INSTITUTIONAL CONSTRAINTS: One important institutional constraint is that inefficient SOEs still dominate certain areas and activities of the formal sector. This includes groundnut marketing - the Gambia Produce Marketing Board (GPMB) and the Gambia Cooperatives Union (GCU); livestock marketing - the Livestock Marketing Board (LMB); power generation and water services - Gambia Utilities Corp. (GUC); telecommunications (Gamtel); and financial services - the Gambia Commercial and Development Bank (GCDB), the Gambia National Insurance Corp. (GNIC), and the Social Security Housing and Finance Corp. (SSHFC). As part of its ERP, the GOTG is committed to public sector reform and, as part of that effort, three SOEs have signed performance agreements (GPMB, GUC and the Gambia Port Authority) and three more will be signed in FY 1989 (SSHFC, Gamtel and the Gambia Public Transport Co.). Moreover, the GOTG is divesting activities and operations of the SOEs in order to

increase the role of the private sector. These efforts must continue if the performance of the public sector and the rest of the economy is to improve.

Perhaps the most severe example of the macroeconomic damage done by an SOE is that of the GPMB. During the late 1960s and throughout the 1970s, the GPMB, with its state monopoly over groundnut marketing and processing, depressed productivity and capitalization in agriculture by maintaining stable but relatively low producer prices in the face of high world prices. Moreover, GPMB used its authority to license traders to give preference to the GCU to the neglect of non-indigenous traders who gradually were forced out of or left marketing. The GCU was unable to fill the void left by these traders who had provided a reliable input marketing and credit system, and this inhibited productivity as well. By the late 1970s the GPMB had built up a vast cash reserve of about $33 million which it used to invest in several secondary activities and from which the GOTG borrowed in order to finance its development program. Soon thereafter, world groundnut prices began to slide, local production fell, and GPMB's profits declined precipitously. By the early 1980s, GPMB was in heavy debt, its operating margins were in the red, its oil mill was losing money, and it was unable to maintain its plant and equipment.

Since 1986 many of GPMB's problems have been resolved, particularly as seen from the farmers' point of view. GPMB's activities and operations have been dramatically cut back; its principal function is to buy, process and export groundnuts and groundnut products. However, the damage which the GPMB and the GCU have done to the economy as a whole and to the agricultural sector in particular will be difficult to repair.

Private traders have been discouraged from most aspects of marketing and, even though it is under a performance contract, GPMB still impedes private enterprise. Moreover, GPMB's inefficiencies are likely to continue to exacerbate declining farmgate prices in a vicious circle of low producer prices leading to low productivity, leading to high per unit processing costs at GPMB and the need to lower prices again to cover diminishing revenues.

Restructuring the marketing system in groundnuts is being approached carefully by the GOTG. The process will take several years as delineated in a recent AID-funded study. Even this gradual approach is feasible only because of the new environment brought on by the success of the ERP, which has reduced the relative importance of the GPMB as a source of foreign exchange. Re-exports now comprise about 80% of total foreign exchange earnings for The Gambia. Thus the GOTG is more amenable to privatization of the GPMB. Fears still persist about the prospect of creating a private monopoly to replace a public one, but the latter has proven unsustainable and the former can be regulated. The latest analysis indicates that a privatized GPMB could yield better results by improved management and a better product mix. Processing sesame may also increase profits. As an indication of the potential for privatization, two foreign firms and one Gambian investor are interested in acquiring the GPMB's assets and operations.

The financial sector has been weakened by the past poor performance of the GCDB in loan recovery and the accumulation of debts by all major SOEs, especially the GPMB and the GCU. While reforms are underway at most SOEs, it will be some time before competent management and sound business practices become the norm. Although the prevailing economic environment militates against term lending this is not yet a constraint because there is no strong private sector demand for term loans and what demand exists is met overseas where interest rates are lower. Instead, private banks lend for secure, short-term commercial purposes, and they purchase Treasury bills. Overall net domestic savings have increased, primarily reflected in a declining GOTG budget deficit. The challenge facing The Gambia is to devise policies and to support institutions which will diversify financial markets and encourage long-term private investment, thus increasing opportunities for both savers and borrowers. There is a complementary need for the GOTG to improve its capacity to monitor and supervise the financial sector.

Another institutional constraint is that the infrastructure of The Gambia is not yet adequate to promote sustained economic development. Even in the capital, Banjul, there is not a reliable, constant supply of electricity or water and the roads are not always properly maintained. However, the GOTG, with donor support, is improving the infrastructure in the greater Banjul area.

One constraint The Gambia must overcome is its small domestic market. Therefore, attention has been given to access to regional markets and, increasingly, European markets. Production geared to a broader West African market has been hampered by neighboring countries' high level of protection of industries that are often state-owned. The Gambia faces regional tariff barriers because the Economic Community of West African States (ECOWAS) has not yet achieved any real harmonization of internal tariffs that would allow The Gambia access to a larger market. Nevertheless, a few small industries are penetrating those markets and major progress has been made in the re-export trade.

B. <u>AGRICULTURAL SECTOR FACTORS</u>: Despite the recovery which the agricultural sector has made during the past three years of the ERP, total production levels achieved in the FY 1988/89 crop year did not exceed those of ten years ago (see Annex 2). Agricultural output has not grown during the past ten years because of environmental factors, technical factors and policy decisions.

1. <u>ENVIRONMENTAL CONSTRAINTS</u>: As a Sahelian country with a narrow natural resource base and fragile soils, The Gambia is especially susceptible to environmental disasters and pestilence. Only about 40% (452,000 hectares) of the nation's soils are suitable for farming; 14% (158,000 ha.) are marginal soils; and the remaining 46% (519,000 ha.) consists of mangrove and saline swamps, forests, and pasture land unsuitable for farming.

According to the available rainfall data, there has been a gradual decline in average annual rainfall in The Gambia since the beginning of this century. While rainfall during the past four farming seasons has been timely and adequate, low rainfall levels during the severe droughts of the late 1970s and early 1980s resulted in increased salinization of the Gambia River and adjacent farmland. This led to the loss of farmland along the river's edge and declining levels of swamp rice production (see Annex 2). The donors have recognized this problem and are assisting in this area. For example, the USAID-funded Soil & Water Management project has been working directly with farmers to reclaim swamp rice lands lost to salinization. Economic analysis by the Gambia Agricultural Research and Diversification (GARD) project shows that these areas have excellent potential for increased production, especially by women farmers.

A major factor contributing to environmental degradation in The Gambia and exacerbating the problems facing farmers has been human and animal pressure on its natural resource base. A Mixed Farming project survey in McCarthy Island and Upper River Divisions indicated that farmers burn away an estimated 80% of the ground-level vegetation annually. Throughout the country, unmanaged fires damage and destroy mature trees, stop the regeneration of young trees, and cause soil erosion. Moreover, the unregulated exploitation of the forests for firewood, in the absence of an effective reforestation policy and program, has stripped much of the landscape and severely reduced the forest resources of The Gambia. While the Banjul Declaration (1977) is the nation's pledge to protect its flora and fauna from destruction, it has not yet been carried forward into a natural resource management program and strategy.

The natural resource base of the economy is also threatened by poor management of the nation's livestock. In 1985 there were about 300,000 cattle in The Gambia, or 29.5 cattle per sq. km., which is almost three times as many as are found in the Casamance (southern Senegal). Cattle are the most accessible investment for farmers to make. Currently, The Gambia's livestock sub-sector contributes about 133.43 million Dalasis ($ 19 million), or 23% of agricultural GDP (FY 1988). Cattle are an important source of rural incomes but their uncontrolled grazing in woodlands and pastures, especially during the dry season, further contributes to deforestation, destruction of plant species and erosion.

Farmers responded to the decline in rainfall and soil fertility by increasing their cultivation of short-maturing varieties of cereals, especially early millet for which plantings have increased at an annual rate of 17.7% since the drought of 1984/5 (see Annex 2). In addition, they have devoted more attention to irrigated rice, for which hectarage planted has increased by 11.3% over the past decade. Finally, in response to high market prices and high yields with adequate rainfall, some farmers have turned to maize as a cash crop.

2. TECHNOLOGICAL CONSTRAINTS: Since 1978, when about 174,000 ha. or only 38% of the available farmland was cultivated, the total amount of land in production did not increase until the 1988 season. (The only exception to this was in 1982 when about 182,000 ha. were planted with crops.) In part, this was because during the past ten years there has been an outflow of young men and women from rural to urban areas. It is no coincidence that 1978 represents the second highest level of area planted, because it was at that time that the GOTG embarked on its public sector expansion program which attracted young laborers to Banjul. No doubt, the hardships caused in rural areas by the onset of the Sahelian drought exacerbated this trend of out-migration.

During the past 20 years, Gambian farmers have steadily adopted higher rates of animal traction in an attempt to increase crop production. While this has mitigated the loss of labor caused by the rural to urban drift, continued reliance on rudimentary technologies and losses due to equine diseases among draft animals have inhibited major increases in production per hectare or the number of hectares cultivated.

The age composition of the rural population has been changing. Overall, rural populations have gone up by between 20% (e.g. North Bank and McCarthy Island Divisions) and 50% (Western Division) during the decade from 1973 to 1983. But the increases resulted in proportionately less productive labor because the population is becoming younger. By 1983, 45% of the national population was under 15 years of age. This meant that an aging rural population of farmers has been supporting a growing population of youngsters. This burden falls especially hard on women, who comprise fully 50% of the agricultural labor force, and are primarily responsible for feeding the household. Only in the past three years have there been per capita increases in food production.

3. POLICY CONSTRAINTS: With the size of the agricultural labor force generally stagnating relative to population growth rates, it is not possible to increase production through labor intensive methods. Agricultural productivity could rise through the use of more inputs (e.g. fertilizer, pesticides) and a change from labor-intensive to mechanized farming methods, but the SOEs which dominate input marketing do not supply adequate amounts in a timely manner. While many of the interventionist policies and practices which allowed the GPMB and the GCU to drive private traders out of many marketing activities have been discontinued under the ERP, the dominant position of the SOEs has not changed sufficiently.

Even policy changes themselves can be a mixed blessing. For example, exchange rate reform has increased nominal agricultural prices, giving farmers some incentive to improve productivity. However, with the ERP came an increase in the cost and a decline in the availability of formal credit, although the cost of informal credit may have decreased (ref: USAID, Shipton, 1987), and with the elimination of subsidies, fertilizer prices have increased substantially faster than producer prices.

Policy reforms are not always sufficient, in and of themselves, to effect the changes necessary to improve the efficiency and productivity of agriculture. For example, since the fertilizer trade was liberalized in FY 1986, no private merchant has imported any fertilizer for sale. This is because of a large fertilizer grant to the GOTG as part of a IDA-funded agricultural development project (ADP II). When the initial auction of this fertilizer was made, some private traders re-sold the fertilizer to Senegalese traders, which prompted the GOTG to stop sales to private merchants and confine sales to the GCU and an FAO fertilizer project. This has discouraged private traders from importing fertilizer because they fear government interference in the market; they also believe that farmers will not pay cash for the fertilizer because farmers are accustomed to receiving it on low credit terms from the GCU; and traders believe that farmers' credit discipline has deteriorated. Consequently, fertilizer supplies continue to be insufficient for intensified production.

Unsound government investment decisions and a relative lack of GOTG budget support also inhibited agricultural productivity from 1975 through 1985. Encouraged by donors, The Gambia over-invested in agricultural projects producing crops for which the nation does not have a comparative advantage. The best example of such unsound investments is the Jahally Pacharr irrigated rice project under which 560 ha. of pump-irrigated rice fields and 816 ha. of tidal irrigated rice fields were developed from 1981 to 1986. The total cost of this scheme is about $ 20 million, and according to a recent IFPRI study, it has cost about $ 15,000 to develop one ha. of rice land at Jahally Pacharr. To date, the project has not proved self-sustaining; the recurrent costs are not being borne by the farmers and despite significant initial amounts of expatriate technical assistance, the project has not operated efficiently. Since the early 1950s, when the Colonial Development Corporation selected the Jahally area for a mechanized rice development scheme, there have been four pump-irrigated rice development projects at the site. These were operated by the Taiwanese, the IBRD, the People's Republic of China and, now, the Netherlands. The colonial scheme failed in 1958, as did each successor project, because the project beneficiaries could not bear the recurrent costs of the project. Indeed, in over thirty years, there has not been a single viable pump-irrigated rice scheme in The Gambia (refs: Dey 1980 and 1981; von Braun and Peutz, and Webb, 1984; and USAID, Rural Development in The Gambia River Basin, 1985). Despite this record, the ABD is now initiating another irrigated rice scheme near Jahally Pacharr, funded by a short-term loan. But it is unlikely that this project will be sustainable either and another debt is being added to The Gambia's portfolio. However, there are very good prospects for increasing inland and swamp rice production.

The line departments of the Ministry of Agriculture (MOA) are beginning to see needed increases in their operating budgets. Inefficient execution of the budget still impedes operations but the GARD project has made progress in alleviating that constraint. There remains a scarcity of well-trained technicians in the MOA and in the private sector and there is a woeful lack of access to current farming technologies and other information at the farm level. Methods to improve productivity have been developed by research centers in West Africa; some have been developed under projects such as the USAID-funded Mixed Farming project which developed a maize promotion package that included a cattle-feed forage element. These research efforts plus promising work done with inland valley rice, improved groundnut stands, horticultural marketing and animal nutrition and health are continuing under the GARD project. Likewise, the skills of Gambian researchers are being developed. With increased support, research and extension activities should be more effective during the CDSS period.

Moreover, PVOs, often coordinating and colaborating with the research and extension services, have shown promising ability to raise agricultural productivity. Indeed, within the past decade, the only new crop successfully introduced and promulgated has been sesame, and this was accomplished by the Catholic Relief Service (CRS), working primarily with women farmers. Successful results have also been achieved by other PVOs, such as Save The Children (STC), which has worked with women gardeners in the North Bank Division.

The net result of declining rainfall and soil fertility and unsound policies has been declining per capita and total production levels, with modest recovery coming only with the implementation of the ERP and the return of normal rainfall. Nevertheless, with a rising population, The Gambia's structural food gap has increased. Because The Gambia does not produce enough cereals to meet domestic demand, commercial imports of about 40,000 metric tons (MT) of rice per annum are needed to cover that gap. But the nation still remains highly vulnerable to natural disasters and, during periods of drought or crop destruction by insects, rural incomes shrink and rural dwellers' capacity to buy food also declines.

C. OPPORTUNITIES IN AGRICULTURE: Despite the relative lack of support from the extension services, farmers have demonstrated initiative and responsiveness to changes in opportunities. Women have devoted more attention to inland valley rice cultivation. Women are also becoming more involved in horticulture marketing. Farmers have adopted animal traction and switched the mix of crops grown in response to environmental changes and changes in relative prices. Hence, while there are formidible constraints to be overcome, there is a solid foundation of accomplishments on which to build further progress towards increased productivity.

There are significant opportunities which are beginning to manifest themselves on Gambian farms. These include sesame, horticulture, livestock and poultry, and shrimp farming. Sesame is a crop with the potential to increase rural incomes, raise agricultural production, boost foreign exchange earnings and help diversify the base of the economy. Sesame has very low labor opportunity costs because it can be sown late in the rainy season after all other crops are maturing and it can be harvested after all other crops. Since its introduction by the CRS in 1983, planting has increased from about 30 ha. to about 8,000 ha. in the 1988/89 crop year. Women are the primary growers of sesame. Previously, marketing was a constraint but this year private traders have started buying the crop from farmers. Sesame yields have been very low, an average of 300 kgs. per ha., because inappropriate cultural practices have been followed and virtually no inputs have been used. But the CRS believes that average yields could easily double. With international prices for sesame in the $400 to $900 a ton range, the potential exists for real increases in rural womens' incomes.

Fruit and vegetable gardening offers promising opportunities for increasing productivity and rural incomes. The Gambia has an eight month dry season with four to five months of cool, sunny weather, which is ideal for growing many high value cash crops for the European market. A 1988 survey of 150 women gardeners showed that 60% of them had earned more than 1000 Dalasis ($142) from the rainy season sale of green peppers alone. Earnings of 2000 Dalasis were reported by 10% of the women. Such earnings improve both the food security and the status of women. Most vegetable gardeners use water from shallow wells. The more modern, high technology horticulturists, however, are relying on boreholes, tapping the deeper aquifers which flow towards The Gambia River. Some boreholes, such as those feeding the Banjul/Serrekunda urban complex, are over thirty years old and still functioning. OMVG studies indicate 30,000 ha. could be irrigated by groundwater in The Gambia. Some impressive, if uneconomical, installations for using water from boreholes have been established in several villages by the Islamic Development Bank. However, commercial horticulturists using simple techniques make much smaller investments to secure their water supplies. These firms are labor intensive and highly profitable because they can supply Europe with vegetables from November to early May. London is only five hours away by jet and commercial farmers are laying plans for dedicated cargo flights.

The export of live Ndama cattle from The Gambia has increased and the International Trypanotolerance Center (ITC) has conducted research which indicates that the breed has significant development potential. Normally seen as a stunted, skinny brute, the Ndama, with proper nutrition, can grow rapidly and achieve market weight within two to three years rather than the current four to six. Improved and controlled grazing and the use of sesame, groundnut, and cotton cake, maize, and rice bran provide excellent earning opportunities for farmers, most of whom own cattle.

The Mixed Farming project final report estimated that within a decade marketed off-take could double while the cattle population could be reduced by one-third. Improvements in cattle marketing through the privatization of the LMB, development of regional livestock markets, and promulgation of ITC's livestock management methods, could begin a process leading Gambian farmers to use cattle as annual income opportunities. Moreover, it could help to increase rural community interest in protecting pastures and woodlands from indiscriminate burning, so as to preserve forage for their herds.

A few modern poultry producers in The Gambia could produce broilers at costs comparable with those of Europe and the United States. For a variety of reasons, however, they do not often achieve that level of efficiency. The most efficient Gambian producers rely on imported day-old chicks, imported feeds and additives. Even local feed millers rely on foreign sources for their ingredients. Despite production problems caused by interrupted feed, water and electricity supplies, poultry sales to the local market, including tourist hotels, are on the increase. Again, The Gambia's coastal climate offers eight months of cool, dry weather, ideal growing conditions for poultry. Efficient producers also have opportunities in the regional market. Both the poultry and beef industries have potential for increasing the effective demand for local grain and other feed ingredients. Intensive and detailed hands-on research is needed, however, to create the linkages between the farm, the feed mill, the poultry producer and the consumer. GARD project researchers have also idenitified technologies that would effect significant increases in rice and groundnut production. Both of these crops are important for farm incomes and the BOP of The Gambia.

Likewise, GARD's work in animal health will benefit a broad spectrum of Gambian farmers.

D. OTHER OPPORTUNITIES (AGRIBUSINESS, INDUSTRY AND SERVICES):

Investment opportunities al-o exist in simultaneous, integrated development of primary and subsidiary enterprises. In such integrated enterprises, by-products of primary production can provide inputs for a secondary production process whose by-products are inputs to a tertiary process. For example, producing fresh fruit for export will result in a by-product of imperfect fruit as it is graded to guarantee the highest quality and price. Imperfect fruit provides the input for a pulping or juicing operation. The resultant waste from these processes provides feed for livestock and poultry enterprises, producing milk, meat, eggs, hides and skins which have additional market value.

Processed oilseed cake, meal and other by-products could support the expansion of the livestock industry. Increasing the domestic output of beef, poultry and eggs for sale to the tourist hotels would substitute for imports. A 1988 GARD Project analysis of the Gambian poultry industry indicated that a hatchery supplying the country's 18 poultry producers could be a profitable investment. Furthermore, tanning the hides and skins which are currently exported raw, would create value added as well as an input for manufactured leather products.

Ocean and river shrimp harvesting has been expanding rapidly because European demand thus far has been insatiable. A shrimp farm is just beginning to produce for export, having solved its start-up technical problems. Large quantities of land and saline water appropriate to such farming extend up river for more than 100 kilometers and could support expansion of this industry. Producing breeding stock and shrimp feed may provide additional private sector opportunities. Waste products from fish and shrimp processing are not currently utilized and could be used, together with available by-products from sesame and groundnuts, as ingredients in shrimp feed. The rapidly increasing production of sesame may also provide opportunities for processing and marketing specialty seeds and oils.

A light manufacturing firm, Afro-Hong Kong, recently established in Kanifing employs about 500 workers making shirts, sweaters and sandals and assembling watches for regional and international markets. Its success demonstrates that there are other private sector investment opportunities which should be explored. These include: light industry; construction; agribusiness and services (such as sesame and groundnut processing and sale of oil, cake, seed and nuts; processing or direct export of fruits and vegetables such as tomatoes, mangoes, grapefruit, and eggplant; coarse grain processing, especially hulling and milling operations; and production of livestock and poultry feed); transportation (e.g. trucks, buses and river craft); storage facilities in rural market towns; supplying food to the hotels and restaurants; and marketing artisanal products for the tourist trade.

Such enterprises usually begin as small or medium-sized ventures and are subject to many constraints, but the cumulative effect should create a breadth of internal economic demand that could eventually support projects of greater size and potential. This potential will be realized to the extent that investors are able to exploit the comparative advantages which The Gambia possesses: lower than average labor costs for the region; excellent port facilities; an experienced trading community;

a favorable Investment Act and codes; low tariffs on imports; and the absence of restrictions on exports or repatriation of profits or capital.

III. OAR/BANJUL DEVELOPMENT STRATEGY

SUMMARY OF OPPORTUNITIES AND CONSTRAINTS: The foregoing analysis illustrates that during the past three years of the ERP, commendable progress has been made by the GOTG through:

-- sound macroeconomic policies that have established liberal markets, a flexible exchange rate, positive real interest rates, and an investment code that encourages export-oriented industries; and

-- reducing the role of the Government in the economy by retrenchments in the Civil Service, privatization of some SOEs, divestment of other SOEs, and commercial re-orientation of the remaining SOEs.

These actions have contributed to the recent 5.5% GDP growth rates (2.5% GDP growth per capita), reduced budget deficits, lower inflation, less external arrears, and a decline in net credit to Government, with exports increasing relative to imports, and restoration of business and consumer confidence.

At the same time, evidence is accumulating that:

-- services and small industries, which comprise 50% of GDP and contribute 79% of total export earnings, are taking advantage of the improved policy environment to expand their export-oriented investments;

-- agricultural production, processing and marketing opportunities have been identified for selected crops (sesame, maize, and horticulture) and livestock for which viable technologies exist;

-- additional reforms in input and output marketing could increase groundnut production and exports (80% of domestic export earnings in FY 1988), offering a potential to boost rural incomes.

Despite the excellent performance of the ERP and significant advantages presented by the Gambian situation, there still are some fundamental difficulties to overcome, including:

-- a large external debt service burden and BOP deficit which only increased savings, investment, export earnings and donor assistance can bring down;

-- a highly variable price outlook for the principal commodities purchased and sold;

-- periodic droughts that depress domestic production and rural incomes;

-- a declining natural resource base;

-- inefficient SOEs which do not market inputs and outputs in an effective manner;

-- agricultural extension and research services which suffer from limited capacities and insufficient operating funds; and,

-- a low level of human resource skills.

Foreign debt and low agricultural productivity are The Gambia's two most serious problems. Sound macroeconomic policies, exceptionally high per capita levels of foreign assistance and good weather in recent years have turned the economy around and restored modest growth in per capita incomes. But more domestic investment and more productive use of existing resources, including land and labor in agriculture, will be the critical requirements for economic growth in the CDSS period and beyond.

FOCAL PROBLEMS: The two core challenges facing The Gambia in its efforts to achieve sustained economic growth are: (1) to encourage productive investments in all sectors so as to generate additional foreign exchange earnings, raise the per capita GDP, reduce the debt service ratio, and shrink the BOP deficit; and (2) to raise the productivity of the 70% of the population residing in rural areas so as to sustain increases in rural living standards, improve the physical environment, and increase foreign exchange earnings.

The Gambia has demonstrated promise by attracting investments in tourism, shrimp farming and light manufacturing. In the agricultural sector there are specific crop and livestock opportunities which are profitable and sustainable. With policy adjustments and institutional improvements, it is feasible to raise rural incomes in the short run. Medium to long term growth in agriculture will, of course, depend on the adoption of technological innovations emerging from scientific research and protection of the environment. The CARD project is helping to build the institutional capacity of the MOA to conduct such research.

A. STRATEGY SELECTION: OAR/Banjul's strategy is: (1) to build on the existing opportunities in the service and light manufacturing sectors which generate most of the foreign exchange that is used to reduce the debt service burden; and (2) to alleviate some of the key constraints which still impede rural productivity and limit farm incomes. In order to accomplish these things, the Mission will assist The Gambia to: (1) sustain and enhance a policy environment which will provide the incentives needed to increase savings and investment; and (2) support technologies, policy reforms, institutional changes and environmental protection measures which will raise productivity in rural areas.

OAR/Banjul proposes to concentrate its resources in two complementary sector grant programs which will increase savings and investment and result in sustainable increases in productivity in agriculture, industry and services. The sectoral program approach would enable OAR/Banjul to broaden the policy dialogue in both the financial and agricultural/natural resource sectors, and to increase the links between policy reforms and specific action programs to effect the policy changes. In the economic policy sector grant program, stronger ties between policy change and private sector development would be effected. In the agricultural and natural resource program, there would be a more effective linkage between protecting the natural resource base and generating sustainable increases in agricultural production by coordinating action programs in both areas. Both programs would involve cash transfers and both would emphasize the private sector as the central modality for growth. Because of the strong role women have in the Gambian economy, both programs would have a positive impact on women by expanding income-earning opportunities and increasing agricultural productivity.

This approach will enable OAR/Banjul to maintain successful project assistance activities while creating management efficiencies by combining the elements of six current projects so that Mission attention can be focussed on a minimum number of design and implementation elements. In addition, the programs would be structured to deal with disasters by allowing the use of local currencies for emergencies, thus permitting full attention to program implementation. These sector program grants are:

1. Economic Policy Reform and Private Sector Development: Activities in this sphere would include the following: policy analysis; investment promotion; market research; feasibility studies; privatization of SOEs; strengthening banking and financial institutions; and technical assistance and training.

2. Agricultural and Natural Resource Development: Activities in this sphere would include feasibility studies; support for reforms to improve agricultural input and output marketing by increasing the role of the private sector; budgetary and institutional reforms to increase the impact of agricultural research and extension activities; promotion of policies which will integrate natural resources conservation techniques with extension and research; community-based initiatives in land use planning and natural resource management; and technical assistance and training to facilitate and institutionalize these activities.

B. PROBLEM SPECIFIC STRATEGIES

1. ECONOMIC POLICY REFORM AND PRIVATE SECTOR DEVELOPMENT

Background: Through the Economic and Financial Policy Analyses (EFPA) Project, AID has played a key role in helping The Gambia define and institute its successful policies. AID financed technical assistance from the Harvard Institute for International Development which provided much of the analyses underlying the ERP, making policy dialogue a constant element of the AID program. As the process of deepening policy reform is tested in the coming years by international economic conditions and climatic factors, only by maintaining the direction of policy reform will The Gambia be able to sustain and extend its economic growth. Even so, reforms will be necessary but not sufficient for broad-based, sustainable growth. The Gambia also must aggressively seek and promote productive private sector investments in rural and urban areas from both domestic and foreign sources to generate growth. These investments should emphasize export-oriented activities which increase value added in agricultural and non-agricultural enterprises and raise the productive efficiency of existing resources.

Therefore, OAR/Banjul proposes to develop a sector grant program which will improve the investment climate, accelerate the pace of investment and raise productivity and incomes. Components being considered for inclusion in the program include:

a. Investment and Enterprise Promotion: Assistance to the National Investment Board (NIB) for investment promotion would be provided under the grant. This would involve: direct help in analyzing and improving the procedures for investment; assistance in developing linkages between foreign and domestic investors; conducting market research and feasibility studies; and development of information systems. In addition, assistance would be available to the Gambia Chamber of Commerce and Industry (GCCI), the Association of Gambian Entrepreneurs (AGE), and Gambia Women's Finance Corporation (GWFC) to create the facilities and services needed by their members in order to upgrade industrial and business efficiency, increase exports, improve services and develop domestic and regional markets. Training support would also be given to these organizations to help develop the entrepreneurial and technical skills that are in short supply.

b. Financial Sector Development: The GOTG is working with the World Bank, the UK and USAID to prepare the GCDB for privatization, with the likelihood of it being split into two entities: one for commercial banking and one for development banking. OAR/Banjul and the British Overseas Development Agency (ODA) are providing technical assistance for this activity. In the CDSS period, the sector grant would be used to complete the transformation. One function of the restructured development bank may be to help facilitate privatization and mobilize savings for productive investment by operating a limited share valuation, registry and trading window. The grant may be used to support such a measure.

c. Privatization of State-Owned Enterprises (SOEs): Studies of the GPMB, GCU and GCDB have already been completed. The last two are effectively bankrupt and their rehabilitation will require large amounts of financial resources, changes in their operating procedures and competent, honest management. Based on the results of those studies, the reform process will continue under this program grant. The sector grant would cover some of the costs of privatization of these and other SOEs, including the GUC.

d. Policy Analysis and Financial Management: Continued assistance to the GOTG, similar to that given under the the EFPA project, would provide both policy advice and capacity building in a number of economic and financial spheres, such as tax and customs policy development, revenue administration, budget planning, expenditure controls, statistical services, financial sector restructuring, and regulatory systems development, as well as continued assistance for the formulation and implementation of monetary and fiscal policy.

The program grant will be designed to include cash transfers to the GOTG's foreign reserves triggered primarily by privatization performance, improvements in investment incentives, and/or achievement of benchmarks in economic policies as coordinated with the IMF and IBRD. Local currency could be used to strengthen private sector financial and service organizations, retire debt of SOEs in the course of privatization, and strengthen investment promotion activities. The grant would also be a source of trust funds for the local operating costs of OAR/Banjul.

The multiplicity of private sector development needs in The Gambia; the complex job of identifying viable enterprises and matching them with efficient technologies; the difficulty of discovering receptive domestic and export markets and contacting specific buyers; matching interested domestic and foreign venture capitalists to appropriate opportunities; and encouraging the simultaneous development of complementary institutions and activities poses a significant management challenge. For this reason the private sector development strategy would be implemented through an internationally experienced management and/or venture capital firm contracted under a technical assistance element. Full use would be made of the Overseas Private Investment Corporation (OPIC) and the Trade and Development Program. Expertise from the International Executive Service Corps (IESC), and management training groups will be integral to the program. The technical assistance element would also include support for the economic policy studies and institutional analyses needed to sustain the quality of the policy dialogue, continuing the work of HIID in this area. Peace Corps Volunteers (PCVs) would be integral to the program, working in service organizations, cooperatives, women's organizations and financial institutions.

The kinds of entrepreneurial and technical skills required for sustainable economic growth are in short supply in The Gambia. Thus, much as described in the private sector training plan developed for OAR/Banjul under the HRDA project, support would be given to the existing training programs of the Management Development Institute (MDI), the NIB and others as appropriate. Advanced management training could be sponsored through the GCCI, the ACE, and the GWFC. Technical, managerial and financial management training in the public sector also will be undertaken to strengthen the GOTG's regulatory capacity.

Results to be Expected: By the end of the five year CDSS period, it should be possible to see some of the following results: continuation of GOTG economic and institutional reforms and sectoral adjustment; increased domestic savings; higher levels of domestic and foreign private investment; increased formal sector employment; increased GOTG revenues and greater availability of foreign exchange to service debt; privatized SOEs; and sound financial institutions.

2. AGRICULTURAL AND NATURAL RESOURCES SECTOR ASSISTANCE

Background: Progress in the macroeconomic sphere has established a sound framework for continuing growth in the services and industry sectors. Agricultural sector growth potential is inherently more limited under Sahelian conditions, but is especially important to the incomes and quality of life for the 70% of the people who live in rural areas. In fact, considerable progress has been made in improving the agricultural sector policy environment in recent years and farmers have responded to these changes by diversifying and increasing production. OAR/Banjul has helped support the following reforms: ending GPMB's monopolies on the commercial rice and fertilizer trades; ending subsidies on retail rice and fertilizer prices; divesting the GPMB of peripheral assets and operations; instituting improved business practices through the signing of a performance contract; and terminating discrimination against private traders involved in groundnut marketing. In FYs 1989 and 1990, the continuation of this process should lead to a careful appraisal at top policy levels of the GOTG regarding privatization of the GPMB and restructuring of the GCU.

To take full advantage of recent actions, make further improvements in sector policies and improve delivery of agricultural and natural resource management services, OAR/Banjul proposes a sector grant program which will include the following elements:

a. Agricultural Policy and Institutional Reforms: Currently, world market prices and the relative importance of groundnuts to the national economy and rural household incomes are declining. Farmers have started to diversify into other crops, particularly early millet and maize. Cereals and other crops are accounting for a growing proportion of total hectarage planted and total agricultural output. Moreover, the importance which groundnut exports once had in terms of the total foreign exchange earnings of The Gambia has decreased as the services sector, and especially the re-export trade, has increased and the banking system has captured increasing amounts of the foreign exchange earned by that sector. Hence, it is apparent that diversification is both feasible and already underway even though groundnuts are, and will remain, an important crop to most farmers in The Gambia.

The poor performance of the SOEs in input and output marketing and in credit delivery and recovery has cost both the GOTG and the farmers a great deal. While operating subsidies to both the GPMB and the GCU are being eliminated in the near future, institutional inefficiencies continue to have an adverse impact on production and marketing. A strong private sector role is indicated in both crop marketing and input supply in order to maximize efficiencies, rural incomes, and export earnings.

With all price subsidies for groundnut farmers to be eliminated in FY 1990, the challenge for the GOTG is to ensure that the economy maximizes net earnings from this important cash crop. Studies of GPMB and GCU funded by AID indicate that this will require an increased role for the private sector because of its comparative efficiency in marketing. Under the agricultural sector program grant, OAR/Banjul will support the policy reforms necessary to increase the role of private traders in input and output marketing, and to effect the opening of the entire agricultural marketing sector, including processing and exports, to private investors. An important element of the program may be to assist the GOTG to restructure the GCU and to promote village level savings associations and local marketing arrangements, as proposed in the two AID-funded studies.

Given the importance of livestock and its growth potential, efficiencies can be gained from an improvement in the operations of the LMB and the tannery (Gamtan). Therefore, as part of this sector grant program, the Mission would undertake, with the NIB, a study to determine the best approach to the ownership and operation of these two entities.

b. Delivery of Agricultural Services: Gambian farmers have shown an ability to diversify production and experiment with new farming methods, when they believe that production can be raised. This willingness to change can be reinforced by stronger, better coordinated research and extension efforts.

Based on recent work done by several USAID-funded projects (i.e. the Mixed Farming Project in maize and forage production, the ongoing Soil and Water Management Project in reclaiming saline soils, and the current GARD project in cowpeas, rice, groundnuts, equine health and horticulture) as well as PVO efforts in sesame (CRS) and horticulture (STC), a good deal of information has now accumulated about particular crops and technologies which are economically viable.

Under this sector program grant, funding for the most successful elements of these projects will continue. Particular attention will be given to working with the GOTG so that it prioritizes and then concentrates its budget on specific crop, livestock, and agro-forestry activities. Institutions must be strengthened and they must work with each other and local communities to deliver technologies and improved farming practices. Dollar or local currency disbursements would be made against the achievement of specific benchmarks for changes in institutional practices and policies, program commitments, budget allocations, and other targets. Such an approach would direct GOTG budgetary support towards priority research and extension activities that show promise for contributing the most to environmental improvements, increased productivity, and higher rural incomes and export earnings. The ultimate objective of such an effort would be to achieve a sustainable per capita increase in total annual agricultural production by the end of the CDSS period.

c. Natural Resource Management Policy: A number of policy reform and natural resource management (NRM) practices will have to be implemented in order to intensify environmental protection and improve the natural resource base of the country. As the AID Development Fund for Africa (DFA) Action Plan of December, 1988 states, natural resources are the long-term physical capital on which a nation builds and grows and without proper management of these resources, sustainable growth will be very difficult to achieve. An Action Program for The Gambia, as an AID-designated Priority One country, has recently been completed. It builds on the Club du Sahel "Indicative Plan for Desertification Control," (1986) and The Gambia's Environmental Management Act of 1988. This program grant will encourage policy reforms which give practical incentives to local communities to practice environmentally sound agricultural technologies. Among the policy adjustments which would be supported by the grant are legal modifications which would: permit harvesting of trees and forage in exchange for the implementation of community land use plans; encourage controlled early burning of the bush but discourage uncontrolled bush fires; provide for more revenue sharing; allow sale of grazing leases by communities or livestock associations;

liberalize export regulations on forestry products; establish a Natural Forestry Fund to allocate resources to producers' associations and to the Forestry Department; set aside land for a coastal aviary; permit collection of grazing fees on protected rangelands; and strengthen legislation and funding for community forest parks, national parks and wildlife sanctuaries.

The program grant would increase the level of resources devoted to NRM activities which are now only about $600,000 per annum. Dollar disbursements would be based on the establishment of institutional, legal and financial frameworks for carrying out improved program operations. Subsequent local currency and dollar disbursements would be based on the achievement of benchmarks related to the actual implementation of policies and strategies. Local currency could also be used to help the GOTG buy emergency food supplies during times of drought and meet other emergencies such as fighting desert locust invasions. A trust fund for OAR/Banjul local operating expenses could also be established with program local currency.

The support of marketing reform, service delivery and NRM envisaged under this sector program grant will require an appropriate technical assistance contract to conduct policy and feasibility studies for an ongoing policy dialogue, support research efforts, guide and monitor implementation of agreements, evaluate results in the field, and supervise training. The Mission will look also to the Peace Corps to implement specific elements of the program.

Results to be Achieved: At the conclusion of the CDSS period, the visible results should include some of the following: reliable delivery of farm inputs; improved marketing and processing of agricultural products; adequately funded and concentrated extension and research services at appropriate scales of operation; increases in production for both domestic and export markets; implementation of new and modified natural resource management laws, policies and practices; integration of natural resource management methods in extension services; increased reclamation of saline soils; and progressive protection of biological diversity and tropical forests in national parks, forest reserves and wildlife sanctuaries.

C. RESEARCH REQUIREMENTS: Research will be required to help OAR/Banjul develop the two sectoral programs envisaged for the CDSS period. To assist in the design of the agricultural and NRM sector program, an agricultural/NRM assessment will be conducted by a select team of highly qualified AID/W or REDSO/WCA staff and private consultants. This assessment will be based on data gathered by the GARD, Mixed Farming and Soil and Water Management projects as well as data from other donors and the GOTG and consultations with resident experts and officials. During OAR/Banjul's own agricultural sector program design, attention will be given to selecting the most appropriate crops and activities for AID support during the CDSS period. The design of the economic policy and private sector program will be done by a team of highly qualified AID/W or REDSO/WCA staff, private consultants, and HIID staff who will focus on privatization and investment opportunities, means of improving the investment climate, laws and regulations governing the financial sector and the institutional development needs of financial sector institutions.

D. STRATEGIES NOT CHOSEN: There are other needs in The Gambia which should be addressed if there is to be broad-based, equitable economic development. However, other donors are providing significant support for health, population and education programs. Given this fact and OAR/Banjul staff and funding constraints, no significant increase is proposed in AID assistance levels to those sectors during the CDSS period.

The Gambia has a low Africa Bureau priority in health, child survival, population and AIDS control. There are eight major official development agencies and NGOs assisting full-time in health and population programs in The Gambia. Among the donors are the UN, which in FY 1988 provided $356,000 worth of assistance to community health centers involved in family planning, and the International Planned Parenthood Federation, which has made an annual contribution of $213,000 for family planning services administered through the GFPA during the past several years. The World Health Organization (WHO) is the dominant donor funding health sector programs, contributing a total of more than $1.84 million during FY 1987 to build, staff and supply primary health care centers and dispensaries, and to assist in AIDS research and prevention. UNICEF and the ODA also have active health projects, with the former contributing $600,000 (FY 1987) for drugs and other medical supplies for vaccines and immunizations, and the latter contributing $1.09 million (FY 1987) for medicines, equipment and technical experts to help combat childhood communicable diseases.

Many other small organizations assist communities at the local level. AID also has made contributions to the health and population sector over the last decade through OAR/Banjul buy-ins to central or regional programs. Significant OAR/Banjul support has gone to training community health workers and traditional birth attendants, immunization and information campaigns, education and communication programs, health surveys and studies, contraceptive supplies for family planning and AIDS prevention, use of mass media to promote oral rehydration, training of physicians in reproductive health, and nutritional programs for maternal/child health care.

Progress in the health and population area is impeded strongly by the cultural and socio-economic environment, and the level of inputs to the health and population sector from all sources is roughly consistent with the absorptive capacity of that sector. OAR/Banjul contributions through regional and AID/W programs should continue to be targeted carefully on priority needs when it can be assured that other donors are not available or when complementarities can be achieved. A low level of OAR/Banjul buy-ins will be maintained, primarily in child survival, and OAR/Banjul will be alert to the possibilities for private investments in health care services and family planning as its private sector program develops.

Education has not been a significant area of focus for OAR/Banjul except at the post-secondary level of participant training. GOTG budget and donor support will continue to emphasize primary education during the CDSS period. There may be opportunities to support or promote private investment in the secondary education market and OAR/Banjul plans to continue its program of participant training, but it lac the manpower and resources to enter the field of primary or secondary education. The US does provide some assistance to the education sector through the provision of PCVs as teachers, especially of math, the sciences and English, at both the primary and secondary school level. Among the donors, the ODA has the most active education sector program, providing more than $1.16 million in FY 1987 for scholarships in the UK, and salaries for teachers in primary and secondary schools and at the GTTI and the Gambia College. The Canadian government and Action Aid also provide teachers, educational materials and buildings.

IV. OTHER DONOR ACTIVITIES

Among the multilateral donors to The Gambia, the IMF, IBRD, EEC, the various UN organizations, and ADB are the .ost active. Four IMF Stand-by Arrangements were made between 1979 and 1987 which enabled The Gambia to secure foreign exchange on condition that it implement reforms and meet specific monetary and fiscal targets. These relatively hard term programs were supplanted by a three-year (FY 1987-89) Structural Adjustment Facility (SAF) of SDR 8.55 million (about $11.1 million). The SAF continued the monetary and fiscal targetting of the Stand-bys and widened the conditionality into policy performance criteria. Under a recently negotiated three-year Enhanced Structural Adjustment Facility (ESAF) worth SDR 20.52 million (about $26.7 million), the IMF is supporting the ERP.

Since 1986 the IBRD has also been supporting the ERP and it has made foreign exchange available to the GOTG under two Structural Adjustment Credit (SAC) programs of $37 and $33 million. These were loans to the GOTG on the basis of its implementation of reforms in agricultural policy, the civil service system, SOEs, and the Government's public investment program. The IBRD and the IMF closely coordinate the structural benchmarks which are negotiated with the GOTG and all measures have been designed to advance support for the ERP. Independently, but coincidentally supportive of the ERP, the EEC has made grants of hard currency from its Stabilization Fund for Exports (STABEX) to compensate The Gambia for shortfalls in official export receipts. STABEX disbursements have been made each fiscal year since 1986 for a total of about $16 million. Recently, the EEC also provided a fuel grant of about $5.5 million to the GOTG.

The leading bilateral donors to The Gambia are the US, the UK, the Federal Republic of Germany (FRG), the Netherlands, Japan and France. Both the UK and the Netherlands have made fuel grants to the GOTG during the period of the ERP. The UK also provides significant amounts of technical assistance to the GOTG and is especially active in the health and education sectors. Japan has been a source of food aid as well as technical assistance in fisheries. The FRG provides technical assistance for forestry and capital for agricultural projects. France has helped improve the telecommunications system in The Gambia so that it is perhaps the best in the region. According to the 1987 UNDP Report on Donor Assistance to The Gambia, the three sectors receiving the most technical assistance are agriculture, 35% (valued at $9.06 million); education, 15% (worth $3.97 million); and health, 14% (valued at $3.64 million). Total donor funded technical assistance in FY 1987 was $26.05 million.

There is good coordination among the leading donors to The Gambia. While the IMF and the IBRD take the lead in assisting the GOTG's ERP, the US, UK and EEC meet locally to ensure compatability of their aid programs. OAR/Banjul also meets regularly with IMF and IBRD teams when they visit The Gambia to ensure that AID's program complements and reinforces the Fund and the Bank programs.

V. OAR/BANJUL RESOURCES

The following table presents the planned FY 1990 and proposed FY 1991-1995 Assistance Planning Levels for OAR/Banjul. The sector programs will be designed for a life of 10 years each with provision for design revision and re-authorization or an extension at mid-point. The two sectoral programs (the Agricultural and Natural Resources Assistance Sector Program and the Economic Policy Reform and Private Sector Development Program) will replace six existing projects.

OAR/Banjul can manage two core sector programs with no less than its current level of five US Direct-Hire personnel, three Foreign Service National direct-hire employees, four Personal Service Contractors, and ten local contract employees. The composition of the staff could change if program designs reveal the need, but there should be no requirement for increased staff overall.

Planned and Proposed Assistance Planning Levels (FY 1990-1995)
($000)

Development Fund for Africa

Project Number & Title	Planned FY 90	Proposed FY 91	FY 92	FY 93	FY 94	FY 95	TOTAL (FY 91-95)
635-0219 GARD Proj.	3,506	3,800	--	--	--	--	3,800
635-0221 Small Proj.	40	100	100	100	100	100	500
635-0231 Ec.Pol.Ref.Sup.	214	--	--	--	--	--	--
635-0510 P.D. & S.	440	400	200	200	200	400	1,400
698-0421.35 ACSI-CCCD	100	100	100	100	100	100	500
698-0463.35 H.R.D.A.	700	300	200	200	200	200	1,100
Agr./Natural Res. Mgmt.Sector Prog.	--	--	3,200	4,700	4,700	4,600	17,200
Econ. Policy and Private Sector Prog.	-	1,300	3,200	4,700	4,700	4,600	18,500
TOTAL	5,000	6,000	7,000	10,000	10,000	10,000	43,000

ANNEX ONE

THE GAMBIA: KEY EXTERNAL FINANCE INDICATORS, 1986/87 - 1992/93 (MILLION DOLLARS, PERCENT)

	86/87	87/88	88/89	89/90	90/91	91/92	92/93
	Rev.	Est.	Projected				
BALANCE OF PAYMENTS			- High Scenario -				
Current Account (-)	48.4	41.5	41.1	40.6	41.2	40.9	40.9
Percent of GDP	33.0%	24.0%	22.4%	21.1%	19.5%	18.1%	17.2%
Capital Account	82.2	57.6	68.9	65.5	56.9	50.0	48.0
Overall Balance	33.8	16.1	27.8	24.9	15.7	9.1	7.1
Change in Reserves	11.8	12.7	16.3	15.0	18.6	5.0	4.9
Reserves, in months	1.4	2.5	3.8	4.8	6.0	6.0	6.0
BALANCE OF PAYMENTS			- Low Scenario -				
Current Account (-)	48.4	41.5	44.5	47.6	52.5	57.4	62.8
Percent of GDP	33.0%	24.0%	23.8%	23.7%	23.5%	23.5%	24.1%
Capital Account	82.2	57.6	68.9	65.5	56.9	50.0	48.0
Overall Balance	33.8	16.1	24.4	17.9	4.4	-7.4	-14.8
Change in Reserves	11.8	12.7	12.7	8.1	7.1	-11.5	-16.8
Reserves, in months	1.4	2.5	3.4	3.8	4.1	3.0	1.7
EXTERNAL DEBT SERVICE (on debt outstanding as of October 1988) 1/							
Payments	70.8	38.2	45.2	43.7	25.9	29.5	28.1
Memo: Multilateral	37.2%	68.8%	37.7%	34.0%	62.1%	49.8%	44.7%
Service Ratio 2/	106.0%	49.2%	54.9%	49.7%	27.3%	29.0%	25.7%
As Percent GDP 3/	49.0%	22.7%	24.9%	22.5%	12.4%	13.2%	11.8%
Arrears Payments	61.7	16.4	13.1	20.6	----	----	----
OFFICIAL FINANCE	89.2	60.5	71.4	69.3	56.2	42.2	41.9
Normal	75.4	54.8	66.0	62.5	53.4	46.3	44.1
Grant	40.1	46.1	44.0	41.7	44.2	43.8	43.0
Loan (net)	35.3	8.7	22.1	20.8	9.2	2.5	1.2
Exceptional	13.9	5.7	5.4	6.8	2.8	-4.1	-2.2
IMF (net)	6.6	4.0	4.7	4.8	2.8	-4.1	-2.2
USAID	----	2.1	2.1	2.1	----	----	----
Debt Relief	3.7	2.0	----	----	----	----	----
Other	3.6	-2.4	-1.4	----	----	----	----
PRIVATE CAPITAL	6.2	3.3	2.9	3.1	3.4	3.7	3.9

1/ Including IMF charges and repurchases, and cash payments for arrears reductions.

2/ As percent of exports of local produce, plus value added on re-exports and travel income. Based upon "high" scenario.

3/ Based upon "high" scenario.

Differences Between High and Low Scenarios

	1988/89		1989/90 - 1992/93	
	(Annual Percentage Change)			
	A	B	A	B
Volume of groundnut exports	11.4	6.9	2.5	---
Volume of other domestic exports	15.5	4.4	6.8	---
Import prices	3.4	5.4	3.0	5.0

Source: International Monetary Fund and The Government of The Gambia.

ANNEX TWO

THE GAMBIA: TRENDS IN MAJOR CROPS
('000 MT and '000 Hectares)

YEAR	TOTAL CROPS	EARLY MILLET	MAIZE	OTHER COARSE GRAINS	RICE	GROUND NUTS	MEMORANDA: GROUNDNUTS Producer Prices As % F.O.B Price	Real 2/
	- PRODUCTION - 1/							
1974/75	216.2	6.8	10.8	21.0	32.4	145.2	49%	428
1975/76	203.6	3.7	4.9	18.1	35.4	141.2	68%	425
1976/77	190.5	3.0	4.4	18.6	20.8	143.0	48%	402
1977/78	151.4	4.4	7.0	18.8	20.0	100.0	59%	382
1978/79	208.6	9.5	9.5	23.4	31.9	133.4	63%	355
1979/80	121.5	1.7	6.6	16.0	29.4	66.9	75%	341
1980/81	140.9	5.5	6.2	24.9	42.8	60.1	58%	341
1981/82	200.3	14.5	12.5	29.7	32.0	108.9	78%	343
1982/83	258.6	16.9	17.0	33.8	37.2	151.3	90%	327
1983/84	185.2	14.4	8.5	19.2	28.1	113.8	34%	245
1984/85	193.7	22.9	12.5	23.9	27.2	104.9	46%	277
1985/86	195.1	43.0	26.3	23.5	23.1	75.8	77%	364
1986/87	214.2	38.8	17.3	21.6	24.6	110.4	110%	408
1987/88	243.2	38.2	15.4	18.4	20.4	120.0	113%	302
1988/89	200.3	33.7	15.5	22.5	23.5	98.4	75% 3/	205 3/
Rates of Change:								
74 - 83	2.3%	12.1%	5.8%	6.1%	1.7%	0.5%	GROUNDNUTS: -% of Total-	
83 - 89	1.6%	18.5%	12.8%	3.2%	-3.5%	-2.9%	Area	Exports 4/
	- AREA - 1/							
1974/75	167.9	5.9	5.4	30.5	21.3	104.8	62%	N/A
1975/76	160.7	6.5	4.4	28.5	22.0	98.8	61%	N/A
1976/77	163.3	4.6	4.0	23.7	22.4	107.6	66%	N/A
1977/78	170.1	6.4	6.2	30.0	19.8	105.4	62%	N/A
1978/79	173.8	10.0	6.8	31.3	17.8	106.2	61%	N/A
1979/80	114.3	1.7	5.4	21.3	17.1	67.8	59%	31%
1980/81	132.8	6.0	5.9	28.0	21.7	68.9	52%	20%
1981/82	156.5	11.4	7.6	26.7	27.5	80.7	52%	20%
1982/83	182.5	13.6	9.4	33.8	27.9	95.0	52%	29%
1983/84	153.3	14.1	6.9	18.7	15.0	97.2	63%	37%
1984/85	155.4	19.2	9.2	21.2	10.5	91.3	59%	27%
1985/86	150.5	30.4	16.6	27.8	12.2	58.5	39%	14%
1986/87	162.8	32.1	11.1	21.5	15.2	80.4	49%	17%
1987/88	178.9	31.4	13.0	22.4	15.9	95.0	53%	22%
1988/89	191.9	31.9	13.6	24.5	21.4	99.5	52%	22% 3/
Rates of Change:								
74 - 83	1.0%	11.0%	7.2%	1.3%	3.4%	-1.2%		
83 - 89	4.9%	17.7%	14.5%	5.6%	7.4%	0.5%		

1/ Area planted. Data for cotton included in totals.
2/ Dalasis per metric ton. Constant 1976/77 prices.
3/ Estimated.
4/ Exports of all groundnut products. Includes estimated sales in Senegal. Export receipts including re-exports.

Source: GOTG, Ministry of Agriculture. Gambia Produce Marketing Board. International Monetary Fund.

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