UNCLASSIFIED

AFRICAN ECONOMIC POLICY REFORM PROGRAM

FOR THE GAMBIA

(635-0228 and 635-0231)

PROJECT PAPER

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

MEMORANDUM FOR THE DEPUTY ASSISTANT ADMINISTRATOR (DAA/AFR/CWA)

FROM: Carol A. Peasley, AFR/PD

DATE: June 2, 1987

SUBJECT: The Gambia: AEPRP Outstanding Issues

BACKGROUND: As a follow-up to the subject ECPR and to our meeting on Thursday, May 28, 1987, this memorandum is intended to provide you the information you requested prior to closing several outstanding issues on the subject program.

1. Payment of External Debt with ESF Dollars. The Mission proposes to require that the GOTG pay external debt with ESF cash transfer dollars. You requested that additional information demonstrating that $2 million in eligible debt payments come due in The Gambia each year be provided. Secondly, you requested that the system for monitoring the use of the dollars proposed by the Mission be fully described.

a. Debt Payments. OAR/Banjul proposes to allow the GOTG to pay official debt to multilateral lenders, official bilateral lenders, and commercial lenders in that order of priority. This would include payments for all debts rescheduled pursuant to Paris and London Club Agreements. OAR/Banjul also proposes to reach an agreement with the GOTG that priority be given to paying those debts incurred for development purposes. The Program Agreement would specifically prohibit the use of ESF dollars to pay any military related debt as well as debt to any nation not included in Code 899.

Information provided by OAR/Banjul indicates that debt payments to be made by the GOTG total $23.34 million for 1987; $26.0 million for 1988; and $26.14 million for 1989, the three years of the proposed program, excluding arrears. Of the total 1987 payments falling due, $14.23 million will be paid to multilateral creditors; approximately $1 million to official bilateral creditors; and $1.53 million, to commercial creditors.

Among the multilateral creditors to which the GOTG will be making payments over the life of the proposed program are the following: the African Development Bank, the African Development Fund, the Arab Development Bank, the European Investment Bank, the International Development Association (IBRD), the European Economic Community, the West African Clearing House, the African Development Bank, and the IMF. Bilateral debt payments will be made to the governments of Norway, the United Kingdom, France, West Germany, Kuwait, the United Arab Emirates, and Saudi Arabia. A total of $8.24 million will be paid over the 1987-1989 period to service debts to commercial financial institutions, excluding arrears. The largest of these payments, $7.03 million over the period, will be made to Standard Chartered Merchant Bank (UK) and the Societe General (France). However, smaller payments to three U.S. banks (Chase Manhattan, the Bank of

America, and Manufacturer's Hanover Trust) also will fall due during the period.

In our meeting last Thursday, you suggested we should consider requesting OAR/Banjul to further restrict the list of eligible creditors by disallowing debt payments to Arab world creditors. Such a restriction would reduce the eligible payments by a total of $1.20 million in 1987, $3.67 million in 1988, and $4.24 million in 1989. In sum, remaining debt payments would still be well above the amount of debt relief ESF dollars would provide over the same period.

b. Dollar Tracking System. Upon satisfaction of conditions precedent to each disbursement, including a CP that the GOTG provide a comprehensive list of all eligible debt payments to be made, OAR/Banjul will request A.I.D./FM to effect a wire transfer of funds into a separate bank account of the GOTG held in a bank approved by OAR/Banjul in the name of the program. From that account, the GOTG will disburse directly to any of the creditors on the preapproved list. Once all payments are made, the GOTG will provide to A.I.D. a copy of the confirmation of payment it has received from each creditor. The Controller OAR/Banjul will spot check the accuracy of the payment confirmations. In the Program Agreement, the GOTG will be required to maintain records of these payments for up to three years after the termination of the Program. Specific tracking and monitoring requirements will be detailed and agreed upon via countersigned implementation letter.

2. The Forward Foreign Exchange Facility. At the ECPR, one of the conditions you placed upon A.I.D. approval of the Forward Foreign Exchange Facility ("Forward Facility") was that OAR/Banjul secure a letter from the IMF stating that the IMF had no objections to the establishment of the Forward Facility. In our meeting last Thursday, you requested that if A.I.D. was going to approve debt relief as the first use of the ESF dollars, the Foward Facility be delinked from the cash transfer.

On Friday, May 29, 1987, the OAR/Banjul representative was informed by Mr. Saul Rothman, the IMF's Assistant Division Chief for Northwest Africa, that the requested letter would not be forthcoming from the IMF. The IMF, in fact, has "technical objections" to the establishment of the Forward Facility. While Mr. Rothman chose not to discuss these objections in detail, preferring instead to bring these up directly with the GOTG, he did note the following as the IMF's major concerns:

a. While noting that Mr. Humphryes, the Central Bank of The Gambia's General Manager, has done a good job and that the IMF has confidence in his integrity, Mr. Rothman stated that the establishment of a Forward Facility would put too much power in the hands of one person to influence exchange and interest rates in The Gambia;

b. While stating that the Forward Facility is an interesting concept, Mr. Rothman noted that its establishment would not be appropriate to The Gambia at this time because of the "thinness" of the country's financial markets; and,

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(3) A substantive mid-term evaluation to be conducted between the twelfth and eighteenth months of implementation was added. In both mid-term and final evaluations, the effects of the financial reform process on financial institutions, especially agriculture related institutions, will be assessed. In this same regard, the effect on rural women will be specifically addressed.

(4) A description of the dollar disbursement and tracking procedures has been included.

The PAAD, as originally presented, contained a Forward Foreign Exchange Facility (the "Facility") activity. A.I.D. funds would have been used to make certain debt payments which would, in turn, have freed up an equivalent amount of foreign exchange. In this way, the foreign exchange to establish the Facility would have been provided indirectly by the Program. A proposed condition requiring establishment of the Facility would have made the link between the Facility and the Program even more direct. At the ECPR, it was decided that prior to Program authorization, a letter from relevant IMF staff stating that that institution had no formal objections to the establishment of the Facility should be received. OAR/Banjul was later informed that such a letter would not be forthcoming because the IMF does, in fact, have technical objections to the Facility. Because of this situation, the PAAD was revised to delink the A.I.D. African Economic Policy Reform Program in The Gambia from the proposed Forward Foreign Exchange Facility, and the suggested condition was dropped. The Program will finance pre-approved debt payments. No local currency will be generated. (See attached AFR/PD memorandum for the Deputy Assistant Administrator dated 6/2/87).

At the ECPR, concern was raised that the complementary technical assistance component appeared to be underfunded. As a result, the PAAD was modified to include a more detailed description of that activity and a more detailed budget for its financing (Annex D). The estimated cost of the revised technical assistance activity is $850,000. After extensive discussion, the ECPR determined that the total cost of the technical assistance component was to be financed with ESF. However, after the ECPR and because of lingering concerns related to the decision, the issue of the funding source for the complementary technical assistance was raised once again to the Deputy Assistant Administrator. The ECPR decision was then reversed. Funding in the amount of $276,000 resulting from Mission deobligations will be reobligated to this purpose in FY 1987. The remaining $574,000 will be incrementally obligated from the Mission's OYB. (See attached AFR/PD Action Memorandum for the Deputy Assistant Administrator signed July 20, 1987).

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An Initial Environmental Examiniation (IEE) recommending a categorical exclusion based on sections 216.2(c)(1)(i) and 216.2(c)(2)(vi) was concurred with by the Bureau Environmental Officer on April 29, 1987.

A Congressional Notification (CN) for $6.0 million of ESF and $.85 million of SDP funds was forwarded to Congress on July 30, 1987, and the waiting period expired on August 13, 1987.

RECOMMENDATION:

(A) That you sign the attached PAAD facesheet, thereby authorizing ESF program financing of up to $6.0 million for an African Economic Policy Reform Program for The Gambia (635-0228) to be provided as non-project assistance; and

(B) That you sign the attached Project Authorization, thereby authorizing SDP funding of up to $850,000 for a technical assistance grant project complementary to the African Economic Policy Reform Program for The Gambia (635-0231).

Clearances:

DAA/AFR:WBollinger	[illegible]	date	9/1/87
DAA/AFR:ELSaiers	[illegible]	date	9/1/87
GC/AFR:PJohnson	[illegible]	date	8/27/87
AFR/CONT:RKing	[illegible]	date	8/26/87
AFR/PD/SWAP:BBurnett	[illegible]	date	8/25/87
AFR/PD:CPeasley	CN	date	8/28
AFR/SWA:PDichter	[illegible]	date	8/25/87
AFR/DP/PAR:JWolgin	[illegible]	date	[illegible]
AFR/DP/PAB:HMerrill	[illegible]	date	8/26/87
PPC/PB:RMaushammer	[illegible]	date	[illegible]
PPC/EA:ABatchelder		date	
M/FM/PAD:EOwens	E S Owens	date	8/28/87
State/AF/EPS:JFergin	[illegible]	date	8/25/87

drafted by:AFR/PD/SWAP:CGiusti:x77886:6/10/87:cfg:4094M

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ACTION MEMORANDUM FOR THE DEPUTY ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: Carol A. Peasley, CP Director, AFR/PD

SUBJECT: Outstanding Funding Issue for The Gambia AEPRP

PROBLEM: Your approval is requested to resolve a post program review funding issue for The Gambia AEPRP (635-0228).

BACKGROUND: The ECPR for the subject program was held on May 28, 1987, chaired by DAA Lois Richards. As a result of the ECPR, the program consisting of a $6 million cash transfer and a technical assistance element was approved.

The total Mission request for assistance under the AEPRP was $6 million in ESF cash transfer funds, and an additional $500,000 for complementary technical assistance. The issue of the source of funding for the technical assistance activity was a major issue for the ECPR. The availability of both SDP and ESF monies was discussed at that time. As a result of that discussion, the Chairperson determined that the technical assistance component would be financed with additional ESF. The PAAD was subsequently modified to reflect that decision.

During the course of the ECPR, concern was also raised about the capacity of the Mission to implement the program and the proposed $500,000 technical assistance activity was feared to be less than sufficient to enable the Mission to adequately implement and monitor the program. The Mission and REDSO/WCA representatives were requested to reconsider the level of assistance required to implement the program. Specifically, the Chairperson instructed the representatives to include an additional one year of assistance for a PSC program coordinator and additional policy reform related studies. As a result of the post ECPR revision to the technical assistance budget, the total technical assistance financing request increased from $500,000 to $850,000 for this three-year program.

After the ECPR, as other issues were being resolved (see AFR/PD memorandum dated 6/2/87) and after the level of financing required for the techncial assistance activity was determined, AFR/DP raised the funding source issue again. A Congressional Notification has not been sent forward pending resolution of this issue, and obligation of these AEPRP funds is behind schedule.

DISCUSSION: Several meetings have been held among AFR/SWA, AFR/DP, and AFR/PD staff and consultations with the Mission have taken place at several levels in efforts to resolve this outstanding issue. All offices have agreed that the techncial assistance component is an essential part of this program;

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without adequate assistance, serious questions would arise as to the Mission's capacity to implement the program. Three possible scenarios have been identified to resolve the funding issue. While all are within the realm of possibility, all have their positive and negative points.

(1) Source of Funding: Additional ESF. As stated above, the decision of the Chairperson of the ECPR was that funding required for the TA component of the subject AEPRP would be financed with additional ESF, and the PAAD was modified to reflect this. This decision was reached over the objections of AFR/DP representatives who stressed that all ESF monies available for FY 1987 had already been fully programmed. Additionally, the earlier problems that the Agency had had convincing OMB to apportion the requested $6 million of ESF for The Gambia were raised. At least some OMB representatives were not in favor of providing ESF to The Gambia, and AFR/DP representatives strongly believe that nothing could be gained if an additional ESF apportionment is requested for at this time. The decision of the ECPR Chairperson would require requesting an additional apportionment from OMB.

At the same time, it must be noted that no other non-controversial source of funding has been identified. There are no unprogrammed SDP funds available. FY 1987 SDP funding in any amount would have to be taken from another, previously programmed use. While additional ESF would also have to be taken from within the total amount of ESF available to the Bureau, there is still a significant amount of unobligated, albeit programmed ESF available. As time passes, there is also the increasing likelihood that at least some ESF could go unobligated or be subject to obligation so late in the fiscal year that it becomes susceptible to reprogramming. In the meantime, the approved Gambia PAAD lacks financing.

Although the PAAD as presented by the Mission requested additional SDP funds to finance the complementary TA component, the Mission's preference at this point is for additional ESF. Several facts have influenced this change. First, the Mission has presented a strong argument for additional funds rather than for reprogramming existing funds, and that arguement was accepted by the ECPR. The Mission has been convinced that a sufficient amount of SDP funding does not exist this fiscal year. The Mission has also become aware that with the exception of only one AEPRP in Africa, complementary TA has been financed with ESF rather than DA funds throughout the region. The Mission points to its low OYB level for next year and beyond in reinforcing its argument that future year funding for The Gambia is too restricted to allow it to finance the complementary TA within current OYB levels. Therefore, the Mission believes strongly that the provision of additional ESF is the proper response for the Bureau to make to the request for technical assistance necessary to The Gambia AEPRP.

(2) Source of Funding: $276,000 SDP (FY 1987: deobligated funds from The Gambia); up to $574,000 (FY 1988-89: Mission OYB). While AFR/SWA fully supports the Mission's first choice solution to this problem and argued convincingly during the ECPR for increased ESF financing, it has identified this "compromise option" which recognizes both the possible political difficulties in apportioning an increased ESF level for The Gambia as well as the Mission's real need for funding above the $6 million level to finance the TA complementary to the AEPRP.

A total of $276,000 would be provided in FY 1987 from a deobligation of SDP funds from The Gambia. These funds had been programmed for reobligation to the SHRD III program, but given the immediate need to initiate TA for the AEPRP, they could be reobligated as part of the AEPRP. This would enable the Mission to initiate critical contracting actions this FY. Additional funding required for the program would have to come from the Mission's OYB during FY 1988, and perhaps, FY 1989.

Given that this option implies less funds available for its other programs, this is not the Mission's preferred solution. According to the Mission, however, it would be minimally acceptable. Of concern to AFR/PD in concurring with this proposal is that the Mission not attempt to cut back the level of AEPRP TA in order to finance other priority activities as well as the necessary technical assistance. In various conversations, the Mission has discussed the possibility of cutting back the funding level in order to more easily accomodate the TA activity under either ESF or SDP funding availabilities. The original proposal of $500,000 was determined by the ECPR to be lacking in essential TA. If AID/W determines that the full amount of TA funding must come from Mission resources (the deobligation and future year OYBs), we believe that the Mission should be cautioned against reducing the TA level below that approved by the ECPR.

(3) Source of Funding: ESF Within the Approved Level. The PAIP for the subject program was reviewed in January 1987, and the Mission was authorized to move forward with a $6 million ESF program. Guidance provided at that time suggested that technical assistance for the implementation of the program could be acquired with funding available under the economic policy analysis program on-going in The Gambia. No mention was made of the need to provide additional funds for a complementary technical assistance activity, although the guidance cable recognized the need for such assistance.

While AID/W could take the stand that it approved a $6 million level for the program and that total funding should be limited to that level, this is not the preferred option of any of the AID/W offices or of the Mission. Essentially this would require that the Mission separate out the financing for the TA

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activity from the total $6 million and negotiate a lower level of cash transfer with the GOTG. After other significant changes in the program which took place as a result of the ECPR and which required renegotiation of terms with the GOTG (i.e., the removal of the Forward Foreign Exchange Facility from the program), we believe another significant change would put the Mission in a very difficult negotiating position. Specifically, we believe that requiring the Mission to renegotiate the level of the cash transfer would jeopardize the willingness of the GOTG to undertake the approved policy reform program.

An AID/W consensus on this issue has evolved over the past few weeks leading towards a recommendation that additional funds required for the TA activity be taken from other funding available to the Mission; i.e., a combination of deobligation and future year availabilities (option #2, above). The Mission continues to believe strongly that additional ESF should be provided as decided and approved at the ECPR. The Mission recommendation is, therefore, that the Bureau and the Agency request an increased apportionment for The Gambia from OMB and move forward with a total program of up to $6.85 million, i.e., option #1. The Mission believes that the second option should be pursued only after the issue is raised to higher Bureau authorities. It should be noted that implementation of the second option, which would provide TA funding from Mission SDP resources, will require extensive, although not substantive rewriting of the PAAD document.

RECOMMENDATION: That you approve the redrafting of the PAAD and authorization documents to reflect an ECPR level decision to fund $850,000 of complementary technical assistance activities for The Gambia AEPRP from funds available to the Mission; specifically $276,000 of deobligated SDP funds will be reallotted to OAR/Banjul for FY 1987 obligation, and the remainder of funds to be made available for technical assistance activities, $574,000, will be provided from the Mission's future year availabilities. This action does not constitute an authorization of funds.

APPROVED: Larry Saiers

DISAPPROVED: ______________

DATE: July 20, 1987

Clearances:
AFR/PD: JGraham ______ date 7/15/87
AFR/SWA: EAmundson ______ date 7/14/87
AFR/SWA: PDichter ______ date 7/14/87
AFR/DP/PAR: JWolgin ______ date 7/15/87
AFR/DP: JGovan ______ date 7-14-87

Draft: AFR/PD/SWAP: CGiusti 7/13/87, doc. 4156M

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CLASSIFICATION: UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

1. PAAD Number: 635-0228 635-K-601
2. Country: The Gambia
3. Category: Dollar Disbursement Program Grant
4. Date: August 20, 1987

5. To: Charles L. Gladson, Assistant Administrator for Africa

6. OYB Change Number: N/A

7. From: Carol A. Peasley, Director, Office of Project Development CAP

8. OYB Increase: N/A
To be taken from:

9. Approval Requested for Commitment of: $ 6.0 million

10. Appropriation Budget Plan Code: 72-117/81037 GES7-87-31635-KG31

11. Type Funding	12. Local Currency Arrangement	13. Estimated Delivery Period	14. Transaction Eligibility Date
☐ Loan ☒ Grant	☐ Informal ☐ Formal ☒ None	August 1987-August 1990	upon authorization

15. Commodities Financed

None

16. Permitted Source		17. Estimated Source	
U.S. only		U.S.	
Limited F.W.		Industrialized Countries	
Free World		Local	
Cash	$6,000,000	Other	$6,000,000 (cash)

18. Summary Description

A. Program Overview: The African Economic Policy Reform Program for The Gambia consists of much needed balance of payments support ($6 million), for which disbursements are timed in such a way as to allow the Government of The Gambia (GOTG) to progressively implement a financial sector policy reform program. Balance of payments assistance will pay certain of The Gambia's external debts, thereby contributing to stabilization of the country's external accounts. In this more stable economic environment, further reforms in the financial sector will be implemented, thereby expanding the scope of the Government's highly successful, on-going economic reform program. Specifically under this Program, the Government of The Gambia will (1) eliminate less-than-market rate interest on loans from official sources; (2) develop and implement policies for term lending at market interest rates, for agricultural credit and for development lending; (3) eliminate preferential access to official lines of credit; (4) remunerate all buyers of agricultural products without discrimination; and (5) finance from the national budget any subsidies to public enterprises deemed to be required in the national interest. In keeping with the overall approved strategy in The Gambia, the implementation of the reforms will impact most directly on agriculture related institutions, freeing markets to wider participation.

B. Policy Reform Conditionality: In addition to the standard conditions precedent (legal opinion, specimen signatures, designation of authorized representatives, and establishment of separate dollar account, the following conditions precedent will be included in substance in the Program Grant Agreement:

19. Clearances		Date
DAA/AFR:WBollinger	WB	9/1/87
DAA/AFR:ELSaiers		9/1/87
GC/AFR:PJohnson		8/27/87
AFR/DP:JWestly		8/26/87
AFR/SWA:PDichter		8/25/87
AFR/CONT:RKing		9/26/87
AFR/PD/SWAP:BBurnett	BB	8/25/87
PPC/EA: KKauffman		8/27/87
M/FM/PAFD:ESOwens	ESO	8/28/87

20. Action

☒ APPROVED ☐ DISAPPROVED

Authorized Signature: [signature] Date: 9-1-87

Title: Assistant Administrator for Africa

CLASSIFICATION: UNCLASSIFIED

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1. Prior to any disbursement of the grant or to the issuance by A.I.D. of documentation pursuant to which disbursement for the first tranche will be made, the grantee will furnish to A.I.D., except as the parties may otherwise agree in writing, in a form and substance satisfactory to A.I.D.:

(a) written evidence of the grantee's agreement to develop, in consultation with A.I.D., (1) its policy options for (a) term lending at market interest rates, (b) agricultural credit, and (c) development lending; and (2) its semi-annual work plans which indicate the steps involved in developing these policy options;

(b) written evidence of the grantee's agreement that no public or private sector enterprise or individual will be permitted to borrow from official sources at less than market-determined interest rates;

(c) written evidence of the grantee's agreement that it will not request, instruct or permit The Gambia Commercial and Development Bank (GCDB) or any other public sector financial institution to grant preferential access to credit;

(d) written evidence of the grantee's agreement that in the matter of its agricultural marketing, in particular for produce buying, it shall ensure that the same levels of remuneration are provided to all buyers, public or private;

(e) written evidence that the grantee will define and identify all capital guarantees or operating subsidies being provided to public enterprises by the grantee, will determine their magnitude, and will identify those capital guarantees or operating subsidies which are in the "national interest;" and

(f) a comprehensive list of all eligible debts arranged in order of priority for which payment will be made from the proceeds of the first tranche.

2. Prior to the disbursement of the second tranche of the grant or to the issuance by A.I.D. of documentation pursuant to which the disbursement will be made, the grantee shall furnish to A.I.D., except as the parties may otherwise agree in writing, in a form and substance satisfactory to A.I.D., the following:

(a) written evidence that it has decided upon its proposed policies for (1) term lending at market interest rates; (2) agricultural credit; and, (3) development lending; and (b) that it has composed its semi-annual work plans which indicate the steps involved in adopting procedures to implement these policies;

(b) written evidence of its agreement that any type of capital guarantee or operating subsidy being provided to public enterprises in the "national interest" will be fully calculated and the costs thereof provided for in a timely manner through budgetary allocations; and

(c) a comprehensive list of all eligible debts arranged in order of priority, for which payment will be made from the proceeds of the second tranche.

3. Prior to the disbursement of the third tranche of the grant or to the issuance of documentation pursuant to which disbursement will be made, the grantee shall furnish to A.I.D. except as the parties may otherwise agree in writing, in a form and substance satisfactory to A.I.D., the following:

(a) written evidence that the grantee's policies for (1) term lending at market interest rates, (2) agricultural credit, and (3) development lending, are being implemented;

(b) written evidence which indicates that the full costs of capital guarantees or operating subsidies being provided to public enterprises in the "national interest" are being provided for at the appropriate time through budgetary allocations; and

(c) a comprehensive list of all eligible debts arranged in order of priority, for which payment will be made from the proceeds of the third tranche.

C. Covenants: The GOTG will convenant that:

1. only eligible debts will be serviced with funds made available under the Program. Eligible debts shall mean those debts which are: (a) owed to countries included in A.I.D. Geographic Code 899 or to registered financial institutions in those countries; (b) owed to multilateral institutions; (c) incurred prior to March 15, 1987; and (d) identified by the Ministry of Finance and Trade in official reports as in arrears or due for payment. Consistent with obligations incurred by the United States of America in agreements worked out in the "Paris Club," the use of U.S. dollars under this Program shall be subject to the following priorities: servicing of official debts outstanding to the United States of America shall take precedence over any other eligible debts. Second priority shall be given to multilateral debts of The Gambia (e.g., debts to the IMF, the IBRD, the African Development Bank, etc.). Third priority shall be given to other bilateral debt (e.g., debt to members of the Paris or London Clubs). Within the preceding categories, preference shall be placed on the payment of those debts incurred for developmental purposes.

2. payments for eligible debts will be made and confirmation of payment will have been provided to A.I.D. within ninety (90) days of disbursement of funds by A.I.D.

3. it will not reverse, undo, or change any of the actions taken in fulfillment of meeting the conditionality of the Program.

D. Local Currency Arrangements: The Program neither generates local currency nor requires a complementary local currency deposit.

E. Waivers. Cash transfer arrangements preclude need for waivers. Deviation from conditions precedent and special covenants will require AID/W concurrence.

4254M

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

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

Amendment Number: ____

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: THE GAMBIA

3. PROJECT NUMBER: 635-0231

4. BUREAU/OFFICE: AFR 06

5. PROJECT TITLE (maximum 40 characters): Economic Policy Reform Support

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 12, DD 31, YY 90

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

A. Initial FY 87 | B. Quarter 4 | C. Final FY 89

8. COSTS ($000 OR EQUIVALENT $1 = D 7.34)

A. FUNDING SOURCE	FIRST FY 87 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(276)	( )	(276)	(850)	( )	(850)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS	276		276	850		850

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) SDP	910	930				850		850	
(2)									
(3)									
(4)									
TOTALS						850		850	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 891

11. SECONDARY PURPOSE CODE:

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

A. Code							
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

To provide technical assistance complementary to The Gambia's economic policy reform efforts in the financial sector, contributing to the overall purpose of creating a financial and institutional environment which promotes greater market access for private entrepreneurs.

14. SCHEDULED EVALUATIONS

Interim: MM 01 YY 89 | MM __ YY __ | Final: MM 03 YY 90

15. SOURCE/ORIGIN OF GOODS AND SERVICES

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

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

BEST AVAILABLE COPY

17. APPROVED BY

Signature: Carol Peasley

Title: Carol A. Peasley, Director, Office of Project Development

Date Signed: MM 08 DD 21 YY 87

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM 08 DD 21 YY 87

AID 1330-4 (8-79)

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

PROJECT AUTHORIZATION

Name of Country: The Gambia

Name of Project: Economic Policy Reform Support

Number of Project: 635-0231

1. Pursuant to Section 121 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Economic Policy Reform Support Project for The Gambia ("Cooperating Country"), involving planned obligations of not to exceed Eight Hundred Fifty Thousand United States Dollars (US $850,000) in grant funds ("Grant") over a three-year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is 40 months from the date of initial obligation.

2. The project ("Project") consists of technical assistance activities required to implement and support the Economic Policy Reform Program for the Gambia. It, therefore, contributes to the overall purpose of creating a financial and institutional environment which encourages and promotes greater and more equitable access to markets for private entrepreneurs.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

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a. <u>Source and Origin of Commodities, Nationality of Services</u>

Commodities financed by A.I.D. under the Grant shall have their source and origin in the Cooperating Country or in countries which are included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the Cooperating Country and countries which are included in A.I.D. Geographic Code 941 as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall be financed only on flag vessels of the United States, except as A.I.D. may otherwise agree in writing.

Charles L. Gladson
Assistant Administrator
Bureau for Africa

9-1-87

Date

Clearances:

As Shown on Action Memorandum

GC/AFR, PGJohnson/tim:647-9218:17Aug87:2292H

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA (AA/AFR)

FROM: Carol A. Peasley, Director, AFR/PD C Peasley

SUBJECT: African Economic Policy Reform Program for The Gambia (635-0228 and 635-0231)

PROBLEM: To authorize a three year African Economic Policy Reform Program (AEPRP) for The Gambia with total funding of $6.85 million.

BACKGROUND: The purpose of this Program is to create a financial policy and institutional environment which encourages and promotes greater and more equitable access to markets for private entrepreneurs. The program reinforces and expands upon GOTG policy reforms aimed at recovery of the financial sector, thereby contributing to an overall goal of creating a more stable and equitable financial system.

To accomplish this purpose, the Program will provide much needed balance of payments support to the Gambian economy, thereby relieving the GOTG and the Gambian financial system from the destabilizing effects of foreign exchange shortages while policy reforms are enacted. OAR/Banjul will disburse $6.0 million of ESF funds in three equal tranches over a three year period on a cash transfer basis. The disbursement of each tranche of balance of payments support will be predicated upon completion of specific steps aimed at:

(1) the elimination of less than market interest rates and the development of policies for term lending, agricultural credit, and development lending;

(2) the development and introduction of a procedure for reducing public subsidies and concessions and assuring budgetary allocations for those that remain; and,

(3) an end to administrative practices which discriminate against the private sector in the areas of credit allocation and agricultural marketing.

The package of economic policy reforms enacted pursuant to the Program will remove many of the current inequitable practices found in The Gambian financial system. It should result in a significant increase in resources available to the private sector, and a less dramatic, but important increase in total resources available in formal sector financial markets. In sum, the Program is expected to result in more financial resources being made available to the private sector because funds will be free to move to the most efficient users of those resources and because the total amount of funds available will increase.

Prior to each disbursement of funds, the GOTG will provide a prioritized listing of debt payments eligible for payment with ESF dollars for A.I.D. review and approval. Upon disbursement of funds by A.I.D., ESF dollars will be deposited into a separate GOTG bank account established for this purpose. Dollars will subsequently finance specific external debt payments of the GOTG previously approved by OAR/Banjul. Once these payments are made, the GOTG will provide evidence to OAR/Banjul that withdrawals were made from the separate account for specific debt payments listed on the approved list and that payments were received by approved creditors.

The GOTG Ministry of Finance and Trade (MOFT) will be the principal implementing agency for this Program. A Program Management Committee will be created to provide overall guidance for its implementation. This Committee will include both GOTG and OAR/Banjul representatives.

Requested funding for the proposed Program totals $6.85 million. ESF will finance three annual cash transfer tranches of $2 million, a total of $6 million over the three year Program. An additional $850,000 of SDP funds will finance technical assistance required to implement, monitor, and evaluate the policy reform aspects of the Program. Funds will be obligated in two separate grant agreements. The entire $6.0 million of ESF will be obligated in FY 1987. An initial obligation of $276,000 of SDP funds will be made in FY 1987, with incremental obligations totalling $574,000 to be made from future year funds from the Mission's OYB.

<u>DISCUSSION</u>: The ECPR for the subject Program was held on May 27, 1987, and was chaired by Ms. Lois Richards, AFR/DAA/CWA. The ECPR found that the macroeconomic justification for The Gambia AEPRP was satisfactory. The proposed reform program was determined to be sound and appropriate.

As a result of the ECPR, several modifications to the PAAD were made. These include the following:

(1) The overall objectives of the Program were clarified to place primary importance on the stabilization and equity of the financial system. The Program's direct impact on growth has been deemphasized, and the analysis of the policy reforms to be completed during implementation has been revised to focus on the expected direct, rather than indirect, impacts of the program. Measurable benchmarks related to financial stabilization and the strengthening of sectoral institutions have been added.

(2) A proposed condition requiring auctioning of donor-provided equipment was deleted because it had little relationship to reform of the financial sector.

c. While he believed that there would undoubtedly be demand for forward foreign exchange cover, Mr. Rothman did not think there would be any offsetting demand for forward Dalasi cover; i.e., the Facility would be too one-sided.

Mr. Rothman further stated that although the IMF could not "legally" object if the GOTG chose ultimately to establish the Forward Facility, the IMF Mission visiting The Gambia (June 2-16, 1987) would strongly discourage the GOTG from doing so.

RECOMMENDATIONS: Several meetings have taken place since the ECPR to explore the various outstanding concerns. Based on these meetings, the following recommendations have emerged:

1. Given that OAR/Banjul has presented information which indicates that there will be eligible debt payments over the 1987-1989 period more than sufficient to cover the amount of dollars being provided, we recommend that debt relief be the indicated first use of the ESF dollars. The debt eligibility requirements proposed by OAR/Banjul, as described above, appear adequate. We recommend that additional country, region or institution specific eligibility not be required at this time.

2. The PAAD will be modified to include a description of the dollar tracking system to be established, as outlined above. It should be noted that this tracking system places the greatest monitoring burden on the GOTG, not OAR/Banjul. The Controller OAR/Banjul may be required to spot check that payments reported were actually received. This should require no more than a few phone calls, letters, or one to two trips to the Central Bank of The Gambia per year. If this becomes a management burden or if tighter control is warranted or required, A.I.D./W may wish to consider encouraging OAR/Banjul to contract an audit firm with a portion of the complementary technical assistance funds to be made available under the Program.

3. Given the IMF decision to encourage The Gambia not to establish the Forward Facility, we recommend that The Gambia AEPRP be completely delinked from the Forward Facility. We have been informed by the OAR/Banjul representative here, Dr. Tom Herlehy, that he has informed Mr. Tom Mahoney, Acting A.I.D. Representative in Banjul, of this recommendation. Mr. Mahoney has consulted with GOTG representatives and has indicated that both they and he believe that the Program is an acceptable one without its formal linkage to the Forward Facility. To implement this recommendation, all reference to the Forward Facility would be deleted from the PAAD, although reference or analysis of the proposed Facility might remain in the Annexes. Facility related conditions and covenants of the Program would not be included in the Program Authorization or the Program Agreement. OAR/Banjul would not be responsible for accounting for the Facility's transactions if it were to be established.

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In sum, the Program would consist of a cash transfer, the designated use of which would be debt relief, and the implementation of a set of policy reforms related to financial market stability. No matching GOTG local currency deposit or foreign exchange offset would be required under the Program.

PROPOSED ACTION: AFR/PD proposes to move forward to modify the PAAD, incorporating the solutions to the outstanding issues discussed above. The PAAD will then be circulated for authorization with an Action Memorandum describing the results of the ECPR and the modifications which will have been made to the PAAD.

Clearances:
AFR/PD/SWAP: BBurnett ______ date ______
AFR/DP/PAR: JWolgin ______ date 6/ /87
GC/AFR: PJohnson ______ date ______
AFR/PD: JGraham ______ date ______

Note: Contents and recommendations cleared by Mr. Bruce Odell, PPC, on 6/15/87 per Giusti/Odell Telcon.
draft:AFR/PD/SWAP: ~~CGiusti,~~ x77886 (doc. #4058M)

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ABBREVIATIONS

AEPRP	Africa Economic Policy Reform Program
AID/W	Agency for International Development/Washington, D.C.
BOP	Balance of Payments
CBG	Central Bank of The Gambia
CFA	Currency for Francophone West Africa (Franc)
ERP	Economic Recovery Program of the Gambian Government
GCDB	Gambia Commercial and Development Bank
GEPRP	Gambia Economic Policy Reform Program
GCU	Gambia Cooperative Union
GOTG	Government of The Gambia
GPMB	Gambia Produce Marketing Board
IBRD	International Bank for Reconstruction and Development (World Bank)
IMF	International Monetary Fund
MOFT	Ministry of Finance and Trade
OAR/Banjul	Office of the AID Representative/Banjul

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TABLES AND CHARTS

TABLES:

CHARTS:

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I. EXECUTIVE SUMMARY

A. The Request

The Government of The Gambia (GOTG) has requested program assistance to help it implement policy reforms which will create a more stable and equitable financial system. OAR/Banjul is proposing a three year (FY 1987-1989) $6.85 million sector assistance package to the GOTG. Economic Support Funds (ESF) will finance the cash transfer and SDP funds will fund complementary technical assistance.

B. Purpose

The goal of The Gambia Economic Policy Reform Program (GEPRP) is to help create a more stable and equitable financial system. The purpose of the GEPRP is to support GOTG efforts to create a financial policy and institutional environment which encourages and promotes greater and more equitable access to markets for private entrepreneurs. Our strategy to achieve this goal involves providing balance of payments support while supporting GOTG policy reforms in the financial sector in order to establish uniform practices for both private and public institutions concerned with finance and credit.

C. The Problem

The Gambia, with assistance from the IMF, the IBRD, and bilateral donors (principally the UK and USAID), has implemented major macroeconomic reforms during the last two years. Since the implementation of The Gambian Government's Economic Recovery Program (ERP) began in June 1985, one of the main objectives has been to reduce unproductive absorption of resources by parastatals while simultaneously increasing the range of productive activities which the private sector can undertake. However, it is becoming evident that constraints in the financial sector are inhibiting the success of other sectoral interventions. That is, the instability of the financial sector and the prevalence of inequitable practices discourages private investors from expanding their activities. Unless the GOTG establishes a financial environment which is more stable and equitable private entrepreneurs will be unwilling and unable to increase their activities.

D. Policy Reforms

The GEPRP consists of a $6 million program grant to be disbursed as a cash transfer in three annual tranches and complementary technical assistance. The cash transfer will be released in three tranches as the GOTG develops and implements:

(a) a policy for term lending at market rates;
(b) a policy for agricultural credit;

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(c) a policy for development lending with any subsidies or concessions involved made explicit and provided for through GOTG budgetary allocations; and
(d) specific policies to end administrative practices which discriminate against the private sector in credit and agricultural marketing.

The US dollars to be disbursed as a cash transfer will be utilized to pay eligible external debts of The Gambia, thus providing needed balance of payment support. This program will not generate any local currency or counterpart funds.

E. Impact

As a result of this program, stability and equitable practices will be restored to the financial sector. Moreover, the financial resources of The Gambia will be made available to both public and private users at market-determined rates. This will promote the most efficient use of The Gambia's financial resources. A more stable and open financial market will encourage private entrepreneurs to expand their investments in productive activities.

F. Recommendation

OAR/Banjul and REDSO/WCA recommend that the Assistant Administrator for Africa approve this request for program assistance in the form of a grant of $6.85 million. The grant will consist of $6 million in ESF cash transfer disbursements tied to the implementation of specific policy reforms, and $.85 million of SDP financed technical assistance to conduct policy studies and to provide implementation support.

II. PROGRAM DESCRIPTION

A. General Background

The Republic of The Gambia is a Sahelian country situated on the coast of West Africa 13 degrees above the Equator. It is the smallest country in continental Africa, but it has one of Africa's highest population densities. Its area of 11,295 square kilometers (1.13 million hectares), inhabited by 745,300 people (1985), forms an enclave within Senegal stretching about 350 kilometers up The Gambia River. The width of the country varies from 26 to 48 kilometers, making the River the principal geographical feature.

The Gambia has a per capita income of about $260 (1984), making it one of the most impoverished nations in the world. There are no known important mineral or other natural resources in the country. There is little manufacturing, some fishing and a growing tourist

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industry, but agriculture is the dominant sector of the economy. Seventy percent of the population lives in rural areas where most people engage in farming. About 40 percent (452,000 hectares) of the country has soils suitable for farming. Gambian agriculture is predominantly rainfed, with only about 1500 hectares under irrigation. The largest area of farmland (65 percent) is devoted to groundnut cultivation, and groundnuts constitute 85 to 90 percent of the total value of all domestic-origin exports. Although grown primarily as a cash crop, groundnuts also are utilized as food by Gambians. Coarse grains cultivated include maize, early and late millet, sorghum and findo (a grass resembling rice). Rice is cultivated in swamps, on upland areas and in irrigated plots. A small amount of cotton is grown for cash.

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

1. Macroeconomic Factors

During the late 1970s the Gambian economy began to decline because of a combination of internal and external factors. External sources of disruption were the Sahelian drought, the collapse of international groundnut prices, the rise in international real interest rates, the decline in foreign assistance, and the difficulties arising from escalating petroleum prices. More important, however, were the internal sources of disequilibrium; that is, large government investments which failed to diversify the economy and generate growth. The government overinvested in urban-oriented infrastructure and in productive activities for which The Gambia has no comparative advantage (e.g., cotton and irrigated rice production) to the detriment of traditional cash and food crop production (e.g. groundnuts and coarse grains). To operate and manage this investment program the government dramatically increased public sector employment: the civil service doubled in size from 1977 to 1981, and more than ten new parastatal corporations were created. To finance these investments the government borrowed heavily, depleting the reserves of the financial system and accumulating debts. Government pricing policies (an over-valued exchange rate, low producer prices, and subsidies on urban rice consumption) increased imports without encouraging exports. Imports also rose dramatically because of the high import consumption rate of the urban public sector wage earners and the high import component of the investment program. Consequently, by 1981 the Government had a chronic fiscal imbalance, the nation had a structural trade deficit, and the economy was in decline.

Given its very small economy (GDP roughly SDR120 million),[1] The Gambia is now paying heavily for its past attempts to substitute investment by public fiat for market driven investment decision-making. The Gambia has a chronic current account deficit (excluding official transfers) of some SDR35 million a year, or about 30% of GDP (see Table One). [2]

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[1] The IMF estimates GDP at current market prices as follows:
(millions of SDR)

1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
182.8	186.0	190.1	155.9	155.7	120.0

Much of this decline since 1983/84 is due to the depreciation of the Dalasi in terms of the SDR, from 2.4679 (1981/82) to an estimated 8.125 Dalasis (1986/87). In absolute terms, the IMF estimates GDP growth at constant 1976/77 prices as follows (annual percentage change, 1986/87 is program target):

1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
9.6	14.6	-7.5	-8.7	6.6	3.5

[2] In SDR terms, the current account deficit as a percent of GDP is projected by the IMF to increase by 41% between 1985/86-1986/87, entirely due to decline in GDP in terms of the SDR. In current Dalasi terms, the trade deficit as a percent of GDP is projected by the IMF to increase by one-third 1985/86-1986/87, from 9.3% to 12.4%.

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TABLE ONE

BALANCE OF PAYMENTS
(in millions of SDRs)

	1981/82	82/83	83/84	84/85	85/86	86/87
Exports, f.o.b.	67.3	77.5	86.1	62.1	59.3	57.9
Imports, f.o.b.	-85.7	-81.7	-96.1	-74.9	-73.4	-72.4
Trade balance	-18.4	-4.2	-10.0	-12.8	-14.1	-14.5
Services & private transfers, net	-25.9	-22.9	-26.4	-22.1	-19.1	-20.6
Current account, net	-44.3	-27.1	-36.4	-35.0	-33.3	-35.1
Capital account, net	29.8	-1.4	11.7	31.1	19.8	25.0
Official	54.0	34.5	32.4	33.8	24.3	34.3
Private	-24.2	-35.9	-20.7	-2.7	-4.5	-9.3
Overall surplus or deficit	-14.5	-28.5	-24.7	-3.8	-13.5	-10.0
Current account deficit (% GDP)*	24.2	14.6	19.1	22.4	21.4	30.1

* excluding official transfers

	1981/82	82/83	83/84	84/85	85/86	86/87
Memo: Gross Official Foreign Reserves*						
Amount	4.3	2.6	5.2	3.8	1.3	6.9
In weeks of imports, f.o.b.	2.6	1.7	2.8	2.7	1.5	4.9

* end of period

Note: The Gambian fiscal year is from July 1 through June 30. Data for 1985/86 are provisional and for 1986/87 they are the IMF Stand-by program targets.

Source: IMF.

The external accounts of The Gambia are in chronic disequilibrium. The Gambia is, therefore, very dependent upon external resources at this stage in its development. Tables One and Two present the recent best estimates of the balance of payments situation and of the importance of external transactions to the economy. Both the deficit on current account and the domestic resource gap severely limit the ability of the GOTG to respond to changing circumstances, to take any new initiatives, or to build for the future. These restrictive circumstances will persist throughout the program period and well beyond due to the very large debt overhang resulting from large borrowings for marginally productive purposes during 1977-82. The volume of debt, its growth since 1970, and key debt service ratios are detailed in Tables Three and Four. Table Five presents projections of debt servicing after rescheduling, through 1991/92.

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The balance of payments deficit has been kept to relatively small annual amounts by large official capital inflows. Since 1982, remaining deficits have been covered by increasing arrears on debt servicing. This situation obviously cannot persist. Fundamentally, The Gambia is a trade oriented economy. Some 53% of GDP is exported, helping to pay for imports which have added up to three-fourths of GDP in recent years (see Table Two).

TABLE TWO

SUPPLY AND USE OF RESOURCES, 1981/82 - 1985/86
(in millions of Dalasis; in current prices)

	1981/82	82/83	83/84	84/85	1985/86
Gross domestic product	451.4	527.6	603.7	646.5	828.0
Minus: exports of goods and nonfactor services	213.7	259.8	342.6	307.7	405.0
Plus: imports of goods and nonfactor services	303.0	323.9	425.0	475.5	630.0
Gross domestic supply	540.7	591.7	686.1	784.3	1,053.0
Gross domestic expenditure	540.7	591.7	686.1	784.3	1,053.0
Consumption	435.6	476.5	590.1	644.3	908.0
Private	329.1	371.6	468.0	510.1	768.0
Public	106.5	104.9	122.1	134.2	140.0
Investment	113.2	109.0	108.4	135.0	145.0
Private	46.5	42.5	33.4	20.0	45.0
Public	66.7	66.5	75.0	115.0	100.0
Changes in stocks	-8.1	6.2	-12.4	5.0	---
Resource gap	-89.3	-64.1	-82.4	-137.8	-225.0
Domestic savings	15.8	51.1	13.6	2.2	-80.0
<u>Memorandum items</u>:					
Investment as percent of GDP	25.1	320.7	18.0	20.9	17.5
Savings as percent of GDP	3.5	9.7	2.3	0.3	-9.7
Private consumption as percent of GDP	72.9	70.4	77.5	78.9	92.8

Source: IMF Doc. SM/86/216 (8/27/86), p. 53.

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The volume of external debt (see Table Three) and its servicing (see Table Four) pose an enormous obstacle to The Gambia's objective of economic recovery and growth. External debt outstanding from loans in the late 1970s and early 80s was, at the end of 1985, roughly SDR293 million or 188% of GDP. A major consequence of this very large debt overhang has been extraordinarily high debt service ratios (see Table Four). A provisional IMF estimate is that in 1985/86 The Gambia's debt service payments pre-empted 98.4% of earnings from the domestic export of goods and nonfactor services. The country has had to rely on foreign assistance, earnings from tourism and incidental receipts from the re-export trade to meet its minimal obligations.

TABLE THREE

EXTERNAL DEBT OUTSTANDING, INC. UNDISBURSED: 12/31/85
(millions of SDRs)

Public and Publicly Guaranteed	243.9
Official Creditors	217.4
IBRD	-0-
IDA	51.9
Bilateral	67.2
Private Creditors	26.6
Suppliers	10.7
Financial Markets	15.9
Private Nonguaranteed Long-Term	-0-
Short-Term Debt	24.6
Use of IMF Credit	24.8
Total	293.2
Of which, undisbursed as of 12/31/85	(80.6)

Memo: Growth in Total External Debt Outstanding, 1970-85:
(millions of SDRs)

Year:	1970	1975	1980	1981	1982	1983	1984	1985
Amount:	4.9	11.4	107.0	151.0	187.7	202.6	233.0	212.7

Source: IBRD World Debt Tables, February 1987.

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TABLE FOUR

DEBT SERVICE RATIOS, 1981/82 - 1986/87 1/
(PERCENT 2/)

	1981/82	82/83	83/84	84/85	85/86	86/87 3/
Including IMF	25.8	24.8	31.6	52.8	98.4	91.7
Excluding IMF	21.5	19.8	22.3	40.2	65.6	66.7

1/ Includes debt service on medium- and long-term public debt, interest on short-term debt, and IMF repurchases and charges.

2/ Percent of domestic exports of goods and nonfactor services.

3/ Before February 1987 Paris and London Club reschedulings.

Source: IMF.

At the end of 1985, debt outstanding included SDR76 million in non-renegotiable debt to multilateral institutions (Table Five). By the end of 1986 The Gambia had accumulated over SDR47 million in arrears, largely on the principal of loans guaranteed by the Central Bank of The Gambia (CBG). In early 1987 The Gambia's external bilateral and private debts were rescheduled by the Paris and London Clubs. But only 23% of the arrears were rescheduled. Of principal and interest payments falling due between 1986/87 and 1993/94 on debt not in arrears (SDR120 million), 56.6% was rescheduled. Further reschedulings almost certainly will prove to be necessary.

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TABLE FIVE

EXTERNAL DEBT* ARREARS AND SERVICE (1986/87 - 1991/92)
(SDR 000)

Creditor	Arrears	1986/87	87/88	88/89	89/90	90/91	91/92
Multilateral 1/							
Principal	3511	1257	3711	4374	4643	4585	4710
Interest	1285	1161	2578	2548	2389	2223	2003
Bilateral							
Principal	-0-	-0-	1977	2636	5313	5313	5313
Interest	-0-	599	1661	2037	1924	1710	1506
Suppliers' Credits							
Principal	-0-	-0-	129	396	396	396	396
Interest	-0-	164	769	920	857	793	744
Financial Institutions							
Principal	1424	216	1861	1776	1776	1776	1776
Interest	522	946	840	622	444	266	89
Other 2/							
Principal	42471	-0-					
Interest	-0-	4945					
Sub-Totals							
Principal	47407	1473	7678	9182	12128	12070	12195
Interest	1806	7846	5848	6127	5614	4992	4342
Total	49213	9319	13525	15309	17742	17062	16537
Of which:							
Non-reschd	37885	5914	6289	6922	7032	6807	6712
Resched'ld	11328	3405	7236	8387	10710	10255	9825
Of which:							
Paris Clb	-0-	764	4536	5989	8490	8212	7959
London Clb	11328	2641	2700	2398	2220	2043	1866

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* After rescheduling. See footnote #1.

1/ Excludes payments to the IMF, estimated as follows:
(millions of SDRs)

1985/86	86/87	87/88	88/89	89/90	90/91
12.62	8.37	6.20	4.56	1.59	0.42

2/ Made up of medium and long-term debt guaranteed by the CBG, arrears on the commodity pipeline, and guaranteed short-term debt.

Source: GOTG, Ministry of Finance and Trade.

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Annual domestic exports have averaged about SDR60 million over the 1984/85 to 1986/87 period. After rescheduling, debt service from 1987/88 would preempt about one-third of export earnings if such earnings continue to vary around the recent average. In addition, nearly one-fourth of The Gambia's external debt service payments due are in arrears, an amount (SDR49 million) representing over 80% of an average year's export earnings. Retirement of these arrears will be a matter of priority both to The Gambia (which must pay interest on the principal in arrears) and creditors, and probably will be a _sine qua non_ to renewed private investment.

Imports (fertilizer, fuel, spare parts, capital goods and basic materials) are required for growth in The Gambia. The relationship between imports and growth is demonstrated conclusively in the macroeconomic model in Annex B. The debt overhang (arrears plus reschedulings) will severely restrict the economy's growth potential, as it must be serviced out of current earnings which would otherwise be available for current imports.

The way out of the conundrum posed by the recent BOP disequilibrium will be lengthy and difficult to implement. With the assistance of the IMF, the World Bank, A.I.D. and other donors, the way has been charted by the GOTG under its ERP, which has to date put into effect one of the notably successful examples of economic reform in Africa.

2. The Gambian Economic Recovery Program

Although the Government tried to address its macroeconomic problems with IMF assistance between 1981 and 1984, its reform efforts were unsuccessful because they focused on imposing macroeconomic ceilings without addressing the underlying structural disequilibrium. Therefore, the GOTG assembled a Task Force of high level government officials who, with technical assistance from the IBRD and USAID, drafted an action plan for economic realignment. The result of the Task Force's efforts is the Economic Recovery Program (ERP), a comprehensive and courageous program of policy measures to redress the internal and external structural imbalances in the economy and to return the economy to a sustainable growth path. The ERP became the official government strategy when the Ministry of Finance and Trade began its implementation in June 1985. It was presented to the special Donor's Conference at London in September 1985, where it received widespread endorsement and support from the international community, including the IMF and IBRD.

a. Strategies and Objectives

The ERP has six elements. These are:

(i) Exchange rate reform so that the gap between official and parallel market rates is eliminated;

(ii) Stimulating agricultural production through pricing policy incentives, removal of subsidies, shifting of resources to increase the efficiency of extension services provided for agriculture, and privatization of services;

(iii) Expanding output and employment in other productive sectors such as fishing, light industry, and tourism through investment and price policies;

(iv) Reforming the public sector by reducing the budget deficit as a proportion of GDP, reforming the civil service by reducing and reorganizing the staff in order to eliminate redundancy and increase efficiency, and reorganizing parastatals by regularizing their relations, divesting government interests in key areas, and privatizing select activities and operations;

(v) Rationalizing the financial system by raising interest rates, reducing credit creation, collecting outstanding debts, limiting the money supply, and restructuring the tax system; and

(vi) Sharply reducing both the size and scope of the public investment program, from 776 million Dalasis over 4 years to only 640 million Dalasis over 6 years.

b. Measures to Date

Major initiatives have been taken in each area. Of particular relevance for this GEPRP are the following:

Monetary Measures: On January 20, 1986, a flexible exchange rate system based on an interbank market was introduced. After some initial confusion, the commercial banks began to compete aggressively for foreign exchange. As a result, the parallel market in foreign currency which had thrived since 1982 became moribund and the supply of foreign exchange available through official channels has increased. Furthermore, the Dalasi, which moved from 5D to the pound sterling in January 1986 to 10D to the pound sterling in early March (the parallel market rate before the float), then to 11.4D to the pound in early July, before it appreciated to 10.6D to the pound in September 1986, finally stabilized at around 11.0D to the pound in November 1986. (However, as the table in Annex C illustrates, the rate is still subject to sudden sharp movements because of the relative lack of foreign exchange in the nation.) The flexible exchange rate system is now recognized by Government and donor officials as well as local business leaders as being one of the most courageous and effective policy reforms the Government has made.

Agricultural Sector Measures: Significant increases in the production and marketing of groundnuts, rice, and coarse grains were realized as a result of higher official producer prices and more favorable rainfall distribution patterns during both the 1985/86 and 1986/87 seasons. Decontrolling retail rice prices has also helped to encourage domestic cereal production by making coarse grains more competitive in price with imported rice. Since June 1985, commercially imported rice is sold at market determined prices that are significantly above wholesale coarse grain prices. The Gambian Government has also privatized the commercial rice trade, eliminated fertilizer subsidies, and opened the fertilizer trade to private entrepreneurs in its efforts to increase the role of the private sector in agriculture.

Other Productive Sectors: Development of tourism and fisheries is being encouraged by divestment of government holdings and improved incentives for private investment through revisions of the Development Act which provides tax and other financial incentives.

Public Sector Measures: First, in June 1985 the GOTG froze all public sector wages and salaries, banned any increases for three years, and froze staff levels through 1990. Second, the GOTG began to reduce and reorganize the civil service. Immediate lay-offs of daily and temporary laborers (2300 people) and employees in established posts (460 persons) resulted in a 24 percent reduction by March 1986. Another 17 percent cut occurred in August 1986 through termination of 750 officials in established posts, lay-offs of 340 temporary and daily workers, and the closing out of 750 positions. Third, the Customs and Revenue Department was reformed resulting in a net increase of 35 percent in customs revenues during FY 1986. Fourth, the Government instituted a ban on the creation of any new publicly-owned enterprises. And, finally, the GOTG commenced a program to rationalize and privatize existing parastatal corporations. Performance agreements are being negotiated between the government and major public enterprises in order to rationalize their relations; and government shares and interests in other state-owned enterprises are being prepared for sale. The IBRD and USAID are providing technical assistance to the GOTG to facilitate this process.

Financial Sector Measures: Strict controls over domestic liquidity are being imposed, and interest rates are being determined largely through the market via a regular tender of Treasury Bills. Moreover, interest rate ceilings on loans and savings deposits have been abolished. An embargo on lending for non-productive purposes has been implemented, and the Government has initiated studies of credit and taxes in preparation for reform of the credit system and tax laws. These financial measures are being supported by enforcing strict limits on the Government's budget deficit, which fell from more than 12 percent of GDP in 1984/85 to only 2.7 percent of GDP in 1985/86. Finally, the public investment program has been reduced and reoriented to focus on maintenance and rehabilitation activities as well as on priority projects, which are those with economic rates of return exceeding 15 percent, as defined by the IBRD.

c. Identifying the Next Steps

The formulation and implementation of the Economic Recovery Program has marked a fundamental shift in The Gambia's policy environment. Considerable progress has been made towards complete

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structural reform, and the GOTG is committed to further reform measures during the current fiscal year as part of its IMF and IBRD programs. However, it is now becoming evident that constraints in the financial sector are inhibiting the ultimate success of the ERP and the success of other sectoral interventions. That is, the hemmorhaging of scarce financial resources which is occurring at public financial institutions has created instability in the financial sector and this, together with the prevalence of inequitable practices in the sector, has discouraged and prevented private entrepreneurs from expanding their investments in productive activity. Unless the GOTG implements appropriate policy reforms in the financial sector, it will be extremely difficult to encourage or promote the private investment which is needed to help lay the foundation for future economic growth.

B. The Problem

The economy has responded well to the initial GOTG ERP reforms, but additional measures and resource support are necessary before it can fully recover. This is because the effect of implementing some reforms has been to create new constraints on the financial system and on the ability of the private sector to increase its investments. Specifically, despite the implementation of an interbank market and floating exchange rate, there is still a shortage of hard currency which limits the importation of inputs needed to increase production; high real interest rates which are necessary to prevent capital outflow also are discouraging entrepreneurs from making the investments necessary to diversify the productive base of the economy; and the CBG lacks the foreign exchange reserves necessary to counteract these adverse trends. Moreover, the dissipation of scarce government financial resources caused by inequitable practices at public financial institutions has inhibited the stability of the financial sector and has created disequilibrium in financial markets.

During the decade from 1975 through 1985, the Gambian financial system did not operate in an open and equitable manner. As a result of imprudent financial policies and practices, there was a considerable loss of scarce official financial resources through key public institutions. Moreover, subsidies to parastatal entities enabled them to increase their share of marketing at the expense of the private sector. Consequently, by 1981 government interference in the financial sector and the continuous loss of financial resources by parastatals had led to instability and disequilibrium in that sector. The resulting financial crisis has been a significant constraint to the economic development of The Gambia. Indeed, the financial system is decapitalized to the point that IMF-imposed credit and monetary ceilings make it difficult for both parastatals and private entrepreneurs to gain additional credit. The Gambia thus needs to achieve maximum utility from its scarce financial resources by making them available to the most efficient and productive users. This can only be accomplished by ending the history of financial losses at key institutions, making changes in financial practices and policies, and moving toward a situation of market determined resource allocation. The GOTG has already taken several steps in the right direction such as floating the currency and allowing most interest rates to move freely. It is a major purpose of this program to help complete this process.

1. The Financial Sector

For analytical purposes, the Gambian financial sector is comprised of the banking system and The Gambia Cooperative Union (GCU). The Gambian banking system consists of the Central Bank of The Gambia (CBG) and three licensed commercial banks: the Gambia Commercial and Development Bank (GCDB), which is government-owned; Standard Chartered Bank (SCB), which is a British subsidiary; and, the International Bank for Commerce and Industry (BICI), which is a branch of a French West African bank. Although the GOTG has implemented a series of financial reforms designed to restore equilibrium to the system under its ERP, some of the reforms themselves have created additional burdens for the Central Bank which need to be resolved before full stability can be reauzed..

a. The Central Bank of the Gambia (CBG)

The CBG was established in 1971 to assume the functions of The Gambia Currency Board and to act as banker to the Government. The principal objectives of the CBG are:

(a) to regulate the issue, supply, availability and international exchange of money;
(b) to promote economic stability; and
(c) to promote a sound financial structure and credit and exchange conditions conducive to the orderly and balanced economic development of the country.

From the mid-1970s on, the CBG, at GOTG direction, provided significant levels of re-finance to banks (lately to the GCDB only) for crop finance, most of which was for on-lending to the GCU and other licensed buyers for the purchase of groundnuts. Additional sums were advanced to GCDB to finance projects which the GOTG supported (by way of government guarantee) for various reasons. These arrangements increased the overall level of demand, put pressure on the foreign exchange market, caused surges in the money supply and ultimately led to inflationary price movements and currency speculation. By the end of 1985, CBG advances to the GCDB had risen close to D100 million, over half of which appeared to be uncollectable.

At the beginning of January 1987, the GOTG and CBG established a "Managed Fund" of about D70 million in the books of the CBG. The Fund represents a substantial part of the GCDB short- and medium-term credits from the CBG as well as some government guaranteed loans,

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most of which are non-performing. The effect of setting up the Fund has been to transfer "Assets" (outstanding loans and advances) to the CBG for cash - most of which was used to retire re-finance obligations with the CBG. The GOTG will service the Fund from its budget. While this arrangement strengthens the GCDB, it weakens the asset position of the CBG and places further demands on the limited financial resources of the GOTG.

By 1985, the banking sector had reached a stage where little if any effective control was being exerted by the CBG. This was particularly evident in the case of the GCDB, which did not comply with CBG mandated credit ceilings nor with reserves and liquid assets requirements. In fact, it was virtually insolvent, yet the CBG did not apply sanctions because the GCDB could not pay any penalties unless it borrowed more money from the CBG. The GCDB argued that it was either lending money on GOTG instructions or acting in the "national interest." This latter argument was particularly effective in regard to refinance for groundnut purchases.

After 1980/81, the CBG experienced a growing inability to supply sufficient foreign exchange to meet demand at the official rate because the rate was over valued. This led to a rapid loss of confidence in the banking system by the trading community and the rise of a parallel market in foreign exchange. The substantial foreign exchange earnings being generated by The Gambia's re-export trade ceased being channelled into the domestic financial system and, instead, they were being held or invested abroad.

The GOTG, recognizing these serious fiscal and monetary problems, began in 1985 to implement its ERP measures to help restore financial equilibrium. Introduction of a flexible exchange rate for the Dalasi was the first innovation of importance to the banking. All banks were either skeptical about its purported benefits or were antagonistic to it. While the banking system had become largely irrelevant to the foreign exchange market, it was reluctant to permit the exchange rates to move very much because of the potential social consequences (price increases). It was several months before banks recognized the benefits of the new exchange rate system and allowed the exchange rate to move upward to reduce demand pressures and allow market forces to allocate foreign exchange.

The new exchange rate arrangements created a significant problem for the CBG, however, by virtue of the existence of pipelines of public and private sector external payments arrears. These pipelines came into being prior to the devaluation of the Dalasi in 1984, when the rate was moved from D4 to D5 to the Pound Sterling, and they continued to grow up to the time of the float. Budgetary allocations had been made for the payment of official external arrears and the Dalasis, at the official exchange rate, were registered with the CBG pending availability of foreign exchange. The CBG is now required to make payments "out of the pipeline" from time to time, at prevailing exchange rates, but without the benefit of further Dalasis from the

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GOTG to make up the difference in rates. The result is that the CBG has no foreign reserves to speak of and has an almost insupportable burden of liabilities arising from the floatation of the currency. (See Annex C.)

The decapitalization of the CBG which was caused by the floating of the Dalasi and the subsequent settling of The Gambia's arrears to the multilateral organizations, primarily the IMF, constrains its ability to instill confidence in business about the stability of the exchange rate. This situation is being aggravated by some of the conditions being imposed under the IMF and IBRD programs, however necessary they may be for restructuring. For example, under the IMF Stand-by Arrangement, the GOTG is committed to eliminate its borrowing from the banking system. Thus, a major source of Central Bank revenue, the interest on its advances to Government, will disappear. Moreover, the Managed Fund created at the suggestion of the World Bank has further eroded the Central Bank's asset position. By contrast, the Central Bank's liabilities have not been correspondingly reduced. Indeed, because of exchange rate losses, its liabilities have increased substantially. For example, as of October 1986 the CBG faced a D311 million loss in foreign exchange, the equivalent of some thirty years' annual profits earned during periods of relatively high GOTG borrowing (see Annex E). Until these continuing problems are solved,the CBG will not have sufficient capital and reserves to sustain the momentum of the financial reforms which have already been implemented and to prevent adverse speculation against the Dalasi.

The introduction of the interbank market has had a major impact on both the supply of foreign exchange which is flowing through the banking system, and on the rational allocation of the available supply according to market forces. It has not promoted private investment, however, nor relieved the acute shortage of foreign exchange reserves available to the CBG. The CBG does not have sufficient reserves to guarantee the flow of essential inputs, to remain current in meeting its external obligations, let alone prevent the speculative depreciation of the Dalasi. Consequently as the CBG must use its scarce foreign exchange resources for the first two purposes, it is unable to prevent fluctuations in the Dalasi which causes instability in the economy and, by adversely affecting the domestic price of imported goods, fuels inflation. For example, because traders are uncertain of future exchange rate movements, they include in their cost calculations an extra margin to guard against unfavorable exchange rate movements. If the exchange rate changes rapidly, as has happened in The Gambia during the past year, and if the CBG lacks the resources to dampen speculative activity, traders and investors will increase their risk margins, which, in turn, will increase prices and encourage speculation and inflation. These higher costs are then passed on to the consumers, which in the case of agricultural inputs is the farmer. Alternatively, the private sector withdraws from the market, leaving parastatal organizations to provide services on a non-commercial basis which ultimately becomes a charge on the GOTG, wasting scarce financial resources.

The imposition of IMF-mandated credit ceilings led to banks refusing to accept deposits which could not be profitably utilized. This is obviously an adverse factor to be overcome if businessmen are to be persuaded to repatriate and sell surplus foreign currency. There is little use having higher interest rates in The Gambia if proceeds of sale of foreign currency cannot be invested even in the short term. The CBG responded to this situation by introducing a twice-monthly tender for GOTG Treasury Bills. Under this system interested investors are invited to submit tenders for their Treasury Bill requirements and at the discount rate that they require. The CBG considers all tenders after closure, and accepts those which are offering acceptable market rates.

b. The Gambia Commercial and Development Bank (GCDB)

The GCDB was established by Act of Parliament in 1972, with its principal objective being to assist in the economic development of The Gambia by promoting trade, industry, agriculture, fishing, mining, public works, communications, public utilities and tourism through the provision of commercial and development banking services. The GOTG holds the major shares with the GCU and GPMB being the other original shareholders. From 1979 to 1983 the bank grew very rapidly and accounted for almost all of the growth in commercial bank lending. Its operations have been unsatisfactory, and it has been virtually insolvent for some considerable time.

In addition to its capital, the GCDB has raised funds by borrowing both locally and overseas, by floating development bonds and by accepting deposits. Over half of the funds utilized by the bank at the end of 1986 had been borrowed under re-finance arrangements from the CBG. The GCDB was also the recipient of an IDA (World Bank) credit which was to be used partly to finance small and medium scale enterprises including those in the rural sector, partly for staff training and partly to meet some of the construction costs of a new office building.

The state of the GCDB results from operational and structural difficulties and from interference from the GOTG. Despite the fact that the bank has been in existence for some fifteen years it has yet to formulate development lending policies and procedures. Staff have no formal guidelines to help them identify, prepare or appraise development projects and no objective set of criteria has been formulated to assess loan proposals. It is obvious that many loans granted by the GCDB were not subjected to proper assessment and the applicants were not vetted for credit worthiness.

The undisciplined management, operational systems inefficiency, and unproductive investments of the GCDB during the last five to six years wasted scarce financial resources and were a major contributing cause of the financial crisis that developed in The Gambia. Under instruction from the GOTG, the GCDB lent considerable sums for development works on the security of Government guarantees. These loans were not properly monitored nor were repayment arrangements enforced. In addition, the GCDB provided finance to the agricultural sector and again little effort was made to supervise or recover such loans. Large sums of money were advanced to the GCU for the purchase of groundnuts and other crops under re-finance arrangements with the CBG. Lack of supervision led to a succession of outstanding debts at the end of each season as loan moneys were applied to other uses and to working capital. Such accumulated debts resulted in a build up of long term arrears at the CBG and contributed significantly to the GCDB's liquidity problems.

In the past there has been a blurring of the distinction between normal commercial and development banking business. Concessional interest rates have been offered and loan irregularities have occurred because commercial financing has been provided for developmental purposes. This approach to banking activity has deprived the GCDB of both income and capital and led to the allocation of scarce resources for activities which were not necessarily of high priority. For example, crop finance has been provided to the GCU at concessional interest rates and such finance has been partly diverted to working capital and other activities. The seasonal activities of the GCU have been undertaken without due regard to costs and the proceeds of sales have been insufficient to pay off loans and meet interest charges. The GCDB has permitted loan arrears to be carried forward from season to season until such arrears became a significant contributing factor to its insolvency. The GOTG was finally required to pay off such debts, thus subsidizing further the inefficient operations of the GCU. Not only have these actions caused a drain on GOTG resources, but the hidden subsidies to the GCU have also made it impossible for private traders, operating under normal commercial arrangements, to compete more aggressively with GCU.

c. The Gambia Cooperative Union (GCU)

Although not part of the financial system, per se, the Gambia Cooperative Union (GCU) has established itself as a major source of institutional credit to farmers. Its performance in administering loans and marketing agricultural inputs and outputs has had a deleterious impact on the status of the GCDB and the whole financial system as well as on the agricultural sector. Originally established in 1959, the GCU is the largest licensed buying agent of groundnuts for the Gambia Produce Marketing Board (GPMB), and prior to 1986 it was the main distributor of chemical fertilizers and seeds. The operations of the GCU are financed by borrowings from the GCDB, most of which are refinanced by the CBG. The GCU has been utilized as the main supplier of credit to the agricultural sector with loans being disbursed on GOTG instructions for subsistence credits and, to a limited extent, for crop production (seednuts and fertilizers). For several years medium-term loans for oxen and ox-drawn equipment were issued with IDA financial assistance. Poor records, lack of credit supervision and operational difficulties arising from multiple

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membership, together with drought conditions in some years resulted in very poor loan recoveries which in turn left the GCU unable to honor its obligations to the GCDB, which was then unable to meet its re-finance obligations to the CBG.

The activities of the GCU pervade the agricultural sector. The GCU has provided preseasonal finance to farmers; it has monopolized the supply of agricultural inputs (fertilizer, seednuts) to farmers; and, it receives favored treatment in its groundnut buying operations. The proliferation of individual cooperatives has been justified on a "provision of better service" basis, whereas in fact the result has been to increase inefficiencies and costs and generally to impede the development of less costly and more efficient private sector activity.

The groundnut buying operation is closely regulated and competition is limited by the GOTG determination of the "farm-gate" price which must be paid by private traders and the GCU alike. The GPMB pays allowances to traders and the GCU for providing buying and other services and also pays a freight allowance to cover costs of delivery to its depots. These allowances are negotiated each year and are intended to cover overheads, operating costs, and provide a satisfactory return on capital. In fact, the real value of the allowances has steadily declined over the last few years as expenses have risen, and at best they now provide only a minimal return to efficient traders, but do not cover the operating costs of GCU let alone provide any surplus. It should be noted that even though the GCU receives an allowance higher than that paid to private traders, it still is unable to achieve profitable trading.

Indeed, before independence (1965) private traders dominated agricultural marketing, providing credit and inputs to farmers during planting season, and marketing farm produce during the trading season. However, as a result of GOTG policies and practices during the 1960s and 1970s, the GCU was able to increase its activities at the expense of private buyers. Government encouraged private traders to sell their operations to the GCU, and by giving preferential treatment to the GCU in terms of below market interest rates at the GCDB and higher buyer remuneration rates at the GPMB, it squeezed many private buyers out of the market. Thus, whereas private buyers marketed about 80 percent of the groundnut crop in the mid-1960s, by the late 1970s they had only about a 20 percent share of the market. Private buyers have maintained this modest share of the market because even though their borrowing costs are higher and their remuneration rates are lower than those of the GCU, they operate more efficiently than the GCU does.

The GCU has not operated profitably in about ten years, and it has required infusions of scarce government resources, sometimes as much as D10 to D20 million per annum, just to stay in business. In addition, the GOTG has periodically forgiven bad debts owed by farmers to the GCU. This has had obvious adverse effects on debtor morality, as well as on the GCU's financial position.

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During the current trading season (1986-87), the government was constrained by IMF-mandated credit ceilings in terms of how much financing could be made available for groundnut buying operations. Only D20 million was available for loans through the private banks under these ceilings. Yet when it became evident that the GCU would require additional funds for its groundnut marketing operations, the government could only secure them by depriving the private sector of a share of its credit allocation. The GOTG did this by cutting the private banks' lending ceiling to D16 million and increasing the GCDB's ceiling by D8 million.

Despite the state of insolvency of the GCDB and the poor repayment record of the GCU, the CBG still provides re-finance facilities to these institutions at the bank rate for the purchase of groundnuts. The GCDB is permitted to add 2 percent per annum to the interest rate to cover its "costs", so the GCU obtains financing at some 21-22 percent per annum at present, compared with the 26 percent per annum charged to other licensed buyers by another commercial bank. The situation has not improved by the detection of widespread embezzlement at about 80 percent of the coops seccos through fraudulent practices and the falsification of records last season (1985-86). The GOTG under its ERP is studying the requirements for agricultural credit which would involve decisions regarding the role of the GCU.

2. Removing the Constraints

A reform of GOTG policy is an essential prerequisite to any substantial improvement in the operations of the financial sector. But before any lasting banking reforms can be effected, the GOTG must address the basic economic and policy issues governing its approach to development. Given the limited financial resources of the GOTG and The Gambia, it would appear that viable development projects may best be encouraged by placing more reliance on market forces than in the past. Should the GOTG wish to interfere with such forces, then the costs of doing so should be clearly established, the method of interference should be clearly delineated, and the necessary financing must be provided to meet any shortfall from appropriate market returns. Therefore, the establishment of firm policies and priorities in the areas of agricultural credit and term lending will clarify the confused situation in the banking sector. It will provide the basis for appropriate decisions on the future of the GCDB and the GCU, as well as establishing the guidelines for the future role of other banking and credit institutions.

To relieve the specific constraints noted above, the proper combination of policy reforms and resource support must be brought to bear. In the first instance the institution of equitable practices so that the private sector can compete effectively with public enterprises like the GCU is a sine qua non for improvement. The additional provision of resource support would serve the purpose of providing some stability to financial markets so that private

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entrepreneurs are encouraged to expand their investments in productive activities. It is the objective of OAR/Banjul's GEPRP to assist the GOTG remove existing financial sector constraints, so that that sector operates in an open and equitable manner. This will contribute to the overall stability of The Gambia's financial markets and help to sustain the momentum of the GOTG ERP, thereby laying the foundation for recovery and economic growth.

C. Relationship of the GEPRP to the OAR/Banjul Assistance Strategy

AID/W authorized a CDSS for The Gambia in 1982 that recognized and responded to its macroeconomic deterioration, especially the growing structural imbalance between the rural productive sector of the economy and the urban consumer sector. This recognition led OAR/Banjul to narrow its program focus from a multi-faceted rural development approach to one containing two interlocking and mutually reinforcing components: (1) economic stabilization and reform, and (2) diversified agricultural production.

Technical assistance in direct support of diversified agricultural production is channelled primarily through The Gambia Agricultural Research and Diversification project (635-0219). Using a farming systems oriented applied research and promotion approach, this project focuses primarily on rainfed cereals. It includes, however, smaller, longer term investigations into the integration of forage and grazing with food crop production, irrigation under appropriate technology, and horticulture. This project is buttressed by smaller technical assistance efforts in soil and water management and sesame seed production.

Since 1982, OAR/Banjul has directed its assistance in support of economic stabilization and reform. Recently efforts have focused on The Gambia's ERP as a whole, and toward A.I.D.'s role in it. Substantive, policy oriented analytical efforts since 1982 have involved investigations into: (1) understanding how The Gambia's economic problems came about; (2) the measures needed to stop decline and bring about recovery; and (3) where program assistance could best be placed to enhance policy reform measures. These investigations evolved into a commitment in 1985 to provide long-term technical assistance to the Ministry of Finance and Trade (MOFT) under the Economic and Financial Policy Analyses project (635-0225). The long-term advisor and short-term consultants have played a critical role in helping the MOFT to develop The Gambia's ERP.

OAR/Banjul increased its efforts to support the GOTG ERP in FY 1986 with the approval of a PL 480 Title II Section 206 Program (635-0222). Through this program, OAR/Banjul is supporting specific policy reforms to end subsidies on urban consumption, to open marketing to private enterprise, and to resuscitate the groundnut sector. Several measures have already been implemented, and there are encouraging signs that the program is having a positive impact on the agricultural sector and the macroeconomic policy environment.

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Our analyses of the progress made to date under the ERP, and our own project experience have convinced us that further efforts in the area of financial reform are necessary before the success of sectoral interventions can be assured. The Gambia's AEPRP, as described in the following section, will contribute to this end through its particular combination of policy measures and use of financial resources.

D. The GEPRP

1. Program Objectives

The goal of The Gambia Economic Policy Reform Program (GEPRP) is to help create a more stable and equitable financial system. The GEPRP purpose is to support GOTG efforts to create a financial policy and institutional environment which encourages and promotes greater private sector investment in productive activity. To accomplish this purpose, the GOTG will implement policy reforms to remove the inequities and constraints identified in the financial sector analysis. As the policy reforms are executed, USAID will provide $6 million for balance of payments support (debt relief) in three tranches. An additional amount of $850,000 will be utilized to assist the GOTG develop the policy options and the implementation strategies necessary to bring stability and equilibrium to the financial sector. No local currency deposits or counterpart funds will be required under this program. However, the net effect of providing foreign exchange to help pay The Gambia's external debts may be an increase in the CBG's foreign exchange reserves. This would help strengthen confidence in the floating Dalasi by bringing stability to the exchange rate, which will in turn, reinforce the effects of the policy reforms being undertaken in the financial sector.

It must be emphasized that while this program is designed to bring stability and efficiency to the financial system by ensuring that the GCDB and the GCU operate by the same practices as other institutions, it cannot guarantee that these reforms by themselves will improve the operations of the GCDB or the GCU. Indeed, it is not our objective to rehabilitate or strengthen either the GCDB or the GCU; rather, our objective is to eliminate subsidies and other inequities and to expose these institutions to market forces.

2. Program Context

a. Overview

After an intensive review of The Gambia's ERP and consultations with bankers and private entrepreneurs, OAR/Banjul has determined that the most effective method to restore stability and efficiency to the financial sector during this period of structural adjustment is to help the GOTG implement equitable financial practices and policies. A more stable and equitable financial system will encourage private entrepreneurs to increase their investments in productive activities. The GOTG has already implemented several measures to encourage increased private sector activity, but further efforts in the area of financial reform are necessary before the success of other sectoral interventions can be assured. Thus, our GEPRP follows the financial sector guidelines developed by AID/W in its Africa Bureau Private Sector Policy and Strategy (ref: 87 STATE 047791). That is, OAR/Banjul will be supporting GOTG efforts "to improve the efficiency of financial markets,...to reduce transaction costs, and to reduce risk."

b. Financial Policy Reforms

The policy reforms being supported by the GEPRP involve the GOTG taking the steps necessary to ensure that all financial and credit institutions operate according to the same practices. Thus, the GEPRP will support GOTG efforts to develop and implement policies for (i) term lending at market determined rates; (ii) development lending, with any difference in rates between commercial and development loans properly and accurately calculated and the costs thereof provided for through budgetary allocations; and (iii) agricultural credit at market determined rates. Making credit available at market determined rates will promote the most economic and productive utilization of the financial resources of the GOTG and the nation. Ending preferential access to, and the administrative allocation of credit will promote private sector competition with public enterprises. Moreover, additional specific reforms to be executed under this GEPRP will encourage private entrepreneurs to engage in more productive activities.

Specific policy reforms already identified for implementation include the following: the GOTG will not permit any public or private enterprise or individual to borrow from official sources at less than market determined interest rates. For example, the preferential rate given to the GCU by the GCDB will be terminated. The government will also ensure that the parastatal GPMB will remunerate all licensed buyers of groundnuts at the same rates. This involves ending the preferential buyers' allowances for the GCU; instead it will be paid the same rates as private buyers.

These reforms will bring an immediate improvement in the stability and equitability of the financial and marketing system. Moreover, requiring public enterprises to compete on equal terms with the private sector will either enforce efficiencies and reduce costs, or reduce the scale of parastatal activities which would then be taken up by the private sector. These changes also will stem the flow of GOTG funds to inefficient enterprises and permit the GOTG to undertake more appropriate expenditures in the public sector.

While these actions will help to create investment opportunities for private entrepreneurs, a trading oriented economy like The

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Gambia's also requires that stability in the exchange rate be maintained. To reduce the uncertainties about the floating exchange rate so as to minimize associated business risks, promote price stability and foster trade, it is proposed to provide $6 million in foreign exchange to The Gambia to discharge some of its debts. By doing so, there should be a net increase in the CBG's foreign exchange reserves. An increase in CBG reserves will enable it to maintain confidence in the floating Dalasi and thereby sustain the pace of financial sector reforms.

The GEPRP will complement and reinforce OAR/Banjul's activities in The Gambia. It will help to consolidate the efforts being made under the Economic and Financial Policy Analyses Project (635-0225) by which USAID is strengthening the capacity of the MOFT which is key to the ultimate success of the ERP, through policy studies, training and technical advice. It will give macroeconomic support to the activities of The Gambia Agricultural Research and Diversification Project (635-0219) whereby USAID is providing senior agricultural scientists to boost the agricultural research and extension system. It will also enhance the effectiveness of the Program Management and Research (PM&R) funds through which OAR/Banjul has produced timely and appropriate studies which have been the basis of some important policy changes by the Government. Finally, the GEPRP is consistent with the goals of the PL 480 Title II Section 206 program by which USAID is providing rice that is simultaneously saving the country foreign exchange, supporting the expansion of private sector activity, and generating counterpart funds which are being used to support the groundnut marketing system. Taken together, these activities constitute the main elements of a comprehensive, and integrated package which directly supports the Gambian Government ERP. The proposed debt relief assistance and financial sector policy reforms are a natural and appropriate extension of OAR/Banjul activities in The Gambia.

3. Program Impact

It is difficult to quantify precisely the benefits that will flow from this GEPRP. The analysis suggests, however, that the program will significantly advance the financial stability of The Gambia, and it will significantly increase the opportunities for private enterprise.

The financial burden to the GOTG resulting from the creation of the managed fund for outstanding GCDB debts could be as high as D15 million per annum. Payments made to eliminate GCU's bad loans have also cost the GOTG over D8 million. Therefore, the GOTG stands to gain significant financial benefits from ensuring that all parastatal institutions involved in commercial activities (banking, marketing, etc.) compete in the market place on a normal commercial basis. The elimination of hidden GOTG subsidies and adoption of the policies noted above will increase efficiencies and lower costs in the banking

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and marketing sectors, and provide increased investment opportunities for private entrepreneurs.

The GEPRP policy reforms will have a positive impact on private enterprise. Removing GOTG subsidies to the GCU (in the form of preferential interest rates from the GCDB, and preferential buyers' rates from the GPMB) will ensure that the GCU competes on an equitable basis with private traders. This should enable private entrepreneurs to increase their share of agricultural input and output marketing because, as several independent studies have documented, private traders operate more efficiently than the GCU. As a result of these policy measures, the GCU may be forced to close its most inefficient coops, and its share of fertilizer and groundnut marketing should decline accordingly. Concurrently, the private sector will have the opportunity to increase its activities. Indeed, there are indications that some merchants are making arrangements to import pesticides, implements, and fertilizer in response to the liberalization of trade and elimination of subsidies which was effected in January 1986. Making financial reforms will only encourage this positive trend.

Private banks will also benefit from the GEPRP reforms. As GCDB lending rates move towards other commercial market rates, there will be increased competition among the banks. While it is unlikely that the other commercial banks will increase their participation in pre-crop finance, as the private sector increases its marketing activities, the private banks will probably increase their lending operations to meet the needs of these merchants. Indeed, as the pass-through effects of a stable Dalasi are manifested in lower interest rates (see below), it is likely that there will be an increased demand for loans which the banks should fill. Maintenance of the strict IMF credit ceilings will limit the expansion in lending, but there still should be room for more lending for productive purposes. There will also be room for increased lending as efficiencies are introduced into the financial system.

It is unclear whether implementation of the reforms supported by this GEPRP will lead to a de facto divestiture of some or all of the GCDB's operations. As noted above, there are only three commercial banks operating in The Gambia and to simply divest GCDB operations would not necessarily benefit either the financial system or the nation because it would not promote, but discourage, competition; it would lead to the virtual monopsony of commercial banking by the Standard Chartered Bank (SCB). This is because of the relative lack of knowledgeable investors, financial experts, and managers who could assume GCDB's commercial operations as a private enterprise. Indeed, even the managing director of the SCB expressed a desire to see the GCDB kept whole, but returned to more sound and prudent management and operations so that competition would be restored to the benefit of all financial institutions. Hence, it is more likely that, as a result of the change in policy environment caused by this GEPRP, and the expected impact of IBRD technical assistance (see section E

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below), the GCDB will curtail its losses and ultimately improve its operations.

4. Timing, Sequence and Conditionality

OAR/Banjul proposes to provide $6.0 million in foreign exchange to the CBG over the life of this program. An additional $850,000 will be provided for technical assistance. The $6 million will be provided for debt payment in three, $2 million tranches. Each tranche will be released only after OAR/Banjul has verified that the stipulated financial sector reforms are in place.

The policy reform measures which comprise the conditions precedent and covenants are as follows:

a. Standard Conditions:

These are standard conditions for a program grant agreement, and include the legal opinion, specimen signature, designation of authorized representatives, and establishment of the separate account for the $6.0 million in program funds. The technical assistance grant agreement will be subject only to standard project assistance conditions precedent to first disbursement.

b. Conditions Precedent for First Disbursement Cash Transfer Funds:

(i) The Grantee shall agree in writing to develop, in consultation with AID: (1) its policy options for (a) term lending at market interest rates; (b) agricultural credit; and (c) development lending; and (2) its semi-annual work plans which indicate the steps involved in developing these policy options;

(ii) The Grantee shall agree in writing, in a form acceptable to AID, that no public or private sector enterprise or individual will be permitted to borrow from official sources at less than market determined interest rates;

(iii) The Grantee shall agree in writing, in a form acceptable to AID, that it will not request, instruct, or permit the GCDB or any other public financial institution to grant preferential access to credit;

(iv) The Grantee shall agree in writing, in a form acceptable to AID, that in the matter of agricultural marketing, in particular for produce buying, it shall ensure that the same levels of remuneration are provided to all buyers, public and private;

(v) The Grantee shall agree in writing, in a form acceptable to AID, to define and identify all capital guarantees or operating subsidies being provided to public enterprises by the Government of The Gambia, to determine their magnitude, and to define which ones are in the "national interest;" and

(vi) The Grantee shall provide in writing, in a form acceptable to AID, a comprehensive list of all eligible debts for which payments may be made.

c. Conditions Precedent for Second Disbursement of Cash Transfer Funds:

(i) The Grantee shall provide in writing, in a form acceptable to A.I.D.: (1) its proposed policies for (a) term lending at market interest rates; (b) agricultural credit; and (c) development lending; and (2) its completed semi-annual work plans which indicate the steps involved in adopting procedures to implement these policies;

(ii) The Grantee shall agree in writing, in a form acceptable to A.I.D., that in all cases of capital guarantees or operating subsidies provided to public enterprises in "the national interest," such guarantees or subsidies will be fully calculated taking into account all available information and the costs thereof provided for at the appropriate time through budgetary allocations; and

(iii) The Grantee shall provide in writing, in a form acceptable to AID, a comprehensive list of all eligible debts for which payments may be made.

d. Conditions Precedent for Third Disbursement of Cash Transfer Funds:

(i) The Grantee shall provide evidence, in a form acceptable to AID, which indicates that GOTG policies for (a) term lending at market interest rates, and (b) agricultural credit, and (c) development lending are being implemented;

(ii) The Grantee shall provide evidence, in a form acceptable to A.I.D., which indicates that the full costs of capital guarantees or operating subsidies provided to public enterprises in "the national interest" are being provided at the appropriate time through budgetary allocations; and,

(iii) The Grantee shall agree to provide in writing, in a form acceptable to A.I.D., a comprehensive list of all eligible debts for which payments may be made.

e. Covenants:

(i) The Grantee agrees that eligible debt payments will be effected and reported on to A.I.D. within ninety (90) days of release of the funds by A.I.D. into the separate account; and

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(ii) The Grantee agrees that only payments due under eligible debts, as approved by A.I.D. in writing, will be made. (Note: Eligibility is defined below in Section IV. C)

E. Multi-Donor Coordination

The major bilateral and multilateral donors are providing assistance to help alleviate The Gambia's serious economic and financial problems. The IMF and the IBRD have taken the lead in developing an action program with the GOTG. The UK, USAID and others have assisted in this effort and are providing resources to see The Gambia through its immediate crisis and to initiate the series of programs (IMF Stand-by, Paris Club and London Club debt rescheduling, and IBRD structural adjustment program) designed to allow The Gambia to restructure its economy. Dialogue between donors takes place frequently both informally and through formal sessions such as the September 1985 Donor's Conference in London. This dialogue and the resulting collaboration will increase as the process ensues and donors contribute directly to the GOTG Economic Recovery Program or, as in this case, develop complementary programs.

MAJOR DONCR MACROECONOMIC ASSISTANCE TO THE GOTG
GAMBIAN FY87 (July 1986 - June 1987)

DONOR MECHANISMS	LOP FUNDING ($ MILLIONS)
IMF	$5.31
Structural Adjustment Credit	$16.10
Commodity Aid	$ 3.18
STABEX (EEC)	$ 5.30
Net debt relief (Paris Club)	$ 1.00

As can be seen from the table, the GOTG is receiving assistance from several multilateral and bilateral donors in support of its ERP. In the domain of debt relief assistance, the $16.1 million Structural Adjustment Credit is the most important. Contributors to this loan are the African Development Bank (ADB), the IBRD, and the United Kingdom's (U.K.) Special Funds for Africa. Assistance in food (USA) and petroleum (U.K. and Netherlands) totals $3.18 million; and, net debt relief per arrangements of the September 1986 Paris Club equals $1 million. The most important participants in the net debt relief are the U.K., followed by Belgium, the Federal Republic of Germany, Norway and Denmark.

This Program will complement and reinforce other donor assistance ongoing in the financial sector. It builds upon the efforts of the UK to assist the CBG reform and improve its management and operations. Two British bankers are currently being provided to the CBG under UK technical assistance, one of whom serves as the General Manager. An advisor for Foreign Exchange also has been funded by the

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IMF, for eighteen months through July 1987. These advisors are training CBG staff in prudent policies and modern banking techniques.

While complementary to other donor efforts, the GEPRP reforms are separable from the specific IBRD and IMF measures (ref: 87 Banjul 0730, see Annex G). The GEPRP reforms supported by AID are concerned more with financial sector policies and practices that govern the various institutions than with the actual operations of the institutions themselves. Indeed, this GEPRP will establish the proper sectoral policy framework within which the IBRD program of assistance to the GCDB can proceed more effectively, as the IBRD directs its efforts towards specific managerial and operational reforms within the GCDB itself.

The IBRD has provided funds to the GCDB and is presently concerned with both its financial status and management structure. The IMF has also been concerned with GCDB operations in as much as they have contributed to undesirable increases in the money supply, encouraged demand for goods and services in short supply and generally added to inflationary pressures. The IBRD and the IMF have both expressed their concern about the status of the GCDB and have actively encouraged the GOTG to rehabilitate it and place its banking operations on a firm commercial basis. The GOTG has accepted IBRD and IMF recommendations including a commitment not to instruct the GCDB to make further developmental loans under GOTG guarantee.

The IBRD already has financed a study of the GCDB and protracted negotiations presently are underway for the provision of technical and management assistance. Under its Private Enterprise Development project, the IBRD is prepared to provide $1 million for institutional strengthening of the GCDB through provision of a diagnostic review, preparation of operational systems and procedures, and three banking experts for 2 to 3 years in executive positions. The revitalized GCDB should be a major participant in the market rate term lending program for the private sector, which is also a part of the IBRD Private Enterprise Development project.

III. SUMMARY OF ANALYSES

A. Economic and Financial

The economic and financial analyses of this program (Annexes B and C) indicate that the series of policy reforms which the Mission is supporting, in conjunction with balance of payments support, will result in substantial financial and economic returns to the investment. The GEPRP will have a direct, positive impact on The Gambia's ability to meet its debt obligations, on the efficiency and stability of the financial system, and on the opportunities for private entrepreneurs to engage and invest in productive activities. The program also has the potential for an indirect positive impact on interest rates, inflation, the foreign exchange rate, imports, and ultimately economic growth.

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B. Financial Costs and Benefits

The total financial cost of the GEPRP to A.I.D. will be $6.85 million for three years, representing $6.00 million in program assistance (balance of payments support), and $850,000 of technical assistance and policy studies. The financial costs to the GOTG will be small and management requirements moderate, representing minor ($50,000 per year or $150,000 for three years) administrative costs. Therefore an assessment of the financial benefits of this program should be based on the $6.85 million cost to A.I.D. and the $.15 million cost to the GOTG.

The financial analysis indicates that by providing foreign exchange to the GOTG for balance of payments support (to meet its external debt obligations), some of the balance of payments pressure on The Gambia should be relieved. This should have a beneficial impact on the ability of the CBG to improve its foreign exchange reserve position without putting additional pressure on the Dalasi exchange rate. Moreover, by encouraging the GOTG to implement a series of policy reforms in the financial sector, private entrepreneurs should have sufficient incentive to engage and invest in productive activity. The financial benefits of the specific reforms include a potential net savings of financial resources for the GOTG as the financial losses being incurred at key parastatal institutions are halted, and higher returns from the more efficient use of those scarce official financial resources are realized.

C. Economic Costs and Benefits

The economic analysis examines the program from a perspective of the macroeconomic benefits which can be expected as a result of the program. Using relatively conservative assumptions, the economic analysis indicates that the program will have a stabilizing effect on the financial sector with concomitant beneficial effects on the whole economy, particularly agricultural marketing. Using econometric methods to describe the relationships which will be most affected by the program, the economic analysis illustrates the magnitude of the potential macroeconomic, institutional, and sectoral results which will be achieved by the GEPRP. These are: (i) curtailment of the financial losses of the financial system; (ii) more efficient use of financial resources: (iii) provision of financial resources to their most productive users at market-determined rates; (iv) increased private entrepreneurial access to credit and marketing; (v) increased efficiency in agricultural marketing; (vi) reduced pressure on the exchange rate; (vii) reduced pressure on interest rates; and (viii) movement towards balance of payments stability.

D. Institutional

The financial system serving The Gambia is comprised of only a few institutions. Hence, difficulties originating in one institution can create disequilibrium in the entire system. The institutional

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analysis (Annex E) indicates that, as a result of imprudent financial policies and practices, the scarce financial resources of The Gambia were depleted through inefficient channels and unproductive investments. The financial system is decapitalized to the point where IMF-imposed credit and monetary ceilings make it difficult for either the parastatals or the private entrepreneurs to gain additional credit. The Gambia thus needs to achieve maximum utility from its scarce financial resources by making them available to the most efficient and productive users. This can only be accomplished by ending the losses which have occurred at key institutions, making changes to end administrative control over those scarce resources, and moving towards a situation where the use of financial resources is determined by market forces. By making changes in the policies and practices of the financial sector, the GEPRP will indirectly improve the efficiency of financial institutions. However, this program is not designed either to strengthen or rehabilitate any financial institution. Rather the purpose is to expose those parastatal institutions to competition, and to eliminate subsidies and other inequities so that stability and efficiency are restored to the financial sector.

E. Social Soundness

The benefits to various social groups are economic, and are of particular importance to the private sector, consisting of increased opportunities for private entrepreneurs. These benefits are offset slightly by the higher prices for agricultural services and inputs which may result as subsidies end, but these effects will be moderated by the competition which should ensue following the implementation of more equitable practices in the marketing system.

Providing funds to help the GOTG discharge The Gambia's debts while supporting policy measures to improve the stability and efficiency of the financial system will be of direct and substantial benefit to the vast majority of the Gambian populace. Discharging some of The Gambia's debts will enable the nation to maintain its international credit-worthiness and ensure that the flow of donor assistance from multilateral and bilateral sources will not be jeopardized. This will help ensure that the nation has the resources it needs to maintain its ERP and thus lay the foundation for economic growth.

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IV. FINANCIAL PLAN

A. Summary Cost Estimates and Funding Sources:

AEPRP FUNDS
(000 DOLLARS)

BUDGET CATEGORY	AID FX	AID LC	GOTG FX	GOTG LC	TOTAL FX	TOTAL LC
A. Budget Support for Foreign Debt Payment	6,000	0	0	0	6,000	0
B. Technical Asst. and Policy Studies	750	0	0	0	750	0
C. Audit & Evaluations	100	0	0	0	100	0
TOTALS	6,850	0	0	0	6,850	0

B. Financial Management:

Projection of Expenditures By Fiscal Year
($000 DOLLARS)

FY	AID	GOTG	TOTAL
87	2,300	0	2,300
88	2,300	0	2,300
89	2,250	0	2,250
TOTALS	6,850	0	6,850

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C. Source and Application of AID Funds:

IMPLEMENTATION ACTIVITY	IMPLEMENTATION METHOD	METHOD OF FINANCING	COST $000
A. Non-Project Cash Transfer: Budget Support for external debt payment	Cash Transfer	Direct Payment	6,000
B. Technical Asst. for Policy Studies	AID Contract	Direct Payment	750
C. Audit & Evaluations	AID Contract	Direct Payment	100
TOTAL			6,850

The $6.0 million in ESF Funds to be used in the GEPRP will be obligated by USAID in FY 87, but will be disbursed over three fiscal years (FY 1987, 1988 and 1989). The program funds will be disbursed by AID in three tranches: releasing $2 million at each tranche to retire eligible debts of The Gambia. As the conditions precedent for each tranche are met by the GOTG, OAR/Banjul will request that M/FM in AID/W effect a wire transfer of the $2 million cash transfer into a separate bank account in the name of the GOTG for program purposes. The account will be established in the Federal Reserve Bank of New York or a suitable bank approved by both OAR/Banjul and the GOTG. From that account, the GOTG will make payments to the creditors on a preapproved list of debts. (See below). Once all payments are made, the GOTG will provide to the OAR/Banjul Controller a copy of the confirmation of payment which it has received from each creditor. The Controller of OAR/Banjul will keep records of such payments. As part of the Program Grant Agreement, the GOTG will be required to maintain records of these payments for up to three years after the termination of this program. Specific dollar tracking and monitoring requirements will be detailed and agreed upon via a countersigned implementation letter.

Eligible debts means those debts which are: (1) owed to code 899 countries or registered financial institutions of code 899 countries; (2) owed to multilateral institutions; (3) incurred prior to March 15, 1987; and (4) identified by the MOFT in official reports as in arrears or due for payment. Notwithstanding the above, no debts owed for police, military or paramilitary hardware or equipment, and no

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debts owed by official Gambian missions or embassies may be retired with program funds.

For purposes of utilization of the program funds, retirement of all official debts outstanding to the United States shall take precedence over any other eligible debts. Second priority will be given to multilateral debts of The Gambia, which includes but is not limited to debts with the IMF, the IBRD, the African Development Bank, the Arab Development Bank, the European Economic Community, the West African Clearing House, and the African Development Fund. Third priority will be given to other bilateral debt, such as debts with members of the Paris or London Clubs, which includes but is not limited to Norway, France, the United kingdom, the Federal Republic of Germany, the United Arab Emirates, Kuwait and Saudi Arabia, and financial institutions within those and other 899 countries. Within these categories, OAR/Banjul's first preference will be to help pay those debts which were incurred for developmental purposes. Before each tranche of funds for debt payment is released, OAR/Banjul and the GOTG (MOFT) will meet to approve the list of outstanding eligible debt payments.

Release of program funds by OAR/Banjul to the GOTG shall occur only after OAR/Banjul is satisfied that the negotiated covenants and conditions precedent have been met.

Program funds provided by AID on behalf of the GOTG for repayment of eligible debts will not generate counterpart funds or local currency (Dalasi) entries or deposits.

D. Recurrent Cost Implications

There will be no direct recurrent costs incurred by the GOTG as a result of this Program. There will be minor indirect or overhead staff costs associated with implementing the policy measures agreed to under this Program.

The Program should result in net financial benefits to The Gambia. Intrinsic to the design of the Program is the assumption that financial benefits to the GOTG of systematic refinement of the financial sector will lead to more efficient use of scarce funds for commerce and investment. That is, reduced financial losses to the GOTG (from, for example, non-recoverable guaranteed debt) and declining transaction costs for traders and investors will provide a net economic benefit to The Gambia.

Establishment of equitable, transparent precepts and procedures for public sector investment activity may be expected to increase investor confidence in the Gambian economy. In the absence of exogenous shocks (e.g., large fluctuations in world commodity markets, or from weather anomalies) the confidence factor may be quantifiable in increased net capital inflow.

E. Audit Requirements

There is funding for an audit of the dollar funds and separate account to be used for program funds. Individual payments will be made from the separate account to any one of the creditors found on the comprehensive list of eligible debt payments submitted by the GOTG and approved by OAR/Banjul prior to each dollar disbursement. Similarly, documentation concerning the actual payments made will be provided to the Controller of OAR/Banjul by the GOTG after payment is effected. Funds are available under the audit component to provide for an audit of the disbursement activity when necessary.

V. IMPLEMENTATION PLAN

The Ministry of Finance and Trade (MOFT) is responsible for developing and executing economic and financial policy reform, including the provisions of IMF and IBRD programs and GEPRP. The CBG is the banker of the GOTG, and the primary financial sector institution involved in implementing policy measures under the GOTG ERP. Both the MOFT and CBG will be involved in the implementation of the GEPRP.

Mission staff is sufficient to monitor most activities under the AEPRP and the release of funds as the Government meets the program conditionality. The recent cut in the Mission's project portfolio through close outs, and the focus of the Mission strategy on policy reform and agricultural production, enable it to devote staff to the GEPRP. However, technical assistance will increase the effectiveness of the GEPRP and OAR/Banjul's role in it, and assist the GOTG to meet the conditionality targets on a timely basis.

The policy reforms incorporated into this program are complementary to the IMF Stand-by Arrangement and the IBRD Structural Adjustment Program, as well as to on-going A.I.D. efforts under existing projects. Hence, OAR/Banjul, the IMF, and the IBRD will all be interested in various aspects of the progress of the GEPRP.

A. Technical Assistance

SDP funds in the amount of $850,000 will finance the costs of long-term and short-term technical assistance. This will provide the GOTG and OAR/Banjul with appropriate expertise to develop and implement the policy options upon which A.I.D. dollar disbursements are conditioned. These funds will be programmed and obligated and activities will be undertaken using standard development assistance (Handbook 3) project authorization and implementation procedures and regulations.

The technical assistance grant will finance one long-term advisor for up to three years to assist the GOTG and OAR/Banjul in monitoring and evaluating policy changes to be undertaken under the GEPRP as well as identifying the short-term technical expertise needed to facilitate the translation of policy reforms into action programs.

The long-term technician's tasks will include but not be limited to the following:

(a) assisting and advising the negotiation and implementation of GOTG policies for term lending at market interest rates;
(b) assisting and advising on the financial performance of public sector credit institutions and proposing policies and procedures so that such institutions conform to standard commercial practices;
(c) monitoring GOTG performance on GEPRP conditionality, covenants and implementation of financial policy reforms (in particular, but not limited to accounting of public capital guarantees and operating subsidies, provision of credit at market determined interest rates, and the licensed buyer compensation practices of the GPMB); and,
(d)preparing scopes of work for short-term technicians that are needed to assist the GOTG and OAR/Banjul: (1) to translate policy reforms into action programs; (2) to conduct an initial survey to gather the baseline data needed to evaluate the impact of the GEPRP policy measures; and (3) to assist in the mid-term and final evaluation of the program.

The short-term technical requirements of the GEPRP fall within the following categories: (1) development of the baseline data; (2) development of the policy options for agricultural credit (including defining the role, if any, which GCU will have), term lending, and development lending; (3) definition of operating subsidies and guarantees that are in the "national interest" and calculation of their magnitude; (4) development of work plans for implementing policy options and budgeting for operating subsidies and capital guarantees; and (5) audits and evaluations. An illustrative budget for the technical assistance, both long and short-term, is attached in Annex D.

The short-term technicians' tasks in development of baseline data will include, but not be limited to the collection of information which indicates the current status of the financial sector, particularly in terms of the roles of the GCDB and the GCU. Moreover, to the extent possible, information will be collected which monitors: (1) current interest rates for loans and savings deposits (both long and short-term loans and accounts); (2) the exchange rate for the Dalasi; (3) the buyers' remuneration rates being paid by the GPMB to the GCU and other licensed buyers, both public and private; and (4) other financial policies and practices which affect the stability of the financial sector, such as the current IMF-mandated ceilings on credit for the banks and the money supply.

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With respect to the development of policy options for agricultural credit, term lending, and development lending, the short-term technicians' tasks will include, but not be limited to a review of the specific areas of concern. Having reviewed available previous studies, the short-term technicians will conduct interviews with appropriate GOTG officials, donor-financed technicians, and donor staff members. On the basis of these reviews and interviews, the short-term technicians will prepare papers which identify the specific problems and the policy options that might be adopted to address them. The anticipated positive and negative consequences of each proposed policy should also be delineated to the maximum extent possible.

Short-term technical advisors who will define the "national interest," operating subsidies, and capital guarantees, and determine their magnitude will work closely with the MOFT and other ministries in the GOTG, as appropriate. Thorough analysis and consideration will be given to GOTG priorities for the policy options to be pursued for developmental purposes. Moreover, the short-term technicians will assist the MOFT to develop procedures for requesting, reviewing, approving, and including the approved operating subsidies and/or capital guarantees into the national budget process.

Once the GOTG has adopted its policies for agricultural credit, term lending, and development lending, short-term technicians will be provided to assist the GOTG to prepare work plans to identify the ministries and/or entities involved, and to lay out the actions they must take to implement the target policies. The work plans will be developed in consultation with each concerned ministry or institution, taking into consideration the competing demands on the ministry's or institution's staff capabilities.

B. General Program Management

After AID/W authorization of the GEPRP and the complementary, technical assistance project, OAR/Banjul, with the assistance of the Regional Economic Development Services Office for West & Central Africa (REDSO/WCA) will negotiate and sign two grant agreements with the GOTG. The program assistance agreement for balance of payments support will incorporate the terms and conditions of the Program Authorization, relevant portions of the PAAD, and relevant GOTG regulations and operating procedures. The second agreement will be a Handbook 3, Project Assistance Grant Agreement obligating an initial tranche of SDP funds for technical assistance.

1. Joint OAR/Banjul and GOTG Responsibilities

The GOTG and OAR/Banjul will establish a Program Management Committee. It will be composed of a representative from OAR/Banjul, from the MOFT, and from the CBG. From time to time other officials may be included as members when considered necessary to establish and assess implementation progress. REDSO/WCA, located in Abidjan (Ivory Coast), will provide technical advice and concurrence to

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OAR/Banjul prior to the AID Representative exercising authorities delegated by DOA 551.

The purpose of the Program Management Committee will be to manage, implement and supervise the operation of the GEPRP. This will include the following:

(i) ensuring that the terms and conditions of the Grant Agreement are understood, accepted and adhered to by all parties concerned;
(ii) monitoring the implementation of the GEPRP policy reform measures;
(iii) ensuring that the implementation plan is operational at each level of program implementation;
(iv) ensuring that reporting requirements for accounts and program activities are in compliance with the GOTG and AID rules and regulations;
(v) resolving program implementation issues quickly to prevent delays and adverse effects on the program;
(vi) reviewing or revising program work plans semi-annually and ensuring that joint annual evaluations are conducted and action is taken to correct program deficiencies, if any;
(vii) documenting the current economic and political context in which the Program is being implemented; if conditions have not been fully met, the Committee should determine to what extent this has resulted from uncontrollable or unpredictable external factors;
(viii) deciding whether actions to date are sufficient for disbursement, given the context in which the program is operating; and
(ix) determining whether modifications in future disbursement conditions are required.

This Committee also will have responsibility for facilitating and monitoring actions required for meeting the conditions for disbursement including, but not limited to:

(i) providing systematic reports regarding the program's implementation progress, in particular the actions taken and actions pending for each upcoming disbursement condition;
(ii) monitoring short-term effects of reforms on specific government institutions; and
(iii) identifying changes in procedures and operations necessary to enact specific reforms (but not explicitly stated as conditions for disbursement).

2. <u>GOTG Responsibilities</u>

In addition to the above, the appropriate GOTG authorities will be responsible for the following:

(i) establishing a separate account for the foreign exchange being provided by AID for balance of payments support (debt payment);
(ii) furnishing the Committee with all required financial reports;
(iii) providing U.S. Government officials access to Program records, ledgers, and reports concerning funded activities; and
(iv) according the U.S. Government the right to audit the program.

3. OAR/Banjul Responsibilities

In addition to the above joint responsibilities, OAR/Banjul will:

(i) oversee and monitor policy reform measures and make reports;
(ii) (a) request M/FM of AID/W to transfer the program funds to the designated separate account; and (b) monitor or spot check the GOTG payment of eligible debts according to schedule; and
(iii) assist the GOTG to complete the semi-annual work plans, and the mid-term and final Program evaluations (see Monitoring and Evaluation Plan below).

In view of the scope and diversity of the GEPRP, OAR/Banjul will establish a program management team comprised of the Program Officer, Program Analyst (PSC position) and the Controller. This core team in conjunction with the AID Representative will jointly manage the day-to-day activities of the Program. The Program Officer will be team leader and spokesman for the Mission on all day-to-day program implementation matters.

C. Detailed Implementation Plan

The implementation schedule is provided below with the assumption that the GEPRP will have be authorized by AID/W in July 1987.

Action	Month/Year
Grant Agreements signed	August 1987
Terms of Reference for the long-term technical assistance (TA) are prepared and reviewed by OAR/Banjul	August 1987
PIO/T for the long-term TA is issued	September 1987
Advertise for long-term TA	September 1987
Long-term TA arrives and prepares SOW for studies and for the short-term TA	November 1987

Action	Month/Year
Conditions Precedent for first cash transfer of funds (debt payment) are met and disbursement of cash transfer made within 30 days	November 1987
Terms of reference for short-term TA for studies of agricultural credit, term lending and development lending are prepared and reviewed by OAR/Banjul and the GOTG	December 1987
PIO/T for short-term TA issued	January 1988
Advertise for short-term TA	January 1988
Short-term TA arrives and develops the semi-annual work plans indicating the steps involved in developing the policy options required under the program agreement	March 1988
Short-term TA begins studies to develop policy options concerning term lending, agricultural credit, and development lending (including the identification and definition of "national interest," operating subsidies and capital guarantees to be funded from the GOTG budget)	April 1988
Short-term TA policy option reports submitted to OAR/Banjul and the GOTG for consideration	June 1988
GOTG considers and then moves to adopt the policies required for agricultural credit, term lending, and development lending	August 1988 through December 1988
SOW for short-term TA to assist GOTG compile semi-annual work plans for adopting procedures to implement agricultural credit, term lending, and development lending policies is prepared	September 1988
Short term TA arrives and completes semi-annual work plans for GOTG adoption of policies	November 1988
Conditions Precedent for second cash transfer of funds (for debt payment) are met and disbursement of cash transfer made within 30 days	December 1988
Mid term review and evaluation of the GEPRP	January 1989

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Action	Month/Year
GOTG takes required actions, with assistance of short-term TA as necessary, to ensure implementation of its policies and practices in regard to term lending, agricultural credit, and development lending (including budget funding of operating subsidies and capital guarantees being provided in the "national interest")	March 1989 through August 1989
Conditions Precedent for the third cash transfer of funds (for debt payment) are met and disbursement of cash transfer made within 30 days	October 1989
Long-term TA departs	November 1989
Final GEPRP evaluation	March 1990

D. Gray Amendment Organizations

Services procured under the GEPRP will adhere to Agency policies and procedures regarding Gray Amendment entities.

VI. MONITORING AND EVALUATION PLANS

A. Evaluations and Progress Reports

Monitoring falls into two areas: (1) timely discharge of eligible foreign debts; and (2) implementation of policy measures. Policy-oriented work plans will be prepared semi-annually. Progress reports will focus on the short-term indicators which indicate the execution of the policy measures being supported by this GEPRP.

The GEPRP is an AID-supported policy reform initiative in which the GOTG receives foreign exchange for balance of payments support while implementing an economic structural adjustment plan. The purpose of the monitoring and evaluation plan will be to verify benchmarks which indicate the achievement of the terms of conditionality (i.e. the financial policy measures), and indicators of the successful achievement of the program's purposes and goals. OAR/Banjul, in conjunction with the GOTG, will monitor the effectiveness of the reforms implemented and conduct both a mid-term and end-of-program evaluation.

Benchmarks which indicate the achievement of the terms of conditionality are implicit and self-evident in the conditions themselves. For example, to meet the first tranche the GCDB will allow market-determined interest rates on all loans to public and

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private enterprises and individuals to prevail, without discrimination; that is, the rates will be the same. The GPMB will be remunerate both public (i.e. GCU) and private licensed buyers of groundnuts at the same rate.

Verifiable indicators of the achievement of the GEPRP's purposes and goals will be developed during the baseline study to be conducted by the long-term TA, in conjunction with OAR/Banjul staff, and any short-term TA which may be necessary. Examples of the kinds of verifiable indicators of progress include, but are not limited to, the following:

(i) a reduction in the financial burden being borne by the GOTG because of the policies and practices of parastatal entities (i.e. the GCU and the GCDB);

(ii) equal treatment for private investors and/or entrepreneurs engaging in productive activities, such as agricultural marketing, and an increase in their proportion of the same; and,

(iii) an increase in the amount of credit available to the private sector (given the constraint of IMF-mandated credit ceilings).

Documentation supplied by the GOTG for each benchmark will be used in the analysis of program conditionality and will build an information base for both a mid-term and final Program evaluation. OAR/Banjul will monitor the benchmarks as scheduled in the Implementation Plan (see Section V) with assistance from the long-term TA and, if necessary, from REDSO/WCA.

B. Mid-Term and Final Evaluations

The purpose of the mid-term and final evaluations of the GEPRP will be to record and evaluate progress of the policy reform program, to draw lessons learned for future AID programs, and to inform and assist the GOTG to pursue additional reforms which may encourage private sector activity. The mid-term evaluation will be conducted 18 months after signing the Program Grant Agreement. It will analyze the performance of the GOTG in complying with the terms and conditions of the GEPRP and examine the performance of the long and short-term TA in assisting both OAR/Banjul and the GOTG in fulfilling their respective duties and responsibilities under this Program. Where considered necessary, the mid-term evaluation team will recommend modifications in actions to improve the effective implementation of the GEPRP.

The final evaluation will be conducted at the completion of the program, which should be about March 1990. In addition to reviewing documentation prepared for monitoring disbursements, the joint GOTG/OAR evaluation team will review and analyze:

(i) implementation and effectiveness of the GOTG term lending, development lending, and agricultural credit policies;

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(ii) financial performance of GCDB and GCU within the context of the policy reforms; and,

(iii) impact of the policy reforms initiated by the GEPRP on the private sector and progress toward achievement of the program purpose and/or goal.

The GOTG will contribute a senior technician from the MOFT to participate in both the mid-term and the final evaluation. OAR/Banjul, assisted by REDSO/WCA, will organize the evaluation teams and prepare both the mid-term and the final reports. The GEPRP budget includes funding for these evaluations.

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ANNEX A

THE REPUBLIC OF THE GAMBIA

Ministry of Finance
and Trade
Quadrangle, Banjul
The Gambia
May 15th, 1987

Ref. No. MF/1091/Vol.6/(18)

Mr. Thomas Mahoney
Office of the AID Representative
USAID
60 Leman Street
Banjul

Dear Mr. Mahoney:

Request for Assistance - Gambia Economic
Policy Reform Programme

This is to request formally from the United States Agency for International Development grant assistance in the amount of U.S. dollars 6,500,000 over the next three years in support of the Gambia Economic Policy Reform Programme. As detailed in the Program Assistance Approval Document, the resources will be used by the Government of The Gambia to support its Economic Reform Programme in ways designed to strengthen the foreign exchange market and promote financial reform.

We gratefully acknowledge your Government's continued support and encouragement of the Government's efforts to promote economic reform and return the economy to a stable long-term growth path. Your assistance at this point is timely and highly appropriate.

Yours sincerely,

S. S. Sisay

Sheriff S. Sisay
Minister of Finance and Trade

A PROJECTION MODEL FOR THE GAMBIAN ECONOMY

I. Introduction

This Appendix develops a projection model for the Gambian economy to determine the potential economic impact of AEPRP support. The projections, from 1986/87 to 1989/90, are derived from econometric estimates covering the period 1965/66 to 1985/86. The initial period projections (1986/87) have been based on the performance criteria of the IMF Stand-By programme.

The Appendix is arranged as follows. Section II briefly reviews the major changes in the Gambian economy since 1965/66. Section III presents the econometric results. Section IV reports the medium-term projections derived from the econometric estimates. And, section V examines the effects of AEPRP support on the projected growth path of the economy.

II. Changes in the Gambian Economy since 1965/66

The Gambia's current economic difficulties are the result of factors which have taken several years to exert their full effects. This section attempts to place these factors in context.

The economic history of The Gambia over the last two decades largely reflects the impact of external events and the domestic reactions to them. Because of the country's small size and its liberal pattern of trade and payments, Gambian policy-makers have had limited scope for policy action independent of the broad movements in international cost pressures and priorities of international donors. Except in the short run, there were few options other than to react to the problems and opportunities generated by external events. Nevertheless, the manner in which policy-makers reacted, as reflected in institutional changes and macroeconomic policies, affected both the way the economy responded to the problems and opportunities and its capacity for further adjustment.

On the positive side, the economy adjusted rapidly and in the intended direction to the March 1973 revaluation. More recently, the privatization of the rice trade and the flexible exchange rate system, introduced under the Economic Recovery Programme, have helped to stabilise the markets for rice and foreign exchange. On the negative side, the overvaluation of the dalasi and the hyperexpansion of the Government and parastatal sector during the 1970s seriously weakened the economy and reduced its capacity to adjust to the world recession, declining commodity prices, and drought in the early 1980s.

The following data, from 1965/66 to the present, highlight some factors which have shaped the current economic situation.

Table 1: Selected Economic Aggregates A, The Gambia 1965/6 to 1985/86
(Millions of Dalasis 1974/75 Prices)

Year	Gross Dom. Pr.	Gov. Rec. Expen.	Gov. Dev. Expen.	Imports (cif)	Exports (fob)	Money Supply
1	2	3	4	5	6	7
1965/6	160	20	5	57	60	16
1966/7	166	21	5		79	16
1967/8	168	27	8	72	73	20
1968/9	178	26	8	80	82	22
1969/70	172	27	4	61	65	22
1970/1	199	27	5	69	53	23
1971/2	202	28	7	73	73	26
1972/3	175	25	6	82	61	27
1973/4	244	29	11	85	74	31
1974/5	221	33	11	91	65	39
1975/6	255	40	10	124	92	47
1976/7	247	42	24	125	94	44
1977/8	225	46	49	136	65	46
1978/9	253	46	35	132	78	43
1979/80	246	53	43	162	92	42
1980/1	227	50	38	139	51	47
1981/2	262	73	37	103	93	53
1982/3	269	68	32	110	157	63
1983/4	266	61	32	113	132	59
1984/5	209	51	37	100	55	61
1985/6	209	42	23	90	108	59

Table 2: Selected Economic Aggregates B, The Gambia 1965/6 to 1985/86

Year	Net For. Assets	Net Cred. Govt.	Net Cred. Public	Price Indexes 1974/5=100 CPI	Imports	GDP
1	2	3	4	5	6	7
1965/6	17	-10	3	61	51	63
1966/7	18	-11	4	62	51	63
1967/8	17	-8	5	63	53	64
1968/9	17	- 8	7	66	57	66
1969/70	22	-11	8	68	59	68
1970/1	30	-18	9	67	62	66
1971/2	47	-27	6	73	63	74
1972/3	44	-5	9	81	66	85
1973/4	51	-1	12	85	75	87
1974/5	82	-3	15	100	100	100
1975/6	68	-1	33	111	115	110
1976/7	62	14	43	141	135	144

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1977/8	23	[illegible]	64	[illegible]	[illegible]	[illegible]
1978/9	-12	[illegible]	55	[illegible]	167	[illegible]
1979/80	-37	[illegible]	[illegible]	[illegible]	180	[illegible]
1980/1	-50	[illegible]	159	189	198	184
1981/2	-113	[illegible]	204	[illegible]	230	187
1982/3	-178	75	273	233	239	211
1983/4	-262	79	319	259	306	231
1984/5	-283	92	323	313	334	296
1985/6	-523	100	385	425	465	397

Note: Columns 2 to 4 are in millions of dalasis in current prices.

Table 3: Selected Economic Aggregates C, The Gambia 1965/6 to 1985/86

Year	Exchange Rates			Terms of Trade		Capital
	Official	Eff(IM)	Eff(EX)	Intern.	Extern.	Inflow
1	2	3	4	5	6	7
1965/6	1.79	1.50	1.26	71	84	11.2
1966/7	1.79	1.50	1.25	71	76	7.9
1967/8	2.08	1.79	1.40	67	70	6.3
1968/9	2.08	1.93	1.40	67	76	6.1
1969/70	2.08	1.85	1.45	70	86	4.4
1970/1	2.08	2.00	1.67	81	92	4.5
1971/2	1.96	1.80	1.49	77	87	6.8
1972/3	1.54	1.30	1.14	74	85	7.0
1973/4	1.67	1.53	1.79	109	123	17.1
1974/5	1.85	1.97	1.82	100	100	12.0
1975/6	2.22	2.56	2.37	109	72	8.4
1976/7	2.32	2.41	2.10	92	84	4.9
1977/8	2.13	2.20	1.72	82	81	33.1
1978/9	1.88	2.09	1.52	82	69	24.6
1979/80	1.72	2.03	1.33	79	50	62.1
1980/1	1.97	2.36	1.59	81	56	83.2
1981/2	2.39	3.31	2.04	86	38	71.6
1982/3	2.55	3.26	2.03	80	30	47.5
1983/4	2.76	4.12	1.70	63	38	43.1
1984/5	3.95	5.06	2.70	69	53	52.3
1985/6	7.15	10.50	7.43	106	39	53.3

EFF(EX) Effective exchange rate for exports
EFF(IM) Effective exchange rate for imports

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Table 4: Selected Economic Aggregates D, The Gambia 1965/6 to 1985/86

Year	Deficit/Surplus		CBG	Share in Gross Dom. Product		
	Govt.	C/A BoP	Reserve	Govt.	Agric.	W/R Trade
1	2	3	4	5	6	7
1965/6	2	-3	5	15	40	11
1966/7	3	-2	6	16	39	11
1967/8	-2	-8	4	21	36	11
1968/9	3	-10	9	19	37	13
1969/70	-1	-6	12	18	38	14
1970/1	-4	-6	22	16	36	14
1971/2	0	-4	31	17	38	13
1972/3	2	-7	36	17	37	13
1973/4	3	10	67	16	35	22
1974/5	-3	19	82	20	43	14
1975/6	2	-34	84	20	41	21
1976/7	5	-15	102	26	37	22
1977/8	-7	-115	107	42	23	22
1978/9	-5	-87	69	32	38	24
1979/80	-2	-154	40	39	24	29
1980/1	-9	-168	50	39	22	26
1981/2	-3	-153	-17	42	26	25
1982/3	-24	-130	-21	37	26	22
1983/4	14	-113	3	35	23	23
1984/5	-18	-167	-7	42	25	19
1985/6	27	-223	-7	32	29	20

Table 5: Selected Economic Aggregates E, The Gambia 1965/6 to 1985/86

Year	Rainfall (mm)		G/nut	Ave G/nut	Export	Popu-
	Geo/town	Yundum	Purchs.	Price($)	Share	lation
1	2	3	4	5	6	7
1965/6	1223	1260	118	176	26	410
1966/7	1074	1502	126	163	30	422
1967/8	1185	1376	117	122	25	434
1968/9	643	705	120	169	32	446
1969/70	1063	1233	112	175	28	458
1970/1	579	844	115	222	23	471
1971/2	712	773	124	219	27	484
1972/3	707	583	101	290	23	498
1973/4	600	671	139	489	32	512
1974/5	600	947	141	461	38	526
1975/6	886	1449	138	339	27	545
1976/7	537	1036	129	496	30	563
1977/8	819	599	88	515	22	586

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1978/9	942	1162	[illegible]	[illegible]	[illegible]	[illegible]
1979/80	713	1100	75	[illegible]	[illegible]	[illegible]
1980/1	721	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1981/2	[illegible]	502	33	[illegible]	17	[illegible]
1982/3	604	651	123	[illegible]	20	[illegible]
1983/4	469	424	93	667	25	711
1984/5	537	666	45	392	16	733
1985/6	630	1020	54	255	26	756

Sources: Central Bank Quarterly Bulletins
Central Statistical Office: Annual Budgets
Accountant General; Auditor General; Central Bank

Table 1 contains gross domestic product, government recurrent expenditure, government development expenditure, imports (cif), exports (fob) and the money supply in 1974/75 prices. Table 2 contains net foreign assets, net credit to Government and net credit to the public in current prices, and (relative to a 1974/75 base) the consumer price index, the unit value of imports and the implicit GDP deflator. Table 3 reports the official exchange rate, the effective exchange rate for imports, and the effective exchange rate for exports (expressed in dalasis per US dollar), the internal and external terms of trade (where the former is the ratio of the groundnut producer price index and the GDP deflator and the latter is the ratio of the unit value of exports to the unit value of imports), and capital inflow (in 1974/75 prices). Table 4 reports, in millions of dalasis, the surplus/deficit on the Government Budget and the current account of the balance of payments, the Gambia Produce Marketing Board's reserves, and the relative shares in GDP of Government, agriculture, and the wholesale/retail trade sector. Table 5 shows the annual rainfall (in millimetres) at Georgetown and Yundum, the official purchases of groundnuts in thousands of tonnes, the average dollar price received for groundnut products, the share of exports in GDP, and population estimates (in thousands).

Three distinct phases are evident. The first, from 1965/66 to 1973/74, was characterized by basic balance in the Government accounts (Table 4, column 2); low capital inflows (Table 3, column 7); and rapid increases in average per capita real incomes (cf. Table 1, column 2 and Table 5, column 7). In the second phase, from 1974/75 to 1981/82, Government borrowing increased sharply (Table 2, column 3); the nation's competitive position eroded as the exchange rate became increasingly over-valued and the contribution of agriculture to national income declined (Table 3, columns 3,4 and Table 4, column 6); and net foreign assets and GPMB reserves fell sharply (Table 2, column 2 and Table 4, column 4). The third phase, from 1982/83 to April 1986, was a period of profound economic difficulties marked by the inability of the country to service its external obligations (Table 2, column 2); further decline in the contribution of agriculture to national income (Table 4, column 6); adverse movements in the external terms of trade (Table 3, column 6); poor rainfall and low groundnut purchases (Table 5, columns 2 to 4); a decline in Government expenditure (Table 1, columns 3

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[illegible] 4 ; and a significant reduction of average real per capita incomes.

Phase I: 1965/66 to 1973/74

This period was one of unprecedented economic growth and financial stability. Several factors, both internal and external, were responsible. Externally, international agricultural prices were buoyed by the general growth in world trade, while the cost of manufactured commodities was moderated by increased world market competition as the economies of the Pacific Basin countries expanded. For The Gambia the effects are evident in the improvements in the country's external and internal terms of trade (Table 4 columns 5 and 6), the slow increase in the prices of imported products (Table 2 column 6), and the overall improvement in the balance of payments (Table 2 column 2). Internally, fiscal and monetary policies were conservative. They were reinforced by the operating rules of the Gambia Currency Board and its over-riding objective of maintaining financial stability; the small size of the parastatal sector; and the lack of ambiguity in their economic objectives (cf. Gambia Oil Seeds Marketing Board Act 1949). Also contributing to the pattern of stable growth were the general improvement in agricultural productivity and groundnut production (Table 4, column 6 and Table 5 column 4) and the absence of serious distortions in the exchange rate (Table 3, columns 2,3 and 4).

The influence of these factors is reflected in the slow growth of the money supply (Table 1 column 7), the expansion of exports (Table 1 column 6), the increase in the Government's cash balances (Table 2 column 3), the robust state of GPMB's reserves (Table 4 column 4), and stability of internal prices (Table 2 columns 5 and 7). Economic progress during this period was rapid and widespread: real GDP grew by approximately 53 percent; per capita income increased by 28 percent (Table 1 column 2 and Table 5 column 7); net foreign assets of the banking system increased from D 17 million to D 51 million (the latter represented approximately 10 month's import cover); and the dalasi appreciated against the dollar, especially between 1970/71 and 1972/73. (The dalasi was officially revalued in March 1973.)

Phase II: 1974/75 to 1981/82

During this period the economy began to unravel. There were several reasons: the oil and food shocks; the aftermath of the 1973/74 Sahelian drought; the rapid increase in employment and incomes in the urban areas relative to the rural areas; the use of GPMB's surpluses for consumer subsidies and Development Grants little of which was directed to agricultural development; the sharp increase in development spending financed by higher levels of foreign grants, external borrowing and domestic credit creation; the sustained pressure on import prices as the oil and fuel price increases raised costs in the industrial countries; the rapid expansion of bank credit as the Central Bank satisfied the First National Development Plan's objective of encouraging economic development with cheap credit; excessive lending by the GCDB relative to its deposit base and the economy's productive capacity; and sharp increases in Government expenditure which were unmatched by similar increases in

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revenue.

In the period, per capita income declined by 8 percent. the [illegible] foreign exchange reserves were exhausted; the exchange rate became increasingly overvalued; the contribution of agriculture to national income declined from a peak of 43 percent in 1974/75 to 26 percent in 1981/82; groundnut purchases and receipts fell sharply; the Government Budget deficit increased dramatically; GPMB reserves disappeared; and a parallel market in foreign exchange emerged as foreign exchange became available through official channels.

Phase III: 1982/83 to April 1986

This was a phase of deepening economic crises marked by periodic fuel shortages; the general irrelevance of the official foreign exchange market for real economic activity; the continued erosion of the country's international creditworthiness; suspended development projects because of foreign exchange shortages; the increased diversion of agricultural commodities (rice and groundnuts) from official marketing channels; large Government deficits; institutional disruptions as established procedures in Customs and some prominent parastatals were ignored; and a growing disquiet as measures introduced to stabilize the economy seemed to have little positive impact.

In response, the Government decided that bolder and more far-reaching measures were needed if the economic and institutional deterioration were to be arrested and the economy restored to a sustainable growth path. To this end, a Task Force was assembled in June 1985 to formulate a programme for economic recovery. This Economic Recovery Programme, which is now being implemented, has six elements:

i. exchange rate reform;
ii. promotion of agricultural activity;
iii. promotion of other productive sectors;
iv. Civil Service and Parastatal reform;
v. financial sector reform;
vi. reorientation of the Public Investment Programme.

Many elements of the ERP have already been implemented and positive results are evident. The foreign exchange market has stabilized, agricultural output has increased, the privatization of rice and fertiliser marketing is working well, Civil Service reform is almost complete, financial sector reform especially in the area of interest rate policy is having a stabilizing effect, parastatal reform is underway, and the Public Investment Programme has been scaled down and reoriented towards rehabilitation and high productivity activities. An IMF programme is in place supported by a World Bank Structural Adjustment Loan which is cofinanced by the UK and ADB. Agreement has also been reached under the auspices of the Paris Club and London Club to rationalize the country's foreign debt. These improvements have laid a solid foundation for future adjustment and growth.

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III. Econometric Results:

a. Estimated Equations

The econometric results reported here illustrate several key dynamic relationships in the economy. The sample period is 1965/66 to 1985/86. The regression technique is ordinary least squares. The values in parentheses below the estimated coefficient are t-statistics on the significance of the estimated coefficients; RSQ is the coefficient of determination, measuring the proportion of the variance of the regressand explained by the estimated equation; DW is the Durbin-Watson statistic which tests for serial correlation in the estimated residuals; and the F statistic tests whether the regression coefficients are collectively zero (i.e. whether the regression model is statistically irrelevant). The mnemonics used for each variable are defined below the equations.

Real Gross Domestic Product:

(1)
$$RGDP = \underset{(2.2)}{46.04} + \underset{(3.4)}{.51}\,RIM + \underset{(5.6)}{1.69}\,RMON + \underset{(4.3)}{.53}\,PGN$$
$$RSQ = .84 \qquad DW = 2.1 \qquad F = 35$$

(2)
$$RGDP = \underset{(4.1)}{93.1} + \underset{(8.9)}{2.68}\,RMON - \underset{(-2.5)}{6.45}\,EER + \underset{(3.5)}{.35}\,PGN$$
$$RSQ = .80 \qquad DW = 2.6 \qquad F = 26$$

(3)
$$pdRGDP = \underset{(2.2)}{6.73} + \underset{(2.9)}{.19}\,pdPGN - \underset{(-2.5)}{.60}\,pdVAD + \underset{(1.0)}{.05}\,pdEER$$
$$RSQ = .51 \qquad DW = 2.5 \qquad F = 7.7$$

Real Gross Domestic Product -- Trade Sector

(4)
$$RGDPT = \underset{(-3.6)}{-53.9} + \underset{(3.8)}{.38}\,OVVAL + \underset{(6.4)}{.42}\,RIM + \underset{(1.9)}{.12}\,PGN$$
$$RSQ = .84 \qquad DW = 2.2 \qquad F = 35$$

Real Gross Domestic Product -- Agriculture

(5)
$$RGDPAG = \underset{(-.3)}{-3.70} + \underset{(4.6)}{.17}\,AGTT + \underset{(6.5)}{.33}\,PGN - \underset{(-.6)}{.04}\,RAING$$
$$RSQ = .80 \qquad DW = 1.9 \qquad F = 25$$

(5a)
$$RGDPAG = \underset{(-.9)}{-8.13} + \underset{(4.2)}{.19}\,AGTT - \underset{(-.5)}{.84}\,EERX + \underset{(4.9)}{.30}\,PGN$$
$$RSQ = .80 \qquad DW = 1.9 \qquad F = 28$$

Groundnut Purchases by GPMB

(6)
$$PGN = \underset{(3.2)}{368.3} + \underset{(1.7)}{.22}\,AGTT + \underset{(2.3)}{.04}\,RAINY - \underset{(-2.9)}{3.6}\,EEN$$

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```
                    RSQ = .37        DW = 1.7        F = 4.9
```

Money Supply

```
(7)    RMON   =  -36.3 + .30 RGDP - 3.73 EER - .07 RIR
                 (-4.1)  (7.3)      (4.7)       (-.3)
                    RSQ = .83        DW = 2.6        F = 33

(7a)   RMON   =  11.22 + .23 RGDP - .34 TT - .69 RIR
                 (.9)    (5.4)     (-5.1)    (-3.
                    RSQ = .84        DW = 2.0        F = 37
```

Imports of Goods and Non-Factor Services

```
(8)    RIM    = 33.7 + .23 RGDP(-1) - 2.9 EER + 1.2 RGDE
                (1.2)  (1.5)         (-1.6)     (3.2)
                    RSQ = .70        DW = 1.6         F = 16
```

Net Foreign Assets

```
(9)    NFA    = 75.64 - 33.04 EER - .61 NCP + .81 MDRE
                (8.5)   (-8.8)     (-9.5)     (7.3)
                    RSQ = .99        DW = 1.9         F = 454
```

Current Account of Balance of Payments

```
(10)   CAB    = -34.25 + .56 TT -.69 GE
                (-0.9)   (1.3)  (-6.1)
                    RSQ = .88        DW = 1.4         F = 73
```

Effective Exchange Rate

```
(11)   EER    =  8.61 + .11 RMON + .03 RBOT - .10 TT
                (3.0)   (3.6)      (3.2)      (-3.4)
                    RSQ = .58        DW = 1.5         F = 10

(11a)  EER    =  1.18 + .28 T - .02 NDC - .03 NFA
                (3.7)   (5.0)  (-5.7)    (-9.9)
                    RSQ = .94        DW = .8          F = 112
```

Government Expenditure

```
(12)   RGE    =  -4.11 + .35 RGDP + .47 RKI - .30 TT
                (-.3)    (6.0)      (3.5)    (-2.3)
                    RSQ = .93        DW = 1.4         F = 66.7
```

Government Current Receipts

```
(13)   GCR    = -22.3 + .06 IM + .31 GDPNT
               (-3.5)   (0.6)    (4.3)
                    RSQ = .95         DW = 2.0        F = 192
```

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(13a) GCR = -12.24 - .02 IM + .01 DOMIX
(-2.5) (-1.2) (3.2)
RSQ = .94 DW = 1.6 F = 145

Net Credit to Government

(14) NCG = -25.32 + .72 GRE + .02 GDE
(-10.8) (9.5) (0.1)
RSQ = .98 DW = 1.4 F 54

Net Credit to the Public

(15) NCP = -70.15 + .62 GDP -.75 MBRE - .63 NCG
(-2.3) (3.8) (-3.1) (-.7)
RSQ = .93 DW = 2.0 F = 86

GDP Deflator

(16) VAD = 23.47 + .68 UVI + 1.39 T
(4.5) (14.0) (1.5)
RSQ = .98 DW = 2.1 F =613

(17) pdVAD = 3.75 + .40 pdUVI - .39 pdRGDP
(2.3) (2.8) (-3.0)
RSQ = .44 DW = 2.0 F = 5.6

Real variables have been designated by the prefix "R"; and percentage change denoted by the prefix "pd." The definitions are:

GDP	Gross Domestic Product at market prices
IM	Imports of goods and non-factor services
MON	Money Supply
EER	Effective Exchange Rate for importers
VAD	GDP deflator (1974/75=100)
GDPT	Gross Domestic Product in Wholesale and Retail Trade
CVVAL	Ratio of effective to official exchange rate
PGN	Annual Purchases of Groundnuts (thousands of tonnes)
GDPAG	Gross Domestic Product in Agriculture
AGTT	Agricultural terms of trade
RAING	Rainfall (in mms) at Georgetown
RAINY	Rainfall (in mms) at Yundum
EERX	Effective Exchange Rate for exporters
SEN	Dummy for 1985/86 reflecting Senegalese groundnut price
RIR	Real interest rate, i.e. commercial borrowing rate minus percentage change in the CPI
TT	External terms of trade
GDE	Government Development Expenditure
GE	Total Government Expenditure
NFA	Net Foreign Assets of the Banking System
NCP	Net Domestic Credit to the Public

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[illegible]	Gambia Produce Marketing Board Reserves
CAB	Current Account Balance on the Balance of Payments
BOT	Balance of Trade
GDPNT	Gross Domestic Product in the Non-Trade sector (=GDP-GDPT)
T	Time trend
NDC	Net Domestic Credit provided by Banking System
KI	Capital Inflow
GCR	Government Current Revenue
GRE	Government Recurrent Expenditure (=GE-[illegible]E)
DOMEX	Domestic Expenditure/Supply (=GDP-Ex[illegible]s+Imports)
NCG	Net Domestic Credit to Government (NCG=NDC-NCP)
UVI	Import Price Deflator (1974/75=100)

These equations highlight the main connections among major economic aggregates over the last two decades. They identify key policy linkages and provide the foundation for the medium-term projections reported below.

The first three equations explain real gross domestic product (RGDP). Equation 1 relates RGDP to imports (RIM), the real money supply (RMON), and groundnuts purchases by the GPMB (PGN). Equation 2 replaces the import term by the effective exchange rate (EER) as an alternative measure of the effects of trade. All the estimated coefficients are statistically significant and, except for EER, all have the expected signs. The explanatory power of money supply, imports, and groundnut purchases is consistent with the importance of trade and agriculture in the Gambian economy.

An interesting result, in equation 2, is the negative impact of the effective exchange rate on real GDP. This result is empirical evidence of the adverse economic effects of the overvaluation of the dalasi especially over the last decade (columns 2,3,and 4 of Table 3).

Equation 3 relates growth rates in real GDP and groundnut purchases (pdPGN), the GDP deflator (pdVAD), and the effective exchange rate (pdEER). All of the variables have the expected signs. Output was positively related to groundnut purchases; negatively related to actual (or expected) inflation; and positively related to the effective exchange rate. As an aside, when the change in the real money supply was included in this equation its coefficient was close to zero and statistically insignificant. That is, real money supply growth was not directly associated with the growth of real GDP, although the levels of the two variables were closely related (equation 1). This can be seen from the overall decline in the velocity of money over the sample period (cf. columns 2 and 7 of Table 1).

Equation 4 explains the level of real GDP in the Trade Sector as a function of the degree of over-valuation of the exchange rate (OVVAL), the level of real imports (RIM), and groundnuts purchases. The equation is statistically significant (with an F-statistic of 35) showing that exchange rate effects, reflected in OVVAL, and volume effects, reflected in RIM and PGN, have been major determinants of Trade Sector activity.

Equation 5 attempts to explain real GDP in agriculture (RGDPAG) using the agricultural terms of trade (AGTT), defined as the ratio of groundnut prices to the value-added deflator, groundnut purchases, and an index of rainfall (RAINI). Consistent with theoretical expectations, the terms of trade and groundnut purchases are positively related to real output in agriculture. The index of rainfall is not statistically significant. Equation 5a includes the effective exchange rate for exporters as an index of external price effects. Its coefficient is negative (perhaps reflecting the effects of the overvalued exchange rate), but statistically insignificant.

Equation 6 explains the level of groundnut purchases using relative prices and rainfall. The rainfall variable (rainfall at Yundum) is positive and significant. The agricultural terms of trade (which is dominated by the groundnut price) is of the expected sign and the mean supply elasticity estimated is 0.1. The SEN dummy shows that there have been statistically significant cross-border flows due to price differences for groundnuts between The Gambia and Senegal.

Equation 7 relates the real money supply (RMON) to real GDP, the effective exchange rate, and the real interest rate (RIR). The first two coefficients are highly significant, but the third is statistically insignificant. While the coefficient of determination is high (.83), the Durbin-Watson statistic suggests that the estimated residuals are serial correlated. Equation 7a replaces the effective exchange rate with the external terms of trade. The independent significance of both the terms of trade and real interest rate and the improvement in the Durbin-Watson statistic indicates that the statistically significant but incorrectly signed coefficient of the EER term in equation 7 is the result of several effects. Together, however, both equations show that external effects have had a major impact on financial aggregates. Equation 7a, which is perhaps as close to a demand for money equation as can be gleaned from the existing data base, shows that the money stock has been closely and uniformly related to real income and relative prices.

Equation 8 explains the real level of imports (RIM) as a function of lagged real GDP (RGDP(-1)), real Development Expenditure (RGDE), and the effective exchange rate. Real imports are positively related to lagged real output and development expenditure and, as expected, negatively related to the effective exchange rate.

Given the importance of trade to The Gambia, one can only speculate why the coefficient on EER, though negative, is not more significant. A possible explanation, which is not captured by results here, is the shift in the rural-urban distribution of income. The income distribution in The Gambia has changed so dramatically over the last two decades that the income effect, which has encouraged imports, has tended to dominate the exchange rate effect, which discouraged imports. One measure of the extent to which national income has been redistributed from the rural to the urban areas is the decline in the share of agricultural GDP in aggregate GDP (Table 4, column 6). In the decade before 1974/75 (the year when imports increased sharply cf. Table 1, column 5), the share of agriculture in GDP was .38;

for the decade after 1974/75, it was only .29. The effects of this decline were reinforced by the low levels of development expenditure in agriculture; the use of GPMB's reserves (which were accumulated through taxes on groundnut farmers) for subsidies on (mainly urban) rice consumption and the development of (mainly urban) infrastructure; and the rapid expansion of employment and pay of (mainly urban) Government employees. One consequence of this shift in the distribution of income from the rural to the urban areas is the rise in the average propensity to import. Up to 1974/75, the ratio of imports to GDP was .39; since then it has been .50. Although some of this increase can be attributed to the expansion of the re-export trade, particularly since 1977/78, the extent to which the average propensity to import has diverged from the average propensity to export (corresponding data for the latter were .37 and .38), support the view that changes in income distribution have significantly influenced both the pattern and level of imports.

Equation 9 relates Net Foreign Assets of the banking system (NFA) to the effective exchange rate, Net Credit to the Public (NCP) and GPMB's reserves (MBRE). The significance of the third variable re-confirms the importance of the oilseeds sector to the economy. Another useful result in the equation is that both the exchange rate and the net credit to the public are important explanatary variables. As theory indicates and the results show, when all other effects are allowed for, a persistently over-valued exchange rate will erode foreign reserves. In addition, the marginal impact of increases in net bank credit to the public on foreign reserves has been high (-.61). This shows, in yet another way, the openness of the Gambian economy: exchange rate overvaluation and domestic credit expansion directly affect foreign exchange reserves. (Now that the dalasi has been floated, the effects of domestic credit expansion will mainly influence the exchange rate.)

Equation 10 relates the Current Account of the balance of payments (CAB) to the external terms of trade (TT) and Government Expenditure (GE). There has been a persistently large and highly statistically significant negative association between the Current Account Balance and Government Expenditure. This captures both direct effects through Government imports and the indirect effects through Government income payments such as wages and salaries. As expected, the coefficient on the terms of trade is positive.

Equation 11 relates the effective exchange rate for importers to the real money supply, the balance of trade adjusted for changes in the terms of trade (RBOT), and the terms of trade. The coefficients on all of the variables are highly significant and, in view of the dominant trends in The Gambia's trade over the last decade, plausible. A priori, EER should be positively related to RMON (as the exchange rate devalues, there is less leakage from the domestic money supply) and EER should be negatively related to TT (partly by definition). The positive coefficient on RBOT reflects the fact that as the trade balance has worsened, the dalasi has weakened.

Equation 11a was estimated to indicate how closely movements in the

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effective exchange rate have been associated with movements in net domestic credit and net foreign assets. As the data show, a close association has existed. The time trend is a technical artifact for measuring the potential biases that exist in the index numbers used in the regression model. The positive coefficient on the time trend is largely the result of the systematic upward bias in the ratio of the import index and the GDP deflator used to estimate the effective exchange rate. (Because the indexes are base-weighted, the import index has an upward bias as importers substitute away from relatively expensive sources of supply, and the GDP deflator has a downward bias as producers subst[illegible]te away from the production of commodities whose relative returns have fallen. The combined effect of these biases is to give the estimated effective exchange rate an upward bias.)

Equation 12 explains real Government Expenditure as a function of real GDP, real Capital Inflow (RKI), and the external Terms of Trade (TT). The estimated coefficients are statistically significant. Government Expenditure has been closely related to real GDP, reflecting its direct contribution to output and its indirect impact via the multiplier. Capital inflow has also affected Government Expenditure, principally through the Development Budget but also because of counterpart funding requirements and recurrent cost funding. The negative relationship between Government Expenditure and the external terms of trade has two interpretations. At one level, it shows that Government spending has increased despite the economy's loss of competitiveness and the decline in the flow of real resources to Government. However, at another level, the result shows that the Government, with the support of the international aid community, has been able to expand its role despite the decline in the economy.

Equation 13 relates Government Current Receipts to nominal imports (IM) and the GDP in the non-Trade sectors. The estimated coefficient on the latter variable is both positive and highly statistically significant. By contrast, the coefficient on imports is low (.06) and statistically insignificant. This result, which is theoretically surprising, reflects the loss of revenue due to widespread Customs under-invoicing and non-declaration. The losses which occurred are evident in equation 13a where the coefficient on imports is negative even though over the relevant sample period, the Government sharply increased import duties.

Equation 14 relates Net Credit to Government by the Banking system to Government Recurrent Expenditure (GRE), Development Expenditure (GDE), and Government Current Revenue. The relative size of the coefficients on recurrent and development expenditure show that the momentum for Government bank borrowing has been sustained by the former and not the latter. This has two explanations. First, development expenditure has been funded mainly by international loans and foreign aid. Second, most reductions in Government expenditure in recent years have fallen on the Development Budget (Table 1, column 4).

Equation 15 explains Net Domestic Credit to the Public by the banking system (NCP) as a function of GDP, GPMB's reserves (MBRE), and net credit

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to Government. This is a surprisingly good equation: two of the estimated coefficients are highly significant, the coefficient of determination is high, there is no estimated serial correlation in the residuals, and the possibility of making a Type II error based on the F test is negligible. The relation between NCP and GDP is consistent with theoretical expectations: an increase in public sector activity requires a positive increment in credit. The close negative relation between NCP and MBRE makes sense: as GPMB accumulated reserves its requirements for bank credit declined. The negative coefficient on NCG represents some element of "crowding out": increased credit to the Government has partially been at the expense of credit to the public.

Equation 16 shows the close statistical association between the GDP deflator (VAD) and the import price index (UVI). The statistical contribution of the time trend (T) and the values of the summary statistics (RSQ, DW, F) are in the expected ranges. This result is further evidence of the openness of the economy: domestic prices fully and rapidly reflect changes in relevant international prices. Equation 17 relates the percentage change in the GDP deflator to the percentage changes in import prices and real GDP. The coefficient on real GDP has the expected sign -- an increase in real supply has a negative effect on prices. When the growth of real money supply is included, the coefficient is positive, in accordance with theoretical expectations, but statistically insignificant. One consequence of this result is that, when other factors are taken into account, the growth of the money supply has not been directly inflationary.

b. Policy Implications of the Econometric Results

Numerous policy implications can be derived from these results.

i. the real money supply is closely and systematically connected to the level of real output;

ii. Wholesale and Retail Trade is a key sector with strong links to other sectors of the economy;

iii. the economic impact of changes in the exchange rate is pervasive;

iv. the decline in the groundnut sector has significantly reduced economic growth over the last several years;

v. the adverse shift in the internal terms of trade has contributed to the decline of the agricultural sector;

vi. changes in the pattern of imports have resulted from shifts in the rural-urban income distribution, the relative increase in Government expenditure in national income, and the growth of the re-export trade;

vii. there has been an major structural shift in the average propensity to import and to export primarily as the result of the redistribution of income and exchange rate over-valuation;

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viii. because the imbalance between imports and exports not been filled by increased private or official capital inflows, foreign indebtedness has increased sharply;

ix. the loss of foreign exchange reserves has been directly related to the overvaluation of the dalasi and increases in domestic credit;

x. there has been a strong association between capital inflow and Government Expenditure;

xi. changes in the effective exchange rate have been closely related to changes in the money supply and the balance of trade;

xii. the marginal share of national income spent by the Government has been relatively high (.35);

xiii. there has been a negative relation between Government revenue and imports despite significant and sustained increases in duties and tariffs due to collection problems (and increased levels of exemptions);

xiv. increases in net credit to Government have depended on recurrent expenditure and not development expenditure; and

xv. domestic price movements have been closely associated with changes in import prices and real output.

These implications point to an economic setting which, over the sample period, has been characterized by a high degree of openness and vulnerability to external events; a general neglect of the key productive sector --agriculture-- through an over-valued exchange rate and low producer prices; a transfer of national income from the rural to the urban areas and from the private to the Government sector; a decline in the ability of Government to raise resources from imports despite higher tax rates; a direct association between increased Government expenditure, domestic credit creation, and the loss of foreign exchange reserves; and a close link between real money supply and economic activity.

The structural reforms introduced under the Economic Recovery Programme have been explicitly designed to redress these adverse trends. Therefore, many of the relationships estimated above will change, though for the immediate future, the changes are not likely to be dramatic. Hence, for our purposes, the above relations provide a solid base for a set of medium term projections. Over time, as the ERP achieves exchange rate reform, promotes productive sectors (especially agriculture), rationalizes the Government and parastatal sectors, reforms the financial sector, and restructures the Public Investment Programme, the relationships will need to be recast and reestimated.

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IV. Projection Results

The projection model reported here highlights the time path of the major economic aggregates in The Gambia -- real GDP, real money supply, prices, imports, the balance of trade and the effective exchange rate -- within the context of the performance criteria of the International Monetary Fund's Stand-By programme and the conditions of the World Bank's Structural Adjustment Loan which were negotiated in mid-1986.

Using the definitions in Section IIIa, the model is:

1. MON = NFA + NCP + NCG - OI
2. NFA = BOT + NKI + NFA(-1)
3. BOT = EX - UVI*RIM
4. RIM = g[RGDP(-1),RGDE,EER]
5. RGDP = g[RIM,RMON,PGN]
6. RGDE = GDE/VAD
7. RMON = MON/VAD
8. EER = BER(1+t)*UVI/VAD
9. VAD = VAD(-1)*[pdVAD/100 + 1]
10. pdVAD = g[pdUVI,pdRGDP]
11. pdRGDP = g[RGDP - RGDP(-1)]/RGDP(-1)*100

The model's four behavioural equations, denoted by g[..], eight identities, eleven exogenous variables (NCP,NCG,OI,NKI,EX,UVI,PGN,BER,t,and dUVI), and three predetermined variables (NFA(-1),RGDP(-1), and VAD(-1)), determine the eleven endogenous variables (MON,NFA,BOT,RIM,RGDP,RGDE,RMON,EER,VAD, pdVAD,and pdRGDP).

Identity 1 defines the money supply; identity 2 defines net foreign assets; and identity 3 defines the balance of trade. Equation 4 explains real imports (equation 8 in section III). Equation 5 explains real income (equation 1 in section III). Identity 6 defines real development expenditure. Identity 7 defines the real money supply. Identity 8 defines the effective exchange rate; and identity 9 gives the GDP deflator. Equation 10 explains the percentage change in GDP deflator (equation 17 in section III). And, identity 11 defines the percentage change in real GDP.

Based on the above model, projection results were derived using the iteration routine in Lotus 1-2-3. These are presented in Table 6. They assume that, for the current financial year (1986/87), the Government will meet the performance criteria established by the IMF and World Bank. (To assume otherwise, is to presume that the IMF program will be suspended.)

The results show that, while the IMF and World Bank programmes contribute to structural reform of the economy especially through the reduction of Government borrowing from the banking system and credit controls, there is no sustained impact on growth. Overall, the projections indicate that between 1986/87 and 1989/90 real GDP will decline by 1.7 percent. This will leave the economy with the average real GDP achieved over the period

Table 6: MACROECONOMIC SIMULATION OF THE GAMBIAN ECONOMY
1984/85 TO 1989/90
(IMF and World Bank Program without AIPP Assistance)

Basic Model		Basic Data -- Exogenous Variables					
1. MON = NFA + NCP + NCG - OI		1984/5	1985/6	1986/7	1987/8	1988/9	1989/90
2. NFA = BOT + NKI + NFA(-1)	NCP	323.30	355.60	450.90	473.45	497.12	521.97
3. BOT = EX - UVI*RIM	NCG	92.00	100.40	-35.00	0.00	0.00	0.00
4. RIM = g[RGDP(-1),PCDE,EER]	NKI	255.20	470.80	470.80	470.80	470.80	470.80
5. RGDP = g[RIM,RMON,PEN]	EX	95.00	205.00	232.45	255.12	285.10	314.59
6. PCDE = GDE/YAD	UVI	334.00	485.00	509.74	525.70	542.55	559.62
7. RMON = MON/YAD	GDE	109.10	90.10	165.00	170.50	176.00	181.50
8. EER = BER(1+t)*UVI/YAD	PEN	46.00	54.00	70.00	75.00	80.00	85.00
9. pcYAD = g[pcUVI,pcRGDP]	BER	3.95	7.15	7.50	7.75	8.00	8.25
10. YAD = YAD(-1)*[pcYAD/100+1]	t	0.27	0.31	0.30	0.30	0.30	0.30
11. pcRGDP = dRGDP/RGDP(-1)*100	TT	33.30	39.80	41.79	43.88	46.07	48.38
	RGDP	209.50	208.28	240.31	246.81	237.97	236.15
	YAD	295.00	387.01	401.37	433.59	478.54	523.37
	EER	5.62	11.74	12.36	12.22	11.79	11.47
	OITN	-49.70	-260.60	-350.10	-350.10	-350.10	-350.10
	Fudge1	-253.00	Fudge3	-13.30	Fudge5	-7.00	
	Fudge2	0.00	Fudge4	45.00	Fudge6	3.00	

Basic Assumptions:		Coefficients of the Model				
Export Growth 7% nom. terms		Eq.#	Constant	Coeff.#1	Coeff.#2	Coeff.#3
June 1987 Targets: Dal. mns		4	38.70	0.23	1.20	-2.91
Net Dom. Assets	389.1	5	46.04	0.51	1.89	0.53
Net Cred. to Gov.	-35	9	5.75	0.40	-0.39	
Gr. Cred. to GPMB	139.9					
Other Credit	311.1					

			1985/6	1986/7	1987/8	1988/9	1989/90
Budget Deficit	-166						
Devel. Expend.	165	MON=	230.26	288.92	323.59	322.08	339.46
		NFA=	-515.74	-474.08	-499.76	-525.13	-532.61
Other Assumptions: from 1987/88		BOT=	-230.44	-253.54	-239.68	-237.98	-220.28
NCP increases by 5% p.a.		RIM=	90.40	95.73	94.50	95.39	93.58
TT improves by 5% p.a.		RGDP=	208.28	240.31	246.81	237.97	236.15
OITN remains constant		RMON=	59.65	71.98	74.63	67.26	64.86
$ import prices constant		EER=	11.74	12.36	12.22	11.79	11.47
Real Dev. Exp. constant		pcYAD=	29.87	3.71	8.03	10.44	9.30
Nom. net cap. inflow const.		YAD=	387.01	401.37	433.59	478.54	523.37
YAD changes with exch. rate							

Run 20.1.87; Revised 22.4.87

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1976 to 1978 (cf. Table 1 column 1). The main reason for this poor growth performance is the tight control over domestic credit expansion under the IMF programme. Because of The Gambia's simple financial system and its openness, there is a close association between credit creation and imports. Now that the dalasi has been floated, import demand has to be contained to avoid undue strain on the exchange rate. While tight control over credit achieves this objective, it also stifles growth.

The projected sluggish growth is accentuated by the acute scarcity of foreign exchang[illegible]ich will remain even though it has been eased by in[illegible]s from the World Bank Structural Adjustment Loan and the effects of debt rescheduling. To illustrate, the foreign exchange position (after allowing for the depreciation of the dalasi) is projected to worsen. However, the balance of trade situation improves marginally both in absolute terms and as a proportion of GDP. The economic contraction produces adjustment by leading to a stagnation in imports.

These results show that the current measures being pursued by the Government under the IMF and World Bank programmes will achieve structural reform but they do not promote growth. This means that only one aspect of the World Bank's recent initiative in Sub-Saharan Africa to promote "structural reform with growth" (cf. World Bank 1986) is currently being addressed by the IMF/World Bank programmes.

V. <u>The Impact of AEPRP Assistance</u>

A major objective of the AEPRP support -- $2 million per annum for the Central Bank of The Gambia over the period 1987/88 to 1989/90 -- is to strengthen the foreign exchange market thereby helping to ease one of the most severe constraints presently facing the Gambian economy. The introduction of the interbank market for foreign exchange has affected both the supply of foreign exchange and the efficiency with which it is allocated by the market. So far, competition in the foreign exchange market has been keen and the interbank market has been relatively stable. Yet, because the market is based entirely on spot market transactions, it remains highly vulnerable to the de-stabilising effects of short-term fluctuations in demand for and supply of foreign exchange. Adverse expectations could also lead to market instability. The AEPRP support can strengthen the market by reducing the probability that destabilising movements in the exchange rate will occur.

The potential impact of the AEPRP support can be estimated using the projection model to determine the growth path of the major economic variables with the addition of $2 million per year to the economy over the next three years. The results, reported in Table 7, underscore the earlier remarks about the severity of the foreign exchange constraint and the tightness of the IMF and World Bank programmes. The additional foreign exchange, though modest, makes a significant difference. The economy achieves some modest growth, the rate of inflation declines (because of the effects of increased output and imports on prices), the net foreign asset situation improves relative to the scenario presented in Table 6, and the

Table 7: MACROECONOMIC SIMULATION OF THE GAMBIAN ECONOMY
1984/85 TO 1989/90
(IMF and World Bank Program with [illegible] Assistance)

Basic Model		Basic Data -- Exogenous Variables					
1. MON = NFA + NCP + NCG - DI		1984/5	1985/6	1986/7	1987/8	1988/9	1989/90
2. NFA = BOT + NKI + NFA(-1)		333.30	355.10	450.90	473.45	497.12	521.97
3. BOT = EX - UVI*RIM	NCG	92.00	100.40	-38.00	0.00	0.00	0.00
4. RIM = g[RGDP(-1),RGDE,EER]	NKI	255.20	470.80	470.80	486.30	486.30	487.30
5. RGDP = g[RIM,RMON,FGN]	EX	98.00	198.00	233.45	258.12	285.10	314.59
6. RGDE = GDE/VAD	UVI	374.00	485.00	508.74	525.70	542.66	559.62
7. RMON = MON/VAD	GDE	109.10	90.10	165.00	170.50	176.00	181.50
8. EER = BER(1+t)*UVI/VAD	FGN	48.00	54.00	70.00	75.00	80.00	85.00
9. pcVAD = g[pcUVI,pcRGDP]	BER	3.75	7.15	7.50	7.75	8.00	8.25
10. VAD = VAD(-1)*(pcVAD/100+1)	t	0.27	0.31	0.30	0.30	0.30	0.30
11. pcRGDP = (RGDP/RGDP(-1)-1)*100	TT	53.30	39.80	41.79	43.88	46.07	48.38
	RGDP	209.50	208.14	240.42	254.43	249.40	249.08
	VAD	295.00	387.01	401.17	428.46	470.54	513.12
	EER	5.62	11.74	12.36	12.36	11.99	11.70
	DITN	-49.70	-260.50	-350.10	-350.10	-350.10	-350.10
	Fudge1	-258.00	Fudge3	-13.70	Fudge5	-7.30	
	Fudge2	0.00	Fudge4	45.00	Fudge6	2.00	

Basic Assumptions:		Coefficients of the Model			
Export Growth 7% nom. terms	Eq.#	Constant	Coeff.#1	Coeff.#2	Coeff.#3
June 1987 Targets: Cal. [illegible]	4	33.70	0.23	1.20	-2.91
Net For. Assets 389.1	5	46.04	0.51	1.69	0.53
Net Cred. to Gov. -33	9	5.75	[illegible]	-0.39	
Gr. Cred. to GPMB 179.8					
Other Credit 311.1					

		1985/6	1986/7	1987/8	1988/9	1989/90
Budget Deficit -156						
Devel. Expend. 165	MON=	230.36	299.08	339.21	346.40	368.92
	NFA=	-315.74	-473.92	-484.24	-500.82	-503.16
Other Assumptions: from 1987/88	BOT=	-230.44	-253.35	-238.72	-245.28	-231.64
NCP increases by 5% p.a.	RIM=	90.40	95.69	94.51	97.74	97.61
TT improves by 5% p.a.	RGDP=	208.14	240.42	254.43	249.40	249.08
DITN remains constant	RMON=	59.55	72.06	79.17	73.62	71.90
$ import prices constant	EER=	11.74	12.36	12.36	11.99	11.70
Real Dev. Exp. constant	pcVAD=	29.37	3.66	6.80	9.32	9.05
Nom. net cap. inflow const.	VAD=	387.01	401.17	428.46	470.54	513.12
VAD changes with exch. rate						

Run 26.1.87; Revised 22.4.87

ratio of the balance of trade to GDP declines significantly. Indeed, the AEPRP assistance makes the difference between whether the economy merely adjusts without growth, as noted above, or adjusts with growth.

To be explicit, without the AEPRP support, GDP in constant 1974/75 prices is projected to be D236.2 million in 1989/90; with AEPRP support it is projected to be D249.1 million. The corresponding increase in imports is D2.1 million. This net additional supply (domestic output plus imports) of D15 million is generated by the equivalent of D10.24 million in external support (i.e. $[illegible]lion per annum in 1974/75 prices converted at the projected exchange rates and price levels). Hence, in benefit-cost terms, the AEPRP support yields a real return of 46 percent (i.e. 15/10.24) over three years. The real net benefits are estimated to be D4.76 million (i.e. 15 minus 10.24). In addition, the increased supply of foreign exchange and domestic output is projected to improve the net foreign asset position by D29.5 million in current prices. This is equivalent to $3.56 million at the projected exchange rate.

Thus, the AEPRP support, because it will help alleviate the foreign exchange constraint, is projected to be highly productive. The basic reason is that the economy is so tightly constrained under the IMF/World Bank programmes that few additional resources are available to promote growth. The AEPRP support, by strengthening the foreign exchange market, will help provide access to these resources.

The basic point illustrated by the above analysis is that while The Gambia's Economic Recovery Programme and the support provided by the IMF and World Bank have stabilised the economy, these efforts will not promote a sustained increase in income. If the economy is to achieve a moderate rate of economic growth, some further easing of its resource constraints is required. It is here that the support provided under the AEPRP can have a major impact.

Malcolm F. McPherson
Banjul, 22.4.87

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FINANCIAL ANALYSIS

THE INTERBANK MARKET

1. Basic Characteristics:

There are three commercial banks licensed to operate in The Gambia. One is state-owned (The Gambia Commercial and Development Bank or GCDB), one is a member of a British banking group (Standard Chartered), and the other is a branch of a French West African bank (Banque Internationale pour le Commerce et l'Industrie or BICI). Counting headquarters there are ten bank offices plus exchange counters at hotels and the airport serving a population of some 750,000 people and tourists. The banks in Banjul are open to the public Monday-Friday, 0800 - 1330, while branch offices outside the capital observe additional hours some afternoons and Saturdays.

These three banks participate in the interbank market which became operational January 20, 1986. The CBG conducts the inter-bank trading session every Friday. At these sessions the three commercial banks and the CBG have a formal opportunity to buy and sell foreign exchange among themselves. Because the pound sterling has traditionally been the currency establishing the Dalasi exchange rate, it is used to expresses the fixing rate, which is the reference point for all official valuations (i.e. customs duty assessment) until the next trading session. The Dalasi is fixed for administrative purposes to the pound sterling for the ensuing week but the rate still fluctuates on a daily basis both at the banks and for actual government transactions. The rate of exchange is negotiable for each commercial transaction, i.e. it is set by market forces. The value of the Dalasi in terms of currencies other than the pound sterling is based on cross rates in the London interbank market, but takes note of the special features of the local trading circumstances prevailing at the time.

At present in The Gambia a private party can acquire foreign exchange with Dalasis: (i) through the interbank market; (ii) on a secondary (i.e. parallel) market which operates in most instances as a convenience market; or (iii) by purchasing foreign currency from traders associated with the re-export market. Every effort is made by the CBG and banks to limit the operations outside the interbank market.

The parallel market buying and selling rates have been equal or very close to interbank rates for the past ten months, especially after the latter market worked through its initial operating difficulties. The parallel market now appears to operate primarily as a convenience market, given that (i) there are comparatively few bank offices; (ii) most bank offices are not open during the entire business day nor over weekends; and (iii) the tourist hotels tend to pay somewhat less

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than the going interbank rate. The development of a parallel market indicates suppressed demand on the official market and close watch is maintained on such activities

2. Supply and Demand Influences on the Interbank Market:

The interbank market operates freely but in a very circumscribed environment. Fiscal and monetary policies have a major influence on the market. Other important legal and regulatory influences on the market are that the commercial banks must sell in the interbank market end-week foreign exchange balances in excess of established working balance limits, and that foreign currency export earnings of state agencies must be repatriated and sold on the market. (Small foreign exchange working balances may be held abroad by only two parastatals.) Moreover, there is no exchange control as indicated by the fact that foreign exchange accounts may be held abroad by Gambian nationals, subject to minimal reporting requirements.

As noted earlier in this paper, the supply of foreign exchange to the interbank market is extremely limited. With very few exceptions, ERP policies act to restrain effective domestic demand for foreign exchange which is in very limited supply. Effective demand for foreign exchange on the interbank market is partly determined by the financing of some trade outside the market and partly through very restrictive fiscal and monetary policies which form the core of The Gambian ERP (which is to run through 30 June 1989).

Interest rates in The Gambia basically are market determined, although a minimum deposit rate is also set. Lending rates remain at high real levels reflecting both the strong effective demand for loanable funds and the real scarcity of those funds. High real interest rates strongly influence the interbank market on the demand side by restricting borrowing of Dalasis to purchase foreign exchange and somewhat on the supply side primarily to date by inducing inflows of CFA francs. Restrictive ceilings on the amounts of domestic credit which may be extended to the public and private sectors are negotiated periodically with the IMF and have complementary effects on the demand side.

3. Operations in the Interbank Market:

The gross volume of transactions in the interbank foreign exchange market for calendar year 1986 is shown in Table Nine, by quarter. Following initial operations after January 20, 1986 and several slow start-up months, the market settled into average sales of around $11.4 million per quarter ($3.8/month) for six months . A 20% increase was recorded in the fourth quarter. (Data on 1987 operations are not yet available.) The pattern accurately reflects The Gambia's domestic trade finance needs, as domestic imports excluding fuel (which is grant aid financed) run about $45 - $50 million/year (see Table Two in the text Section II, B) and peak in the December - February period.

TABLE SEVEN

INTERBANK FOREIGN EXCHANGE MARKET:
PURCHASES AND SALES OF FOREIGN EXCHANGE
(million dalasis, US$ equivalent)

1986 Quarter	Currency	-Gross Volume- Purchases	Sales	CBG Purchases as % of Sales	Intrabank Dealings
Jan - Mar	Dal	34.30	36.07	4.0%	1.20
	(US$eq)	5.50	5.78	- 0 -	- 0 -
Apr - Jun	Dal	72.87	84.11	4.0%	1.01
	(US$eq)	9.94	11.47	- 0 -	- 0 -
Jul - Sep	Dal	80.31	86.10	20.0%	2.74
	(US$eq)	10.65	11.42	- 0 -	- 0 -
Oct - Dec	Dal	100.36	105.37	19.0%	1.94
	(US$eq)	12.98	13.63	- 0 -	- 0 -

Source: Central Bank of The Gambia (CBG)

Average quarterly exchange rates, Dal/US$:
First - 6.24
Second - 7.33
Third - 7.54
Fourth - 7.73

Sales by the banks to the CBG amounted to nearly 20% of total foreign exchange sales in the second half of the year, while the CBG did not sell on the interbank market at any time. 1/ Total private transactions in the market in the second half of the year therefore amounted to some $7.3 million per month or some $240,000 per day (total sales and purchases, of which about ten percent was in CFA francs). Very little of the activity in the interbank market has occurred in intrabank transactions.

After sharp depreciation in the first six weeks of the market's operation, the Dalasi traded against the dollar and the pound sterling throughout 1986 without significant trend change in value (see Charts One and Two below). (Depreciation in early 1987 against the pound, and nominal appreciation against the dollar, reflect exchange rate developments on the London market.) By March 1986 the

1/ Commercial banks are constrained to sell to the CBG foreign exchange balances in excess of working balance limits. Approximately one-half of the excess of sales over purchases is accounted for by bank earnings for their services in 1986, with the balance being pre-market bank holdings.

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premium on the parallel market rate fell to only about 5 percent and by mid-October 1986 rates on the parallel market and the interbank market were practically identical. Significantly, emerging changes in premiums on the parallel market have disappeared within a short period (see Chart Three below), reflecting a high degree of mobility of funds between the markets and a lack of suppressed demand for foreign exchange given the current fiscal and monetary environment in The Gambia. The parallel market supplements but does not compete with the interbank market.

The interbank market operated during the last three quarters of 1986 in delicate balance with public policy and private financing needs. The relative stability of the Dalasi against the pound and the dollar and the effective merging of the parallel and interbank foreign exchange rates were early signs of the success of The Gambia's stabilization program. These accomplishments were realized in a tightly controlled fiscal and monetary environment. The interbank market has yet to be tested in a more decontrolled environment, in which interest rates fall and an increasing volume of export receipts is channeled through the market.

ANNEX C-5

CHART ONE

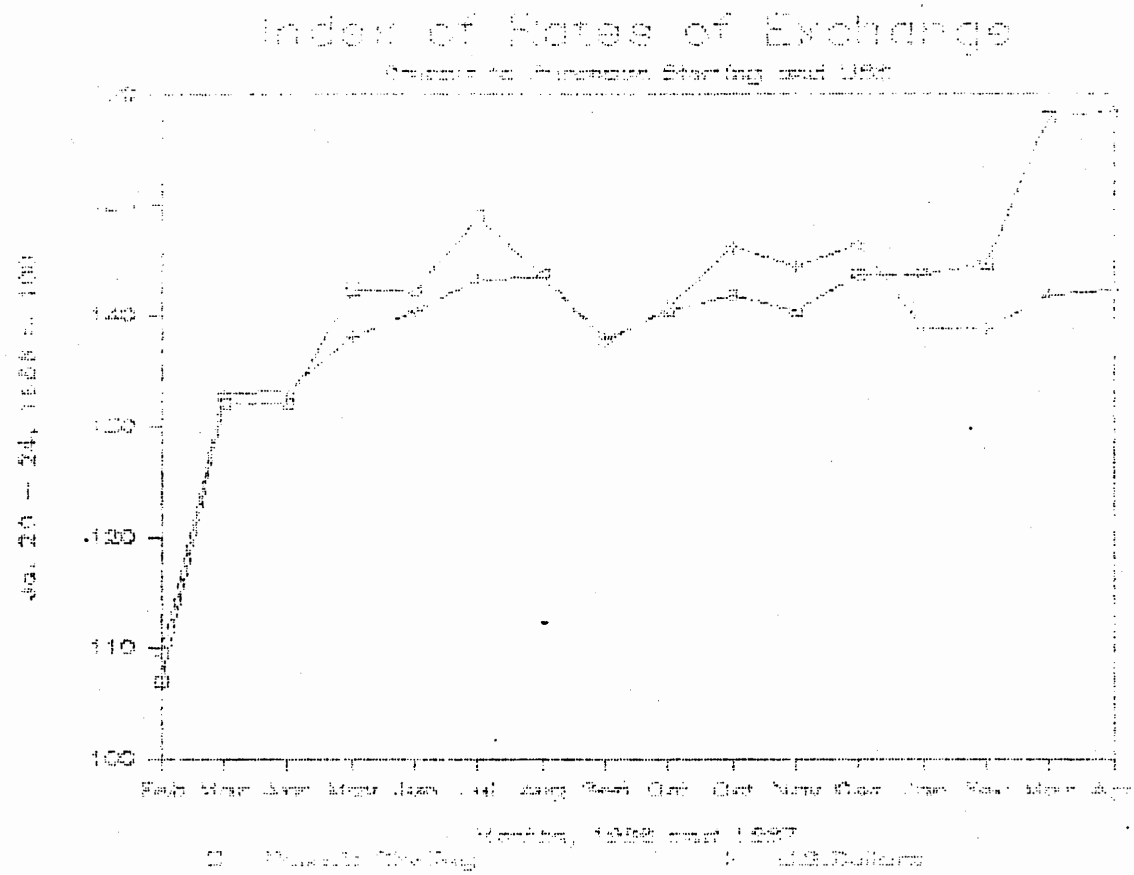


CHART TWO

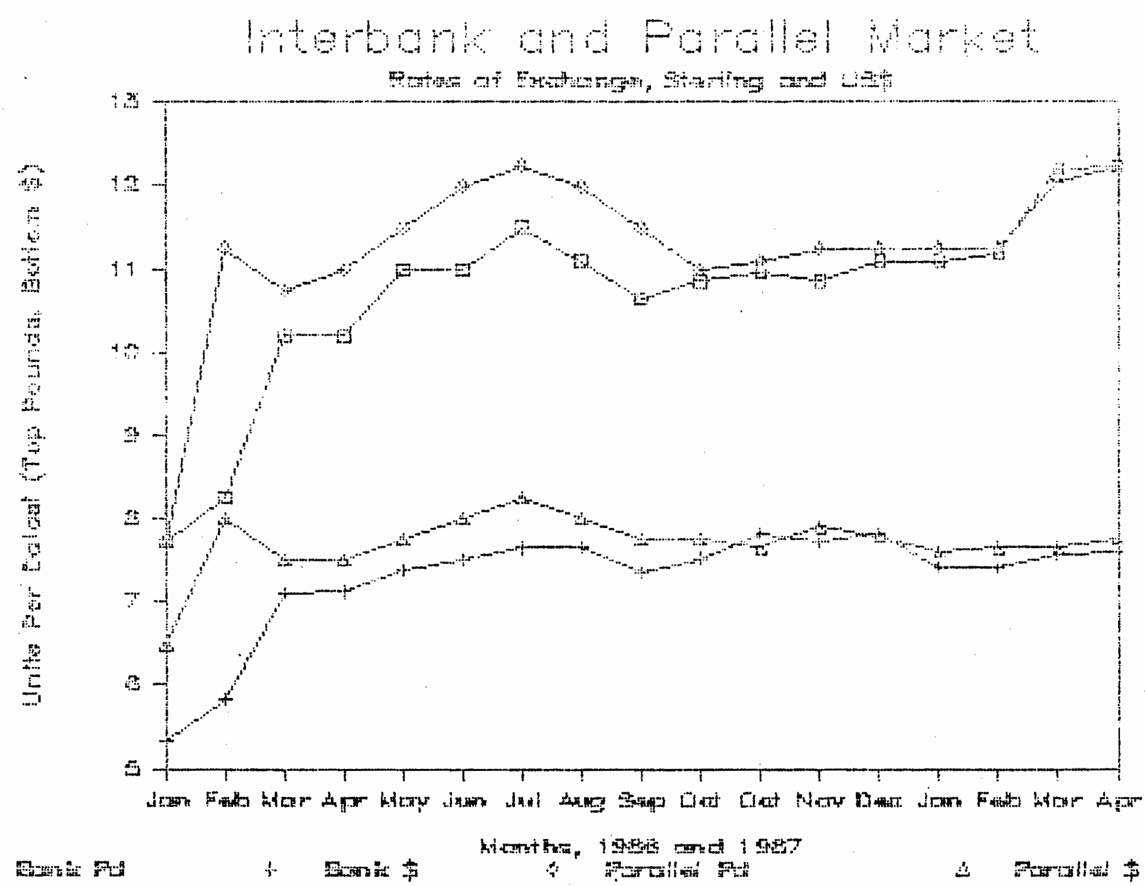
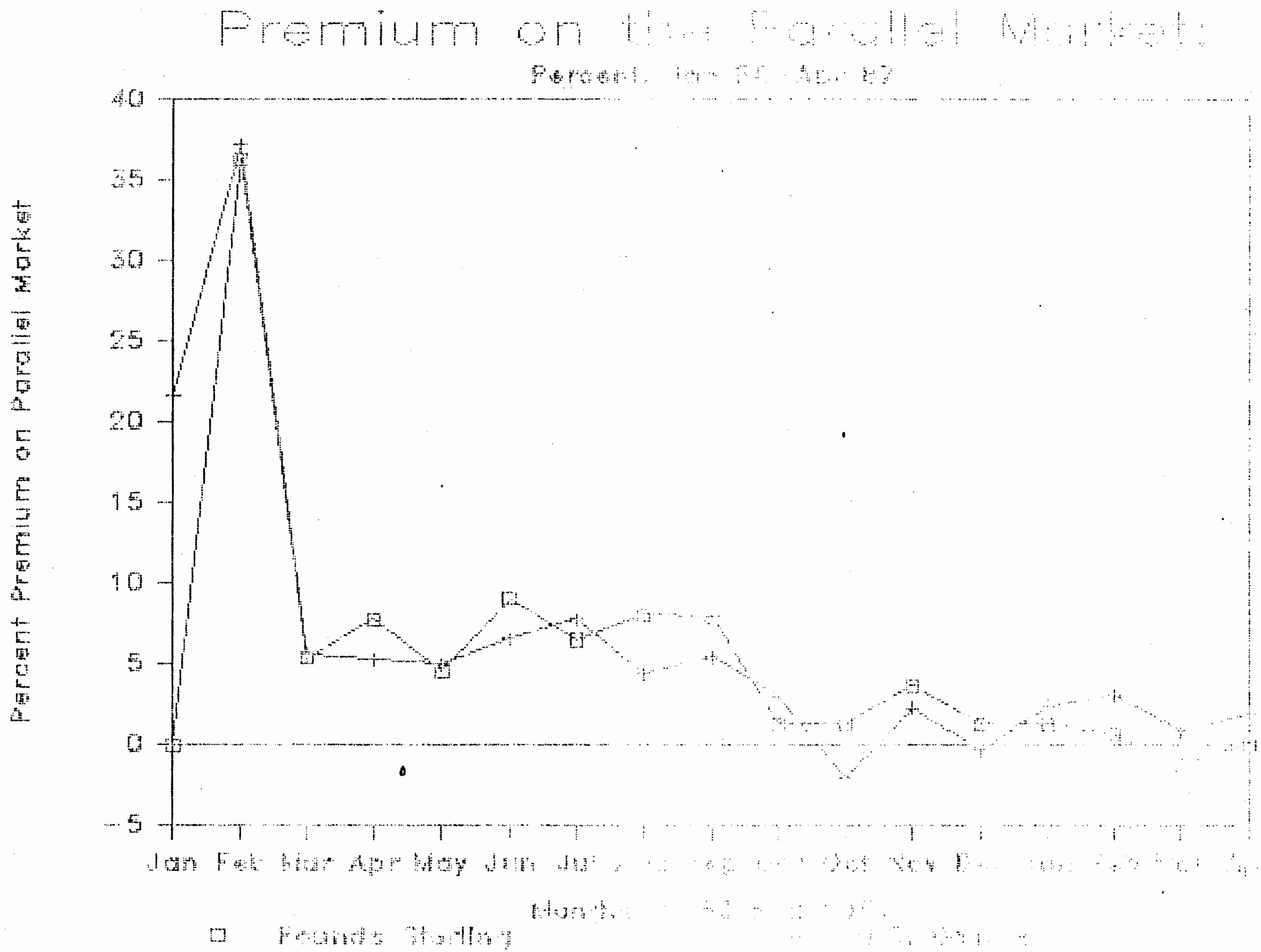


CHART THREE



ANNEX C-6

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TABLE EIGHT

OFFICIAL EXCHANGE RATES

February 1, 1986 - March 31, 1987

	GBP	USD	DM	SEK(100)	CFA(5000)	CFA(100)	FF(100)
1986							
Feb 1	7.56	5.35	2.24	71.52	73.01	1.60	73.01
8	7.61	5.43	2.25	71.96	73.59	1.50	73.59
15	7.64	5.39	2.28	72.23	74.40	1.47	74.40
22	7.90	5.47	2.37	74.44	76.94	1.75	76.94
Mar 7	10.00	6.86	3.62	95.09	99.94	1.98	99.94
14	10.00	6.82	3.03	94.46	98.06	2.20	98.06
21	10.00	6.74	2.95	92.94	96.10	2.10	96.10
28	10.00	6.76	2.90	92.08	94.25	2.06	94.25
Apr 4	10.00	6.88	2.89	91.94	94.25	2.08	94.25
11	10.00	6.83	2.97	93.45	93.18	2.08	93.18
18	10.00	6.65	2.99	92.99	93.84	2.08	93.84
25	10.15	6.62	[illegible]	93.45	94.19	2.08	94.19
May 2	10.15	6.69	[illegible]	94.73	94.81	2.08	94.81
9	10.60	6.89	3.16	97.95	99.01	2.08	99.01
16	11.00	7.21	3.26	101.22	102.28	2.08	102.28
23	11.00	7.49	3.24	101.63	101.52	2.10	101.52
30	11.00	7.45	3.21	101.08	100.70	2.10	100.70
Jun 6	11.00	7.35	3.39	101.95	103.25	2.10	103.25
13	11.00	7.19	3.26	100.68	102.31	2.10	102.31
20	11.10	7.39	3.30	102.20	103.15	2.10	103.15
27	11.10	7.26	3.30	101.73	103.22	2.10	103.22
Jul 4	11.45	7.41	3.41	104.74	106.69	2.12	106.69
11	11.45	7.59	3.49	106.51	108.32	2.12	108.32
18	11.25	7.53	3.50	105.53	108.27	2.14	108.27
25	11.25	7.56	3.52	106.76	108.70	2.14	108.70
Aug 1	11.05	7.43	3.56	106.32	109.18	2.14	109.18
8	10.75	7.29	3.54	105.08	108.69	2.14	108.69
15	10.75	7.22	3.50	104.11	107.55	2.14	107.55
22	10.60	7.08	3.46	102.70	105.77	2.14	105.77
29	10.60	7.12	3.49	103.26	106.58	2.14	106.58
Sep 5	10.60	7.08	3.47	102.75	106.13	2.14	106.13
12	10.60	7.16	3.47	102.95	106.22	2.14	106.22
19	10.60	7.19	3.62	105.55	110.24	2.14	110.24
26	10.60	7.38	3.61	106.40	110.25	2.14	110.25
Oct 3	10.65	7.40	3.71	107.90	113.00	2.14	113.00
10	10.70	7.49	3.77	109.50	115.03	2.14	115.03
17	10.80	7.56	3.83	110.75	116.81	2.16	116.81
24	10.80	7.64	3.76	109.73	115.04	2.18	115.04
31	10.85	7.72	3.74	109.89	114.71	2.29	114.71

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Nov 7	10.90	[illegible]	[illegible]	108.95	117.51	[illegible]	117.51
14	10.95	7.68	3.81	110.79	116.41	2.97	116.41
21	10.75	7.60	3.75	109.15	115.71	2.33	115.71
28	10.75	7.50	3.80	109.27	116.24	2.33	116.24
Dec 5	10.90	7.63	3.82	110.42	116.78	2.33	116.78
12	10.95	7.66	3.79	110.14	115.60	2.34	115.60
19	10.95	7.64	3.81	110.18	116.09	2.36	116.09
26	10.95	7.64	3.81	110.18	116.09	2.36	116.09
1987							
Jan 2	10.95	7.34	3.83	109.13	115.48	2.36	115.48
9	10.95	7.35	3.87	109.82	116.11	2.36	116.11
16	10.95	7.25	3.92	109.93	117.61	2.38	117.61
23	10.95	7.17	3.96	110.27	118.11	2.39	118.11
30	10.95	7.16	3.96	110.36	118.59	2.39	118.59
Feb 6	10.95	7.27	3.91	110.17	117.55	2.38	117.55
13	10.95	7.22	3.94	110.54	118.35	2.42	118.35
20	11.00	7.20	3.94	110.70	118.19	2.42	118.19
27	11.00	7.13	3.89	110.36	116.99	2.41	116.99
Mar 6	11.00	6.95	3.79	105.66	113.86	2.32	113.86
13	11.00	7.02	3.79	106.70	113.65	2.42	113.65
20	11.80	7.38	4.03	115.32	121.05	2.44	121.05
27	11.95	7.44	4.07	116.69	122.29	2.48	122.29

GBP: Great Britain Pound (Sterling)
USD: United States Dollar
DM: Deutsche Mark
SEK: Swedish Kroner
CFA: Currency of Francophone Africa (Franc)
FF: French Franc

Source: Central Bank of The Gambia

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ANNEX D

ILLUSTRATIVE BUDGET FOR GEPRP TECHNICAL ASSISTANCE

1. Long-Term Technical Assistance	
Three years @ $150,000 per annum:	$450,000
2. Short-Term Technical Assistance	
a. Development of Policy Options:	
(i) Agricultural Credit (120 days)	$ 78,540
(ii) Term Lending (60 days)	$ 41,240
(iii) Development Lending (60 days)	$ 41,240
b. Development of Baseline Data for GEPRP Monitoring & Evaluation Plan (60 days)	$ 41,240
c. Development of Work Plans for Implementing the Policy Options for:	
(i) Agricultural Credit (30 days)	$ 22,200
(ii) Term Lending (30 days)	$ 22,200
(iii) Development Lending	$ 22,200
3. Audits and Evaluations	
a. Mid-Term Evaluation	$ 28,920
b. Final Evaluation	$ 28,920
c. Program Audit	$ 28,920
4. Contingency/Inflation (approximately 5 percent)	$ 44,380
TOTAL	$850,000

5. Breakdown of Individual TA Item Costs

a. For 120 Work Days:

(i) Travel	$ 3,000
(ii) Per Diem (146 days)	$ 13,140
(iii) Salary ($260 x 120 days)	$ 31,200
(iv) Overhead ($260 x 120 days)	$ 31,200
TOTAL	$ 78,540

b. For 60 Work Days:

(i) Travel	$ 3,000
(ii) Per Diem (78 Days)	$ 7,020
(iii) Salary ($260 x 60 days)	$ 15,600
(iv) Overhead ($260 x 60 days)	$ 15,600
TOTAL	$ 41,220

c. For 30 Work Days:

(i) Travel	$ 3,000
(ii) Per Diem (40 Days)	$ 3,600
(iii) Salary ($260 x 30)	$ 7,800
(iv) Overhead ($260 x 30)	$ 7,800
TOTAL	$ 22,200

d. For 10 Work Days:

(i) Travel	$ 3,000
(ii) Per Diem (16 Days)	$ 1,440
(iii) Salary ($260 x10)	$ 2,600
(iv) Overhead ($260 x 10)	$ 2,600
TOTAL	$ 9,640

(Note: For the Audit and Evaluations it is assumed there will be three (3) persons working for ten (10) days each; thus: $9,640 x 3 = $28,920.)

INSTITUTIONAL ANALYSIS

The Financial System

For purposes of the GEPRP institutional analysis, the financial sector is comprised of the banking system and the Gambia Cooperative Union (GCU). The banking system in The Gambia consists of the Central Bank of The Gambia (CBG), and three commercial banks; the Gambia Commercial and Development Bank (GCDB), Banque Internationale pour le Commerce et l'Industrie (BICI), and Standard Chartered Bank Gambia Limited (SCB).

1. The Central Bank of The Gambia

The CBG was established in 1971 to assume the functions of The Gambia Currency Board and to act as banker to Government. The principal objectives of the CBG are:

(a) to regulate the issue, supply, availability and international exchange of money;
(b) to promote economic stability; and
(c) to promote a sound financial structure and credit and exchange conditions conducive to the orderly and balanced economic development of the country.

Section 34 of the Central Bank of The Gambia Act provides for the CBG to rediscount bills of exchange and promissory notes bearing two or more good signatures drawn or made for bona fide agricultural purposes and maturing within one hundred and twenty four days from the date of their acquisition by the CBG. It can also make advances to banks against such bills and notes for the purpose of financing seasonal agricultural operations or marketing of crops however such advances are limited to a period not exceeding three hundred days. It would appear, however, that such re-finance facilities are given without any effective evaluation by the CBG of the capacity and financial position of the recipient institution to absorb, if necessary, any overdue loans into its own portfolio. The situation has developed where the CBG carries unpaid loans on its books long after the expiry of the loan periods.

From the mid-seventies on, the CBG, at GOTG direction, provided significant levels of re-finance to banks (latterly to GCDB only) for crop finance most of which was for on-lending to the GCU and other licensed buyers for the purchase of groundnuts. Further moneys were advanced to GCDB to finance projects which the GOTG supported (by way of government guarantee) for various reasons. These arrangements increased the overall level of demand, put pressure on the foreign exchange market, caused surges in the money supply and ultimately led to inflationary price movements and currency speculation. By the end of 1985 CBG advances to GCDB had risen close to D100 million, over half of which appeared to be uncollectable.

At the beginning of January 1987, the GOTG and CBG established a "Managed Fund" of some D70 million in the books of the CBG. The Fund represents a substantial part of the GCDB short- and medium-term credits from the CBG as well as some government guaranteed loans, most of which are non-performing. The creation of the Managed Fund has been considered of fundamental importance in the rehabilitation of the GCDB. The effect of setting up the Fund has been to transfer "Assets" (outstanding loans and advances) to the CBG for cash - most of which was used to retire re-finance obligations with the CBG. Funds not so required have been used to meet outstanding debts and to provide deposits at the CBG in compliance with statutory reserve and other requirements. The GOTG will service the Fund from its Budget and repayments will be effected over a 40 year period after 10 years of grace. Whilst this arrangement strengthens the GCDB it weakens the asset position of the CBG and places further calls on the limited financial resources of the GOTG.

The banking sector had, by 1985, reached a stage where little if any effective control was being exerted by the CBG. The virtual insolvency of the GCDB and its failure to comply with its local asset and reserve requirements, or meet its credit ceilings, left the CBG in a situation where it seemed to be largely irrelevant. The CBG set credit ceilings on a quarterly basis and each quarter the GCDB broke the ceilings. The CBG also set statutory requirements in regard to the maintenance of reserves under Section 36 of the Central Bank of The Gambia Act and of liquid assets under Section 14 of the Financial Institutions Act, but the GCDB did not comply with such directions. Sanctions were not applied to banks not meeting such requirements on the basis, it would appear, that some banks should not be obliged to pay penalties when the GCDB could not pay unless it borrowed more money from the CBG. This impasse was reached largely because the GCDB argued that it was either lending money on GOTG instructions or acting in the "national interest." This latter argument was particularly effective in regard to re-finance for groundnut purchases and the CBG did little if anything to exert control over banking operations.

The GOTG recognizing these serious fiscal and monetary problems, moved in 1985 to adopt the ERP, a comprehensive set of adjustment measures to help restore financial equilibrium. The flexible exchange rate for the Dalasi was the first innovation of importance to the banking system and all banks were either sceptical about its purported benefits or were antagonistic to its introduction. The banking system had become largely irrelevant to the foreign exchange market but it was reluctant to permit the exchange rates to move very much because of the potential social consequences (price increases). It was several months before banks recognized the benefits of the new exchange rate system and allowed the exchange rate to move upward to reduce demand pressures and allow market forces to allocate foreign exchange.

The new exchange rate arrangements created a significant problem for the CBG, however, by virtue of the existence of pipelines of public and private sector external payments arrears. These pipelines had come into being prior to the devaluation of the Dalasi in 1984 when the rate was moved from D4 to D5 to the Pound Sterling. The pipelines continued to grow up to the time of the float. The CBG had been committed to contributing one Dalasi for every four Dalasis in the commercial pipeline prior to devaluation. Of more significance for the CBG, however, was the GOTG pipeline of official external arrears. Budgetary allocations had been made for such external obligations and the Dalasis, at the official exchange rates, were lodged with the CBG pending availability of foreign exchange. The CBG is now required to make payments "out of the pipeline" from time to time and at prevailing exchange rates but without the benefit of further Dalasis from the GOTG to make up the difference. The result is that the CBG has no foreign reserves to speak of and has an almost insupportable burden of liabilities arising from the floatation of the currency.

The decapitalization of the CBG which was caused by the floating of the Dalasi and the subsequent settling of The Gambia's arrears to the multilateral organizations, primarily the IMF, constrains its ability to instill confidence in business about the stability of the exchange rate. This situation is being aggravated by some of the conditions being imposed under the IMF and IBRD programs however necessary they may be for restructuring. For example, under the IMF Stand-by Arrangement, the GOTG is committed to eliminate its borrowing from the banking system. Thus, a major source of Central Bank revenue, the interest on its advances to Government, will disappear. Moreover, the Managed Fund created at the suggestion of the World Bank has further eroded the Central Bank's asset position. By contrast, the Central Bank's liabilities have not been correspondingly reduced. Indeed, because of exchange rate losses, its liabilities have increased substantially. For example, as of October 1986 the CBG faced a 311 million Dalasis loss in foreign exchange, the equivalent of some thirty years' annual profits earned during periods of relatively high GOTG borrowing. Until these continuing problems are solved,the CBG will not have sufficient capital and reserves to sustain the momentum of the financial reforms which have already been implemented and to prevent adverse speculation against the Dalasi.

A summary of the CBG's losses is set out hereunder:

1984		D (M)
February 24	Losses resulting from the devaluation of the Dalasis from D4=PDS1 to D5=PDS1	25.2
June 30	Valuation adjustment payable to IMF	43.3
June 30	Bi-annual revaluation losses	4.3
December 31	Bi-annual revaluation losses	6.9
1986		
February 6	Losses resulting from floating exchange rate	213.7
October 29	Sundry revaluation losses 1984-1986	17.6
	Total:	311.00

PDS = Pounds Sterling

SOURCE: Central Bank of The Gambia

The introduction of the interbank market has had a major impact on both the supply of foreign exchange which is flowing through the banking system, and on the rational allocation of the available supply according to market forces. It has not promoted private investment, however, nor relieved the acute shortage of foreign exchange available to the CBG as international reserves. The CBG thus does not have foreign exchange reserves sufficient to guarantee the flow of essential inputs, to remain current in meeting its external obligations, let alone prevent the speculative depreciation of the Dalasi. Consequently as the CBG must use its scarce foreign exchange resources for the first two purposes, it is unable to prevent fluctuations in the the Dalasi which causes instability in the economy and, by adversely affecting the domestic price of imported goods, fuels inflation. For example, because traders are uncertain of future exchange rate movements they include in their cost calculations an extra margin to guard against unfavorable exchange rate movements. If the exchange rate changes rapidly, as has been happening in The Gambia during the past year, and if the CBG lacks the resources to dampen speculative activity, traders and investors will increase their risk margins, which, in turn, will increase prices and encourage speculation and inflation. These higher costs are then passed on to the consumers, which in the case of agricultural inputs is the farmer. Alternatively the private sector withdraws from the market, leaving parastatal organizations to provide services on a non-commercial basis which ultimately becomes a charge on the GOTG, wasting scarce financial resources.

While the floating exchange rate has encouraged the flow of foreign exchange back into the banking system it is still necessary for the GOTG to refrain from operating through the CBG in the inter-bank market to any significant extent. This restraint is necessary to show the business and banking community that if they sell foreign exchange in the interbank market they will also be able to buy in that market and all foreign exchange will not be appropriated by Government. In this way it is hoped to build up confidence in the market. However other supportive actions had to be taken to encourage the flow of foreign exchange into the inter-bank market. Parastatals (except Gamtel and GPMB which are authorized to retain limited foreign exchange balances) were instructed to repatriate all foreign exchange balances and the CBG also prescribed maximum working balances for banks. Commercial banks with any foreign exchange in excess of such limit are obliged to sell the excess to other banks or the CBG. The essential GOTG requirements have been met in this way or, on occasion, by direct requests to banks.

The imposition of the credit ceilings led to banks refusing to accept deposits which could not be profitably utilized. This is obviously an adverse factor to be overcome if businessmen are to be persuaded to repatriate and sell surplus foreign currency. There is little use having higher interest rates in The Gambia if proceeds of sale of foreign currency cannot be invested even in the short term. The CBG responded to this situation by introducing a twice-monthly tender for GOTG Treasury Bills. Under this system interested investors are invited to submit tenders for their Treasury Bill requirements and at the discount rate that they require. The CBG considers all tenders after closure, and accepts those which are offering acceptable market rates.

The CBG now plays a pivotal role in helping to meet all official multilateral debts as they fall due as well as meeting obligation under rescheduling arrangements. It is currently involved in the many bi-lateral negotiations made necessary under the Paris Club agreement.

During the past twelve months close and useful working relations have developed between the MOFT and the CBG. The CBG now participates in the workings of the Foreign Exchange Allocation Committee which controls departmental demands for foreign currency. There are presently two expatriate bankers provided to the CBG under UK technical assistance one of whom is General Manager. An Adviser for Foreign Exchange also has been provided under IMF technical assistance for twelve months and his term has been renewed for six months to July 1987.

2. <u>The Gambia Commercial and Development Bank</u>

The GCDB was established by Act of Parliament in 1972, with its principal objective being to assist in the economic development of The Gambia by promoting trade, industry, agriculture, fishing, mining, public works, communications, public utilities and tourism through the provision of commercial and development banking services. The GOTG holds the major shareholding with the GCU and

GPMB being the other original shareholders. In June 1985, paid up capital was increased to D5 million. The bank grew very rapidly and accounted for almost all of the growth in commercial bank lending during the period from 1979 to 1983. Its operations have been unsatisfactory and the GCDB has been virtually insolvent for some considerable time.

In addition to its capital, the GCDB has raised funds by borrowing both locally and overseas, by floating development bonds and by accepting deposits. Over half of the funds utilized by the bank at the end of 1986 had been borrowed under re-finance arrangements from the CBG. The GCDB was also the recipient of an IDA (World Bank) credit which was to be used partly to finance small and medium scale enterprises including those in the rural sector, partly for staff training and partly to meet some of the construction costs of a new office building.

The state of the GCDB results from operational and structural difficulties and from interference from GOTG. Despite the fact that the bank has been in existence for some fifteen years it has yet to formulate development lending policies and procedures. Staff have no formal guidelines to help them identify, prepare or appraise development projects and no objective set of criteria has been formulated to assess loan proposals. It is obvious that many loans granted by the GCDB were not subjected to proper assessment and the applicants were not vetted for credit-worthiness.

The undisciplined management, operational systems inefficiency, and unproductive investments of the GCDB during the last five to six years wasted scarce financial resources and were a major contributing cause of the financial crisis that developed in The Gambia. Under instruction from the GOTG, the GCDB lent considerable sums for development works on the security of Government guarantees. These loans were not properly monitored nor were repayment arrangements enforced. In addition the GCDB provided finance to the agricultural sector and again little effort was made to supervise or recover such loans. Large sums of money were advanced to GCU for the purchase of groundnuts and other crops under re-finance arrangements with the CBG. Lack of supervision led to a succession of outstanding debts at the end of each season as loan moneys were applied to other uses and to working capital. Such accumulated debts resulted in a build up of long term arrears at the CBG and contributed significantly to the GCDB's liquidity problems.

In the past there has been a blurring of the distinction between normal commercial and development banking business. Concessional interest rates have been offered and loan irregularities have occurred because such financing has been provided for developmental purposes. This approach to banking activity has deprived the GCDB of both income and capital and led to the allocation of scarce resources for activities which were not necessarily of high priority. For example, crop finance has been provided to the GCU at concessional interest rates and such finance has been partly diverted to working capital and other activities. The seasonal activities of the GCU have been undertaken without due regard to costs and the proceeds of sales have been insufficient to pay off loans and meet interest charges. The GCDB has permitted loan arrears to be carried forward from season to season until such arrears became a significant contributing factor in its insolvency. The GOTG was finally required to pay off such debts thus subsidizing further the inefficient operations of the GCU. Not only have these actions caused a drain on GOTG resources but the hidden subsidies to GCU have made it impossible for private traders, operating under normal commercial arrangements, to compete more aggressively with GCU.

3. The Gambia Cooperative Union

The GCU has contributed significantly to the problems of the GCDB. The GCU was originally registered under the Co-operative Societies Act in 1959 as The Gambia Co-operative Central Banking and Marketing Union. It was renamed the GCU in 1971 when it was reorganized and most of its banking functions were transferred to the GCDB. The GCU presently distributes agricultural inputs though the Co-operative Produce Marketing Societies (CPMS) and is the largest purchaser of groundnuts as a licensed buying agent of the Gambia Produce Marketing Board (GPMB). Its operations are financed by borrowings from the GCDB, most of which is re-financed by the CBG. The GCU has been utilized as the main supplier of credit to the agricultural sector with loans being disbursed on GOTG instructions for subsistence credits and, to a limited extent, for crop production (seednuts and fertilizers). For several years medium-term loans for oxen and ox-drawn equipment were issued with IDA financial assistance. Poor records, lack of credit supervision and operational difficulties arising from multiple membership, together with drought conditions in some years resulted in very poor loan recoveries which in turn left GCU unable to honour its obligations to GCDB which was then unable to meet its re-finance obligations to the CBG.

The activities of the GCU pervade the agricultural sector. The GCU has provided preseasonal finance to farmers; it has monopolized the supply of agricultural inputs (fertilizer, seednuts) to farmers, and it receives favored treatment in regard to its groundnut buying operations. The proliferation of individual co-operatives has been justified on a "provision of better service" basis, whereas in fact the result has been to increase inefficiencies and costs and generally to impede the development of less costly and more efficient private sector activity.

In the past the GCU has retailed credit to farmers and been a source of free or heavily subsidized farming inputs such as fertilizers and seeds. The advances made were, in theory, recovered when farmers sold their crop to the co-operative at the end of the season. These arrangements provided the basis for strenuous buying operations in an endeavor to achieve the retirement of loans. In fact so much emphasis was placed on the buying operations that co-operatives were unable to evacuate groundnuts to GPMB depots, and excessive stocks of groundnuts accumulated at buying points with consequential increases in interest charges to GCU's account. Although some incentives are provided to farmers to sell their crop to GCU, loyalty is not strong and farmers will sell their crop to private traders in order to avoid making loan repayments. Thus buying activities tend to increase costs without necessarily achieving a satisfactory level of loan recoveries.

The groundnut buying operation is closely regulated and competition is limited by the GOTG determination of the "farm-gate" price which must be paid by private traders and GCU alike. The GPMB pays allowances to traders and the GCU for providing buying and other services and also pays a freight allowance to cover costs of delivery to its depots. These allowances are negotiated each year and are intended to cover overheads, operating costs, and provide a satisfactory return on capital. In fact, the real value of the allowances has steadily declined over the last few years as expenses have risen, and at best they now provide only a minimal return to efficient traders but do not cover the operating costs of GCU let alone provide any surplus. It should be noted that even though the GCU receives an allowance higher than that paid to private traders, it still is unable to achieve profitable trading.

Despite the state of insolvency of the GCDB and the poor repayment record of the GCU, the CBG still provides re-finance facilities to these institutions at the Bank Rate for the purchase of groundnuts. The GCDB is permitted to add 2 percent per annum to the interest rate to cover its "costs" and so the GCU finance is obtained at some 21-22 percent per annum at present compared with the 26 percent per annum charged to other licensed buyers by another commercial bank. The finance made available to GCU is theoretically based on an imprest system whereby a limited sum is provided for initial purchases and then as the season progresses further purchases are financed from sale proceeds received from the GPMB after groundnuts are delivered to its depots. In actual fact the GCU operates far too many buying points or "seccos" and concentrates on massive buying operations (to achieve loan repayments) early in the season rather than in evacuating the groundnuts to GPMB depots. The result is that borrowed funds are distributed to some 86 seccos - increasing the amount of cash in the till - and then tied up in excessive stocks of groundnuts which accumulate at the seccos due to inefficient handling and evacuation arrangements.

The GCU has operated inefficiently for years and has accumulated large losses and yet it was permitted during the current season to borrow excessive sums of money to continue to operate uneconomic seccos, to hold massive stocks of groundnuts instead of evacuating them to GPMB and thus most certainly achieve a further substantial operating loss. It will be unable to repay its advances from GCDB which will then have trouble repaying CBG and the whole unsatisfactory position lays the foundation for another "Managed Fund." The situation has not been improved by the detection of widespread embezzlement at about 80 percent of the seccos through fraudulent practices and the falsification of records last season (1985-86). The GOTG under its ERP is studying the requirements for agricultural credit which would involve decisions regarding the role of the GCU.

4. Measures To Reform The GCDB

The GCDB's financial position has been a matter of serious concern for some years and the IBRD has financed studies of its structure and operations with the view to achieving its rehabilitation. The agreement between the GOTG and the IMF and the IBRD provides for the payment of an overdue contribution to the GCDB's callable capital and an increase in its authorized share capital from D5 million to D50 million, and which will be opened to both foreign and domestic investors. The outstanding IDA credit will be converted to quasi-equity and, as already mentioned, a considerable portion of outstanding debt will be transferred to a Managed Fund. In tandem with these measures a major corrective program was to be undertaken with assistance from an international bank and financed by the World Bank. In fact these latter arrangements have been put in abeyance due to their high costs and the rehabilitation of the GCDB is being delayed. Nevertheless, the bank has taken a much more professional approach to its operations during the past year and loan recovery efforts have been intensified. Bookkeeping and management information systems have been improved and the GCDB is now able to provide the CBG with reasonably accurate statistics on a weekly basis.

While some significant improvements have been made, much remains to be done. Surplus and incompetent staff need to be retrenched and technical assistance and staff training will play a critical role in all departments. It will also be necessary for the bank to adopt a more competitive stance vis-a-vis other banks in the pursuit of profitable business. For example the GCDB has, at times, refused to follow the foreign exchange market trends and has maintained its rates at levels substantially below rates offered by other banks.

The GCDB's operations have a profound influence on the banking system and so it is essential to place it on a sound operational basis as quickly as possible. The GOTG must ensure that the rehabilitation process is quickly put into full operation and that a fixed period is set in which it must become viable or be closed down. Its continued operation according to past practices will further dissipate the financial resources of the GOTG and limit its development activities in other areas.

5. Standard Chartered Bank Gambia Limited

The SCB has been operating in The Gambia since 1906 and is a member of the Standard Chartered Bank Group which has extensive world-wide operations. It offers a full range of banking services and is concerned mainly with trade and business financing. The SCB does not involve itself in financing development projects and its agricultural finance operation is limited to the provision of working capital to licensed buyers of groundnuts. The SCB has achieved a strong deposit base and has at times refused to accept term deposits because it has been unable to utilize its funds fully. The SCB has relatively large holdings of GOTG securities and Treasury Bills and maintains considerable deposits at the CBG. While the SCB has not fully utilized its credit ceilings, such ceilings are an inhibiting factor in its overall operations.

The SCB is the major dealer in foreign exchange and in 1986 held approximately 50 percent of the commercial pipeline of external payment arrears in the private sector. It is the major participant in the inter-bank foreign exchange market and because its appetite for foreign exchange is greater than its supply it tends to be the leader in exchange rate adjustments.

The SCB has three expatriate officers, two of whom are the managing director and his deputy, and it is currently operating on a very profitable basis.

6. Banque Internationale Pour Le Commerce Et L'Industrie

The BICI has operated in The Gambia since 1968 and its main shareholder is the National Bank of Paris. A Gambian is the Chief Executive of the Gambian operation and he receives financial, administrative and technical support from the BICI head office in Dakar. The banking operations suffer from the same restrictions imposed on other banks by virtue of the credit ceilings and lack of sufficient foreign exchange. The bank obviously has close links with Francophone countries and it finances much of the trade between them and The Gambia and it conducts significant business in CFA francs.

The bank's operational procedures are relatively efficient and its computer-based records permit accurate and timely reports and statistics to be produced. A passing difficulty arises from time to time through the absence of the Chief Executive and the lack of delegation of decision making processes to anyone else. The BICI is also currently operating on a profitable basis.

7. Institutional Benefits to be Derived from the GEPRP

The brief outline of the banking industry provides some indication of the ineffectual and costly efforts made by the GOTG in its attempts to stimulate developmental and commercial activities in The Gambia. Considerable financial resources have been dissipated over a period of years through the various financial institutions which were established at intervals without proper planning and organization, which frequently duplicated services offered by existing institutions and operated without having any clearly defined policy objectives. The problems were compounded by GOTG directives which resulted in unsound financial practices and burdened institutions with large and unmanageable debts. Even the numerous studies which have been produced have been limited to specific areas of concern and have generally recommended some new institution should be created to fill some void.

A reform of GOTG policy is an essential prerequisite to any substantial improvement in the operations of the financial sector. For example, it is generally agreed that the GCDB must be reformed, and a recent study has recommended the establishment of a new National Co-operative Bank, and the creation of an Agricultural Credit Department within the CBG. But before any lasting banking reforms can be effected, the GOTG must address the basic economic and policy issues governing its approach to development. Given the limited financial resources of the GOTG and The Gambia it would appear that viable development projects may best be encouraged by placing more reliance on market forces than in the past. Should the GOTG wish to interfere with such forces then the costs of doing so should be clearly established, the method of interference should be clearly delineated, and the necessary finance provided to meet any shortfall from appropriate market returns. Therefore the establishment of firm policies and priorities in regard to agricultural credit and term lending will clarify the confused situation in the banking sector and will provide the basis for appropriate decisions in regard to the future of GCDB and the GCU as well as providing the guidelines for the future role of the other banking and credit institutions.

The conditions precedent for the second, third, and fourth disbursements provide a measure of urgency in grappling with the existing problems and moving to their resolution. The final disbursement will be dependent on the adoption of the policies formulated and the time span provided would seem both attainable and reasonable.

The continuing conditions pose few problems. The operational aspects are quite straight-forward and should pose no problems for the MOFT. These matters have no substantive institutional effect in and of themselves.

The requirement that all borrowings should be at market determined interest rates is not meant to pre-empt any policy decisions the GOTG might wish to make in regard to developmental activities or finance. The condition is meant to ensure that any type of developmental concession or subsidy should be properly and accurately calculated and the cost of such concession or subsidy be provided for either through budgetary allocations or some other specific source.

In summary, the implementation of the GEPRP policy measures will not strengthen nor rehabilitate any public entity, such as the GCDB or the GCU. Rather, the institutional benefits will be that they would of necessity need to perform in a commercial manner or go out of existence.

INITIAL ENVIRONMENTAL EXAMINATION

OR

CATEGORICAL EXCLUSION

Project Country: THE GAMBIA

Project Title: AFRICAN ECONOMIC POLICY REFORM PROGRAM (AEPRP)

Funding: LOP 3 yrs. FY (s) 87 - 90 $ 6 Million

IEE Prepared by:

Environmental Action Recommended:

Positive Determination ______________
Negative Determination ______________

Categorical Exclusion: Prepared by: Thomas J. Herlehy, Program Analyst
OAR/Banjul

This activity meets the criteria for Categorical Exclusion in accordance with Section 216.2 (c) (1)(i) and (c)(2)(vi). The proposed action will not significantly affect the environment.

Concurrence:
Bureau Environmental Officer
Bessie L. Boyd, AFR/TR/PRO

APPROVED X
DISAPPROVED ______________
DATE APR 29 1987

Clearance: GC/AFR ______________ Date 29 Apr 87

EXAMINATION OF NATURE, SCOPE AND MAGNITUDE OF ENVIRONMENTAL IMPACTS

1. Description of the Project

The AEPRP will support policy reforms designed to end subsidies to parastatal financial institutions, and to open markets so that private entrepreneurs can compete with parastatal enterprises on a more equitable basis. The cash transfer will be used to pay Gambian Government debts such as those Vamwean banks and the West African Clearing Center. The GOTG will put up an amount equivalante to to the cash transfer to stabilize, deepen and support the interbank foreign exchange market so as to increase confidence in the market and mitigate the effects on that market of the Gambia's large debt overhang.

Supporting the Government of the Gambia's policy reforms in its financial institutions will encourage a more equitable and economic allocation of scarce financial resources. Using the USAID. cash transfer to pay The Gambia's foreign debt and the GOTG funds to support the Interbank foreign exchange market will have no significant detrimental impact on the environment. It is anticipated that banks will use the Interbank foreign exchange market to ameliorate the foreign exchange risks arising from the fluctuation in the exchange rate.

2. Recommended Environmental Action

A categorical exclusion is recommended based on our analysis and the finding that no significant detrimental impacts are expected as a result of this program.

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PID A''.OVAL AND PAAD GUIDANCE CABLES

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SECTION 01 OF 02 STATE 079745

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E.O. 12356: N/A

SUBJECT: THE GAMBIA AEPRP (635-0228)

REFS: (A) STATE 034329 (B) BANJUL 545 (C) BANJUL 648
(D) BANJUL 730 (E) BANJUL 733 (F) BANJUL 753

1. PER REF (A), A.I.D./W APPROVED PAIP FOR THE GAMBIA AEPRP, SUBJECT TO RECEIPT OF CABLE FROM A.I.D./BANJUL LAYING OUT ADDITIONAL AND ACCEPTABLE POLICY REFORMS WHICH COULD BE LEVERAGED UNDER THE PROGRAM. REF (A) FURTHER INDICATED THAT SUCH POLICY REFORMS BE CONSISTENT, COMPATIBLE AND COMPLEMENTARY TO THE IMF AND IBRD PROGRAMS IN PROMOTING THE GOTG'S ECONOMIC RECOVERY PROGRAM.

2. FOLLOWING RECEIPT OF REFTELS (B) AND (C), PROJECT COMMITTEE WAS CONVENED BY AFR/PD/SWAP TO REVIEW POLICY REFORMS PROPOSED THEREIN; I.E., INVOLVING POLICIES AND PROCEDURES AIMED AT REFORMING TWO PARASTATALS, THE GAMBIA COMMERCIAL AND DEVELOPMENT BANK (GCDB) AND THE GAMBIA COOPERATIVE UNION (GCU) WHICH, ACCORDING TO A.I.D./BANJUL, ARE WASTING FINANCIAL RESOURCES, INHIBITING PRIVATE INVESTMENT AND CONSTRAINING PRIVATIZATION IN AGRICULTURAL MARKETS. PROJECT

COMMITTEE FELT THAT PROPOSED REFORMS MIGHT BE DUPLICATIVE OF THOSE BEING PURSUED UNDER WORLD BANK'S STRUCTURAL ADJUSTMENT CREDIT (SAC) PROGRAM. PC AGREED TO SECURE ADDITIONAL INFORMATION ON THIS QUESTION, WHICH HAS BEEN PROVIDED BY MISSION IN REF (D).

3. GIVEN INFORMATION PROVIDED BY A.I.D./BANJUL IN REFS (B), (C) AND (D), BUREAU PROPOSES THAT MISSION CONTINUE WITH PAAD DEVELOPMENT, TAKING INTO ACCOUNT THE FOLLOWING CONSIDERATIONS:

A. A.I.D. POLICY REGARDING ASSISTANCE TO PARASTATALS:

WE UNDERSTAND THAT NONE OF THE DOLLAR OR LOCAL COST RESOURCES WILL CONSTITUTE ASSISTANCE TO OR THROUGH THE

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PARASTATALS IN QUESTION. IF, HOWEVER, THE MISSION CONTEMPLATES ASSISTANCE TO THESE PARASTATALS IN THE FORM OF DOLLAR OR LOCAL CURRENCY RESOURCES, THEN THE POLICY GUIDELINES OUTLINED IN THIS SECTION (PARA 3.A.) WOULD APPLY.

THE A.I.D. POLICY PAPER ON PRIVATE ENTERPRISE DEVELOPMENT (REVISED), DATED MARCH 1985, AND PD-14 ENTITLED IMPLEMENTING A.I.D. PRIVATIZATION OBJECTIVES, DATED JUNE 16, 1986, PROVIDE POLICY GUIDANCE ON ASSISTANCE TO PARASTATAL ORGANIZATIONS. ESSENTIALLY, A.I.D. PROJECTS DESIGNED TO IMPROVE PARASTATAL PERFORMANCE MUST HAVE IDENTIFIABLE BENCHMARKS UPON WHICH SUBSTANTIVE PROGRESS TOWARDS DIVESTITURE CAN BE MEASURED. THESE BENCHMARKS MUST REPRESENT SUBSTANTIVE EVOLUTIONARY PROGRESS IN MOVING THE PARASTATAL TOWARDS MARKET-BASED OPERATIONS AND DIVESTITURE IN ORDER TO QUALIFY FOR A.I.D. ASSISTANCE. WITH SPECIFIC REFERENCE TO FINANCIAL INSTITUTIONS TARGETED FOR ASSISTANCE, A.I.D. PROJECTS SHOULD SEEK TO EXTRACT GOVERNMENT MINISTRIES AND PARASTATALS FROM ON-LENDING ACTIVITIES IF THEY ARE NOW SO INVOLVED. A.I.D./W UNDERSTANDS THAT THE GOTG AND IDA HAVE LAUNCHED A COMPREHENSIVE STUDY TO IDENTIFY MEANS OF BUILDING VIABLE, COMPETITIVE CONDUITS OF AGRICULTURAL CREDIT, INCLUDING PRIVATE CREDIT SOURCES. THE RESULTS OF THIS STUDY ARE EXPECTED SOON. SINCE THE GCDB IS THE MAJOR CENTER OF LOANS TO THE AGRICULTURE SECTOR AND THE GCU IS THE MAJOR SOURCE OF FARM CREDIT, BOTH ENTITIES SHOULD FIGURE PROMINENTLY IN THE STUDY CURRENTLY IN PROCESS. MISSION SHOULD REVIEW THIS STUDY IN REACHING DETERMINATIONS ON HOW BEST TO LEVERAGE A.I.D. RESOURCES FOR ADVANCING A TRANSITION FROM PUBLIC TO PRIVATE PROVISION OF CREDIT RESOURCES.

WITH SPECIFIC REFERENCE TO THE MARKETING ACTIVITIES RENDERED BY THE GCU, BOTH FOR AGRICULTURAL INPUTS AND CROPS, THE POLICY REFORMS IDENTIFIED BY THE MISSION ARE EXPECTED TO ENCOURAGE FURTHER PRIVATIZATION OF THESE SERVICES SINCE WITHOUT SUBSIDIZATION, THE GCU WILL NOT BE ABLE TO SUSTAIN A MONOPOLY OR NEAR MONOPOLY POSITION IN THESE AREAS. THE PAAD SHOULD ANALYZE PRESENT MARKETING STRUCTURES WHERE GCU IS ACTIVELY ENGAGED (E.G., FERTILIZER DISTRIBUTION AND GROUNDNUT MARKETING) AND INDICATE HOW THE POLICY REFORMS WILL IMPACT ON GCU'S MARKET SHARE VIS-A-VIS PRIVATE SECTOR FIRMS ENGAGED IN THESE MARKETS.

LIKEWISE FOR THE GCDB, THE PAAD SHOULD DEMONSTRATE THAT BY ADOPTING STRICT, NON-SUBSIDIZED COMMERCIAL PRACTICES FOR GCDB'S COMMERCIAL PORTFOLIO, PRIVATE BANKS WOULD LIKELY INCREASE THEIR SHARE OF COMMERCIAL BANKING ACTIVITIES IN THE GAMBIA. VIEWED FROM ANOTHER ANGLE,

ESE ANALYSES MUST SHOW A CLEAR RELATIONSHIP BETWEEN E PROGRAM'S REFORMS AND THE DEFACTO DIVESTITURE OF .OME OF ALL OF THE PARASTATALS' ACTIVITIES.

B. RELATIONSHIP TO OTHER DONOR PROGRAMS: WHILE REF (I) IS HELPFUL IN DIFFERENTIATING BETWEEN A.I.D. AND IDA INTERVENTIONS VIS-A-VIS THESE TWO PARASTATALS, THE PAAD SHOULD FULLY EXPLAIN THE NATURE, SCOPE AND EXPECTED IMPACT OF DONOR PROGRAMS ON THESE PARASTATALS. IT SHOULD BE MADE CLEAR THAT THE REFORMS ENVISAGED BY A.I.D. ARE, INDEED, SEPARABLE FROM OTHER DONOR PROGRAMS AND THAT SUCH REFORMS WILL SIGNIFICANTLY ADVANCE FINANCIAL STABILITY AND PRIVATE ENTERPRISE IN THE GAMBIA.

C. PROGRAM IMPLEMENTATION AND MONITORSHIP: THE PAAD SHOULD DEVELOP A CLEARLY DEFINED SET OF VERIFIABLE PROGRESS INDICATORS TO ENABLE THE MISSION AND GOTG TO TRACK PROGRESS TOWARD AND ATTAINMENT OF THE REFORM OBJECTIVES BEING SOUGHT. TO THE EXTENT THAT BASELINE DATA ARE REQUIRED TO PROPERLY MEASURE PROGRESS FOR SELECTED VARIABLES, SUCH DATA SHOULD BE PRESENTED IN THE PAAD OR A SCHEDULE LAID OUT FOR SECURING SUCH DATA. THE PAAD SHOULD ALSO EXPLAIN THE RESPECTIVE ROLES OF THE GOTG AND A.I.D./BANJUL IN EXECUTING AND MONITORING THE PROGRAM. A.I.D./W IS CONCERNED ABOUT THE ADMINISTRATIVE BURDEN ASSOCIATED WITH THE PROPER EXECUTION/MONITORING OF THIS PROGRAM, BOTH FOR THE GOTG AND A.I.D./BANJUL. THE MISSION MAY WANT TO CONSIDER UTILIZING LONG-TERM CONSULTANTS FINANCED UNDER THE ECONOMIC AND FINANCIAL POLICY ANALYSIS PROJECT TO HELP MEET THESE ADDITIONAL ADMINISTRATIVE REQUIREMENTS.

D. POLICY REFORM FOCUS OF AEPRP: BUREAU CONCERNED THAT MISSION MAY BE SPREADING ITS REFORM EFFORTS TOO THIN IN CONTEMPLATING REFORM IN THREE SEPARATE AREAS: THE FORWARD MARKET FOR FOREIGN EXCHANGE, GCDB, AND GCU. BUREAU THEREFORE REQUESTS MISSION TO NARROW ITS REFORM EFFORTS TO THE GCDB AND GCU, AND VIEW THE FORWARD MARKET PRIMARILY AS AN INSTRUMENT FOR TRANSFERRING FOREIGN EXCHANGE AND GENERATING LOCAL CURRENCY. THIS IS NOT TO SUGGEST THAT SELECTED CONDITIONS PRECEDENT AND/OR COVENANTS ASSOCIATED WITH THE ESTABLISHMENT AND OPERATION OF THE FORWARD MARKET SHOULD BE EXCLUDED FROM CONSIDERATION, BUT RATHER THAT THE POLICY REFORMS SOUGHT UNDER THE PROGRAM SHOULD FOCUS ON THE TWO PARASTATALS IN QUESTION.

E. INITIAL ENVIRONMENTAL EXAMINATION: MISSION SHOULD SUBMIT AN IEE SOONEST FOR REVIEW BY BUREAU'S ENVIRONMENTAL OFFICER. THIS WILL BECOME AN ANNEX TO THE PAAD.

F. NEW STATUTORY PROVISIONS APPLICABLE TO ESF CASH TRANSFER ASSISTANCE: STATE 52618 SETS FORTH GUIDANCE ON NEW STATUTORY REQUIREMENTS APPLICABLE TO ESF DOLLAR-DENOMINATED CASH TRANSFERS, SUCH AS THIS AEPRP. MISSION MUST GIVE CAREFUL ATTENTION TO THE DOCUMENTATION THAT WILL BE REQUIRED TO APPROPRIATELY ACCOUNT FOR BOTH

DOLLAR AND LOC C RENCY USES UNDER THE PROG M.

4. PAAD DEVELOPMENT: BUREAU UNDERSTANDS FROM
CONVERSATIONS WITH ACTING AID REPRESENTATIVE THAT WAYNE
KING AND JOHN BABYLON OF REDSO/WCA ARE PLANNING TO
ARRIVE O/A MARCH 22 AND REMAIN THROUGH MID-APRIL TO
ASSIST IN PAAD PREPARATION. WE ALSO UNDERSTAND THAT
DUNCAN MILLER WILL ASSIST IN FINALIZING PAAD. JAMES
DUSENBERRY OF HARVARD WILL ALSO PARTICIPATE DURING HIS
SPRING BREAK FROM HARVARD UNIVERSITY. BUREAU IS SEEKING
TO IDENTIFY CONSULTANT WITH BANKING EXPERTISE PER
WORKSCOPE OUTLINED IN REF (F). MOREOVER, JERRY WOLGIN,
AFR/DP, MAY BE ABLE TO INCLUDE A STOPOVER IN BANJUL IN
EARLY APRIL IN CONNECTION WITH ANOTHER SCHEDULED TRIP TO
WEST AFRIC SHULTZ
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SECSTATE FOR B. BURNETT, AFR/PD/SWAP AND LOIS RICHARDS, DAA/AFR/CWA

ABIDJAN FOR WAYNE KING, REDSO/WCA

E.O. 12356 N/A
SUBJECT: THE GAMBIA AEPRP (635-0228)

REF: (A) BURNETT-MAHONEY TELECON 3/6/87; (B) BANJUL 0648; (C) STATE 034329; (D) BANJUL 0254

1. WE UNDERSTAND FROM REFCON A THAT THE AID/W PROJECT COMMITTEE WHICH MET ON 6 MARCH 1987 HAS SOME RESERVATIONS ABOUT THE POLICY REFORM PACKAGE WHICH OAR/BANJUL PROPOSES TO LEVERAGE UNDER AN AEPRP FOR THE GAMBIA (SEE REFTEL B). SPECIFICALLY, WE UNDERSTAND THAT THESE RESERVATIONS REVOLVE AROUND THE FOLLOWING QUESTION: ARE OAR/BANJUL'S AEPRP POLICY REFORMS DUPLICATIVE OF THE WORLD BANK'S STRUCTURAL ADJUSTMENT CREDIT (SAC) POLICY REFORMS OR NOT? WE BELIEVE IT IS IMPORTANT TO ADDRESS THIS QUESTION SO AS TO EXPEDITE THE APPROVAL PROCESS AND TO ENABLE US TO MAINTAIN OUR MOMENTUM IN PUTTING TOGETHER THE PAAD.

2. FIRST, WE NOTE THAT BOTH THE IMF AND IBRD PROGRAMS ESTABLISH GENERAL MACROECONOMIC GOALS AND ENVISION STUDIES TO IDENTIFY SPECIFIC SECTORAL TARGETS AND MEASURES TO ACHIEVE THEM. DURING THE DISCUSSIONS WHICH TOOK PLACE AT THE ECPR HELD ON 23 JANUARY 1987, IT WAS SUGGESTED THAT WE RE-EXAMINE THE GENERAL THRUST OF THE IBRD AND IMF PROGRAMS, IDENTIFY A SECTOR OF REFORM, AND ELABORATE ON IT. HENCE WE SPECIFICALLY FOCUSED ON WHAT THE IBRD AND
IMF ARE DOING TO HELP ENCOURAGE PRIVATE ENTREPRENEURS TO INVEST IN PRODUCTIVE ACTIVITIES. AS INSTRUCTED IN REFTEL C, PARAGRAPH 4A, WE SET OUT TO DEVELOP A COMPLETE PACKAGE OF POLICY REFORMS THAT WOULD BE CONSISTENT, COMPATIBLE AND COMPLIMENTARY TO THE IBRD AND IMF PROGRAMS. THUS, AS NOTED IN REFTEL B, OUR AEPRP PROGRAM GOAL IS TO CREATE A CLIMATE CONDUCTIVE TO LONG-TERM GROWTH OF THE PRIVATE SECTOR; AND THE PURPOSE IS TO CREATE AN INVESTMENT ENVIRONMENT WITH GREATER FINANCIAL STABILITY THAT ALLOWS PRIVATE ENTREPENEURS GREATER AND MORE EQUITABLE ACCESS TO MARKETS.

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3. MOREOVER, WE MADE SURE THAT OUR PACKAGE OF POLICY REFORMS FITS INTO THE FRAMEWORK OF THE GAMBIA ECONOMIC RECOVERY PROGRAM (ERP), SO THAT IT DOES NOT INCREASE THE TECHNICAL AND ADMINISTRATIVE BURDEN ALREADY BEING BORNE BY THE MINISTRY OF FINANCE AND TRADE (MOFT) AND THE GOVERNMENT OF THE GAMBIA (GOTG) AS NOTED IN REFTEL D PARAGRAPHS 1 AND 2, AND AS AGREED BY THE EOPR IN REFTEL C PARAGRAPH 4A.

4. SECOND, THE SPECIFIC POLICY MEASURES WHICH WE DELINEATED IN REFTEL B ARE LARGELY OUR OWN. THAT IS, WE NOTE THAT REGARDING THE GAMBIA COMMERCIAL AND DEVELOPMENT BANK (GCDB) THE DEVELOPMENT CREDIT AGREEMENT BETWEEN THE GOTG AND THE IBRD STIPULATES T[illegible] AS A CONDITION PRECEDENT TO THE DISBURSEMENT OF THE IBRD SAC, THE GOTG WILL ESTABLISH A GOVERNMENT-HELD MANAGED FUND FOR ALL GOVERNMENT GUARANTEED GCDB LOANS. IN ADDITION, THE GOTG HAS AGREED TO REDUCE NET GOTG INDEBTEDNESS TO THE BANKING SYSTEM BY 123 MILLION DALASIS, A LARGE PART OF WHICH IS OWED TO THE GCDB (AND WHICH REPRESENTS THE VALUE OF THE COUNTERPART FUNDS FROM THE IBRD SAC). THE IMF STAND-BY ARRANGEMENT CONTAINS THE SAME POLICY MEASURES FOR GCDB. WE HAVE INCORPORATED THESE MEASURES INTO OUR AEPRP AS THE FIRST STEPS TOWARDS FINANCIAL SECTOR REHABILITATION. BUT WE HAVE IDENTIFIED AND LISTED ADDITIONAL MEASURES WHICH ARE NOT PART OF THE IBRD OR IMF PROGRAM BUT WHICH WILL REINFORCE AND EXTEND THE RESTRUCTURING OF THE FINANCIAL SECTOR. PER REFTEL B THESE ARE: (A) GCDB DELINEATES ALL DEBTS AND ESTABLISHES A PLAN AND SCHEDULE FOR THEIR ELIMINATION; (B) GCDB DIFFERENTIATES BETWEEN ITS COMMERCIAL AND DEVELOPMENT SERVICES AND TRANSFERS THE COSTS OF THE LATTER TO THE GOTG BUDGET; (C) GOTG WILL NOT REQUIRE NOR REQUEST GCDB TO GRANT ANY FURTHER OVERDRAFTS TO THE GOTG AND/OR PUBLIC ENTERPRISES; (D) GCDB WILL ESTABLISH COMMERCIAL CRITERIA AND IMPLEMENT PROPER BANKING PROCEDURES FOR MAKING AND COLLECTING COMMERCIAL LOANS; (E) GCDB WILL IMPLEMENT MANAGERIAL AND ORGANIZATIONAL REFORMS IN LINE WITH PROPER BANKING POLICIES AND PROCEDURES; (F) GCDB WILL NOT GRANT PREFERENTIAL ACCESS TO CREDIT TO ANY INSTITUTION OR ORGANIZATION, PUBLIC OR PRIVATE; AND (G) GCDB WILL TAKE THE STEPS NECESSARY TO ENTER INTO A

PERFORMANCE AGREEMENT WITH THE GOTG.

5. REGARDING REFORM IN THE ALLOCATION OF CREDIT, BOTH THE IMF AND THE IBRD ONLY STIPULATE THAT AFTER A STUDY OF THE CREDIT SYSTEM IS COMPLETE, A PROGRAM OF POLICY MEASURES WILL BE DRAFTED AND IMPLEMENTED AFTER 1 MAY 1987. HOWEVER, NO SPECIFIC MEASURES HAVE BEEN IDENTIFIED TO DATE BY EITHER DONOR. THUS, ALL OF THE MEASURES SELECTED BY CAR/BANJUL CONCERNING THE GAMBIA COOPER E UNION (GCU) IN REFTEL B ARE BASED ON OUR OWN IDEAS FROM PREVIOUS STUDIES. THESE ARE: (A) A COMPLETE STAFF AUDIT OF GCU IS DONE AND, WHERE APPROPRIATE, LABOR REDUNDANCY NOTICES ARE PRESENTED FOR APPROVAL TO THE BOARD OF DIRECTORS FOR IMPLEMENTATION; (B) GCU DOES NOT RECEIVE PREFERENTIAL ACCESS TO CREDIT FROM THE GOTG BUT MUST BORROW AT MARKET-DETERMINED INTEREST RATES IN COMPETITION WITH OTHER ENTERPRISES; (C) GCU DOES NOT RECEIVE PREFERENTIAL ACCESS TO AGRICULTURAL INPUTS (SUCH AS FERTILIZER) WHICH ARE MADE AVAILABLE THROUGH DONORS, BUT COMPETES FOR THEM IN THE OPEN MARKET AT MARKET PRICES ALONGSIDE PRIVATE TRADERS; (D) GCU ENDS SUBSIDIZATION OF ITS SERVICES TO FARMERS AND OFFERS INPUTS AND SERVICES AT MARKET PRICES; (E) GCU DOES NOT RECEIVE ANY SUBSIDIES OR GRANTS FROM EITHER THE GOTG OR THE GPMB FOR ITS SERVICES; AND (F) GCU MAKES SUBSTANTIAL PROGRESS TOWARDS SIGNING A PERFORMANCE AGREEMENT WITH THE GOTG, WITH THE OBJECTIVE BEING FOR GCU TO OPERATE ON A COST-EFFECTIVE BASIS, ACCORDING TO COMMERCIAL PRINCIPLES..

6. WE HAVE DISCUSSED OUR PROGRAM WITH MS. B BRUNS, THE IBRD REPRESENTATIVE CURRENTLY IN THE GAMBIA TO CHECK ON GOTG PROGRESS UNDER THE TERMS OF THE WORLD BANK SAC. THE IBRD REPRESENTATIVE CONCURS THAT OUR AEPRP POLICY MEASURES SUPPORT AND REINFORCE THE THRUST OF THEIR PROGRAM, WHILE EXTENDING THE REFORMS SO THAT THEY COMPRISE A MORE COMPLETE AND COHERENT PACKAGE OF FINANCIAL SECTOR ADJUSTMENT.

6. WE HOPE THIS INFORMATION WILL ASSIST YOU AND THE PROJECT COMMITTEE (PC) IN YOUR DELIBERATIONS. WE STAND READY TO PROVIDE MORE DETAILS AS NECESSARY. PLEASE ADVISE OF PC DECISION ASAP.

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CLASS: UNCLASSIFIED
CHRGE: AID 02/27/87
APPRV: AMB:HOROWITZ
DRFTD: PROG:LOHERLIHY:JS
CLEAR: 1.AIDREP:BEHAEL 2
PRM:MAHONEY
DISTR: AID-4 AMB

AIDAC

FOR CAROL PEASLEY R/PD, AND LOIS RICHARDS, DAA/AFR/CWA

E.O. 12356 N/A
SUBJECT: THE GAMBIA AEPRP (635-0228)

REF:(A) STATE 034329; (B) BANJUL 0545

1.SUMMARY: IN ORDER TO ADDRESS ALL THE QUESTIONS SET OUT IN REFTEL A, CAR/BANJUL BELOW WILL EXPAND AND REFINE ITS INITIAL IDEAS TRANSMITTED IN REFTEL B. AS INDICATED IN REFTEL B, THE MISSION HAS HELD FURTHER DISCUSSIONS WITH PRIVATE ENTREPRENEURS AND WITH THE GOVERNMENT OF THE GAMBIA (GOTG) CONCERNING THE PACKAGE OF POLICY REFORMS TO BE LEVERAGED BY OUR AEPRP. BASED ON THOSE DISCUSSIONS AND A MORE INTENSIVE REVIEW OF THE CURRENT GOTG ECONOMIC RECOVERY PROGRAM (ERP) BEING SUPPORTED BY THE IMF AND WORLD BANK, WE HAVE DETERMINED THAT THE MOST EFFECTIVE WAY WE CAN PROMOTE ECONOMIC GROWTH IS TO HELP CREATE AN INVESTMENT ENVIRONMENT THAT HAS GREATER FINANCIAL STABILITY AND THAT ALLOWS PRIVATE ENTREPRENEURS GREATER AND MORE EQUITABLE ACCESS TO MARKETS. OUR STRATEGY TO ACHIEVE THIS GOAL INVOLVES SUPPORTING POLICY REFORMS IN THE SYSTEM OF CREDIT AND FINANCIAL INTERMEDIATION. THE PURPOSE OF THESE REFORMS IS TO END THE HEMORRHAGING OF TWO MAJOR FINANCIAL AND MARKETING INSTITUTIONS AND GIVE PRIVATE ENTREPRENEURS MORE EQUITABLE ACCESS TO INVESTMENT OPPORTUNITIES. END SUMMARY.

2. FIRST, WE WOULD LIKE TO DESCRIBE THOSE AREAS WHICH WE CONSIDERED SUPPORTING WITH AN AEPRP FOR THE GAMBIA BEFORE DEC NG ON OUR CURRENT COURSE. THE FY 1986 PROPOSAL WE SUBMITTED WAS DESIGNED TO PROVIDE BALANCE OF PAYMENTS SUPPORT TO THE GAMBIAN GOVERNMENT WHILE ENCOURAGING GOVERNMENT EFFORTS TO REGULARIZE RELATIONS WITH THE LARGEST PARASTATAL CORPORATION IN THE NATION, THE GAMBIA PRODUCE MARKETING BOARD (GPMB), AND TO SUPPORT GOVERNMENT EFFORTS TO REDUCE CIVIL SERVICE PERSONNEL IN THE MINISTRY OF AGRICULTURE. THE PURPOSE OF THESE MEASURES WAS TO HELP PROMOTE GREATER EFFICIENCY IN THE AGRICULTURAL SECTOR. THIS PROPOSAL WAS REJECTED BY AID/W, HOWEVER, BECAUSE THERE WAS INSUFFICIENT ATTENTION TO THE EVENTUAL PRIVATIZATIC OF AT LEAST SOME FUNCTIONS OF THE GPMB AND BECAUSE USE OF USG FUNDS TO FINANCE F GOVERNMENT SEVERANCE PAY WAS DEEMED INAPPROP IATE. THIS PROMPTED US TO EXAMINE THE GOTG

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ECONOMIC RECOVERY PROGRAM MORE CAREFULLY IN ORDER TO DISCOVER OTHER WAYS WE MIGHT OFFER SUPPORT.

3. AS WE BEGAN TO DEVELOP OUR FY 1987 AEPRP PROPOSAL, WE CONSIDERED SUPPORTING THOSE POLICY REFORMS DESIGNED TO LIBERALIZE AGRICULTURAL MARKETING, TO IMPROVE THE MINISTRY OF AGRICULTURE BY RESTRUCTURING SOME SERVICES AND PRIVATIZING OTHERS, AND TO END BOTH EXPLICIT AND IMPLICIT SUBSIDIES IN THE AGRICULTURAL SECTOR. A FORWARD MARKET FOR FOREIGN EXCHANGE WAS PROPOSED TO DISBURSE THE FUNDS. THE ADVANTAGE OF THIS APPROACH WOULD HAVE BEEN TO LEVERAGE SPECIFIC AGRICULTURAL SECTOR REFORMS WITH THE FINANCIAL RESOURCES AND MECHANISMS NEEDED TO INCREASE THEIR EFFECTIVENESS. THE DISADVANTAGES WERE THAT IT TOOK A PIECEMEAL APPROACH TO SOME SECTORAL PROBLEMS WITHOUT ELABORATING A SINGULAR PURPOSE AND STRATEGY AND THAT THE REFORMS WERE NOT INTERLINKED WITH THE FUNDING MECHANISM. THIS LED CAR/BANJUL TO CONSIDER A METHOD TO LINK THE REFORMS TO THE FUNDING MECHANISM SO THAT THEY WOULD BE MUTUALLY REINFORCING.

4. ONE APPROACH WHICH WE THEN CONSIDERED INVOLVED THE REVITALIZATION OF THE DOMESTIC MARKETING SYSTEM BY OPENING SPECIAL WINDOWS IN LOCAL BANKS IN ORDER TO PROVIDE FOREIGN EXCHANGE DIRECTLY TO PRIVATE ENTREPRENEURS TO IMPORT AGRICULTURAL INPUTS, TRUCKS AND RIVER LIGHTERS IN RETURN FOR GOVERNMENT REFORMS TO END PARASTATAL MARKETING MONOPOLIES AND CREDIT SUBSIDIES. THE ADVANTAGE OF THIS SCHEME WOULD HAVE BEEN TO IMPROVE THE EXISTING TRANSPORT FLEET INVOLVED IN AGRICULTURAL MARKETING WHILE ENDING INEQUITABLE AND INEFFICIENT GOVERNMENT POLICIES. THE DISADVANTAGES WERE THAT IT DIRECTED FOREIGN EXCHANGE TO SPECIFIC USERS AND PURPOSES INSTEAD OF ALLOCATING IT ACCORDING TO FREE MARKET FORCES, AND THERE WERE NO GUARANTEES THAT PRIVATE TRADERS WOULD PARTICIPATE IN MARKETING BECAUSE OF THE INEQUITIES AND LIMITED ACCESS EXTANT IN THE FINANCIAL MARKETS. THIS PROMPTED US TO CONSIDER MAKING CHANGES AT THE MACROECONOMIC LEVEL IN THE AREA OF FINANCIAL REFORM SO THAT PRIVATE INVESTORS WOULD ENJOY THE SAME OPPORTUNITIES AND OPERATE BY THE SAME RULES AS THE PARASTATAL INSTITUTIONS. THIS

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APPROACH PUTS THE ENTIRE FUND IN THE MOST STRONGLY MANAGED FINANCIAL INSTITUTION WHERE IT IS EASIEST MONITOR AND EASIEST TO RETRIEVE IF THE IDEA DOES N... WORK AS ANTICIPATED.

5. AS PART OF ITS ECONOMIC RECOVERY PROGRAM, THE GAMBIAN GOVERNMENT IS TRYING TO CREATE A POLICY ENVIRONMENT CONDUCIVE TO INCREASED PRIVATE ENTREPRENEURIAL ACTIVITY. AS NOTED IN THE AEPRP PAIP SUBMITTED TO AID/W IN DECEMBER 1986, SEVERAL MEASURES TO ACHIEVE THIS GOAL HAVE ALREADY BEEN IMPLEMENTED. AT THE SAME TIME, HOWEVER, FURTHER EFFORTS IN THE AREA OF FINANCIAL REFORM ARE NECESSARY BEFORE THE SUCCESS OF SECTORAL INTERVENTIONS CAN BE ASSURED. IN PARTICULAR, THE SCARCE FINANCIAL RESOURCES OF THE GAMBIA ARE BEING DI... ...ED BY TWO PARASTATAL FINANCIAL AND MARKETING INSTITUTIONS, THE GAMBIA COMMERCIAL AND DEVELOPMENT BANK (GCDB) AND THE GAMBIA COOPERATIVE UNION (GCU) LEAVING FEW FINANCIAL RESOURCES FOR PRIVATE BUSINESS. FURTHERMORE, THE INEQUITABLE RULES WHICH GOVERN THE FINANCIAL MARKETS ARE A MAJOR IMPEDIMENT TO PRIVATE INVESTMENT. THEREFORE, IN ORDER TO CREATE A MORE FAVORABLE INVESTMENT CLIMATE FOR PRIVATE ENTREPRENEURS IT IS NECESSARY TO STOP THE HEMORRHAGING OF THE FINANCIAL SECTOR WHICH IS OCCURRING AT THE GCDB AND GCU, AND TO PROMOTE STABILITY IN AND EQUITABLE ACCESS TO THE FINANCIAL MARKETS. OUR STRATEGY TO ACHIEVE THIS OBJECTIVE IS TO ENSURE THAT THE GCDB AND GCU OPERATE ACCORDING TO THE SAME POLICIES AND PROCEDURES AS THOSE GOVERNING PRIVATE COMMERCIAL ENTITIES, AND TO DISCOURAGE SPECULATIVE DEPRECIATION AGAINST THE DALASI THROUGH THE MECHANISM OF A FORWARD MARKET FOR FOREIGN EXCHANGE.

6. AT PRESENT BOTH THE GCDB AND THE GCU ARE INEFFICIENT AND HEAVILY SUBSIDIZED OPERATIONS. THE GCDB IS THE MAJOR CENTER OF LOANS TO THE AGRICULTURAL SECTOR, INCLUDING TO THE GCU. THE GCU IS THE MAJOR SOURCE OF FORMAL CREDIT FOR FARMERS. IT ALSO MARKETS FERTILIZER AND OTHER INPUTS AND BUYS GROUNDNUTS AND OTHER PRODUCE. BECAUSE OF UNDISCIPLINED MANAGEMENT, OPERATIONAL SYSTEMS INEFFICIENCY, AND UNPRODUCTIVE INVESTMENTS BY BOTH THE GCU AND THE GCDB, SCARCE FINANCIAL RESOURCES ARE BEING DISSIPATED. IN PARTICULAR, THE LOAN RECOVERY RATES FOR GCU AND GCDB HAVE BEEN SO LOW AS TO BANKRUPT THOSE INSTITUTIONS AND ONLY CONTINUED GOVERNMENT SUBSIDIES HAVE KEPT THEM OPERATIONAL. THESE SUBSIDIES ENABLE GCU TO DOMINATE MARKETING AND RESTRICT PRIVATE INVESTMENT IN MARKETING AND TRANSPORT EVEN THOUGH PRIVATE TRADERS ARE MORE EFFICIENT, AS DOCUMENTED BY SEVERAL INDEPENDENT STUDIES UNDERTAKEN BY USAID, THE FAO AND OTHER DONORS. HENCE, IN ORDER TO OPEN THE MARKET FURTHER TO PRIVATE ENTREPRENEURS IT IS NECESSARY TO IMPLEMENT POLICY MEASURES WHICH WILL ENSURE THAT GCU OPERATES BY THE SAME RULES PRIVATE BUSINESSES DO, AND THAT GCDB OPERATES ON A COST EFFECTIVE BASIS AS WELL.

7. POLICY REFORMS TO BE IMPLEMENTED REGARDING THE GCDB INCLUDE THE FOLLOWING:

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A) GOVERNMENT REDUCES ITS NET INDEBTEDNESS TO THE BANKING SYSTEM BY 138 MILLION DALASIS LARGE PART OF WHICH IS OWED TO THE GCDB. (THIS REPRESENTS THE VALUE OF THE COUNTERPART FUNDS FROM THE IBRD SAC.);

B) THE GCDB DELINEATES ALL ITS DEBTS AND ESTABLISHES A PLAN AND SCHEDULE FOR THEIR ELIMINATION;

C) THE GCDB ESTABLISHES A MANAGED FUND OF GOVERNMENT GUARANTEED DEBT WHICH WILL HELP RECAPITALIZE THE BANK AND PUTS INTO PLACE STRICT BANKING PROCEDURES ON THE MANAGEMENT OF THE FUND;

D) A COMPREHENSIVE PROGRAM TO IMPLEMENT MANAGERIAL AND ORGANIZATIONAL REFORMS IN GCDB WILL BE INTRODUCED BY TECHNICAL ASSISTANCE BEING PROVIDED THROUGH THE IBRD;

E) THE BANK WILL DIFFERENTIATE BETWEEN ITS COMMERCIAL AND DEVELOPMENTAL SERVICES AND TRANSFER THE COST OF ANY SUBSIDIES INVOLVED IN THE LATTER TO THE GOTG BUDGET;

F) THE GOTG WILL NOT REQUIRE OR REQUEST THE GCDB TO GRANT ANY FURTHER LOANS OR OVERDRAFTS TO THE GOTG AND/OR PUBLIC ENTERPRISES;

G) THE BANK WILL ESTABLISH COMMERCIAL CRITERIA AND

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IMPLEMENT PROPER BANKING PROCEDURES FOR MAKING AND COLLECTING COMMERCIAL LOANS;

F) THE BANK WILL NOT GRANT PREFERENTIAL ACCESS TO CREDIT TO ANY INSTITUTION OR ORGANIZATION, PUBLIC OR PRIVATE; AND

G) THE BANK WILL TAKE THE STEPS NECESSARY TO ENTER INTO A PERFORMANCE AGREEMENT WITH THE GOTG.

8. POLICY REFORMS TO BE IMPLEMENTED IN REGARD TO THE GCU INCLUDE THE FOLLOWING:

A) A COMPLETE STAFF AUDIT OF GCU IS PREPARED AND LABOR REDUNDANCY NOTICES, WHERE APPROPRIATE, ARE PRESENTED FOR APPROVAL AND IMPLEMENTATION BY THE BOARD OF DIRECTORS;

B) GCU DOES NOT RECEIVE PREFERENTIAL ACCESS TO AGRICULTURAL INPUTS (SUCH AS FERTILIZER) WHICH ARE MADE AVAILABLE THROUGH DONORS, BUT COMPETES FOR THEM IN THE OPEN MARKET AT MARKET PRICES ALONGSIDE PRIVATE TRADERS;

C) GCU DOES NOT RECEIVE PREFERENTIAL ACCESS TO CREDIT FROM THE GOTG BUT MUST BORROW AT MARKET DETERMINED INTEREST RATES IN COMPETITION WITH OTHER ENTERPRISES;

D) GCU ENDS SUBSIDIZATION OF ITS SERVICES AND OFFERS INPUTS AND SERVICES AT MARKET PRICES TO FARMERS;

E) GCU DOES NOT RECEIVE ANY SUBSIDIES OR GRANTS FROM EITHER THE GOTG OR GPMB FOR ITS SERVICES;

F) GCU MAKES SUBSTANTIAL PROGRESS TOWARDS SIGNING A PERFORMANCE AGREEMENT WITH THE GOTG, WITH THE OBJECTIVE BEING FOR GCU TO OPERATE ON A COST-EFFECTIVE, SELF-SUSTAINING FINANCIAL BASIS, ACCORDING TO COMMERCIAL PRINCIPLES.

9. POLICIES TO BE IMPLEMENTED IN REGARD TO THE FORWARD MARKET IN FOREIGN EXCHANGE INCLUDE THE FOLLOWING:

A) A FORWARD MARKET IN FOREIGN EXCHANGE WILL BE ESTABLISHED SO AS TO ENSURE THAT ENTREPRENEURS CAN LOCK IN THE RATE THEY WILL PAY FOR IMPORTS, AS ELABORATED IN THE PAIP SUBMITTED TO AID/W IN DECEMBER 1986;

B) THE FORWARD MARKET WILL BE THE MECHANISM BY WHICH USAID WILL DISBURSE THE $6 MILLION BEING PROVIDED UNDER THIS AEPRP AS THE CONDITIONS PRECEDENT NOTED ABOVE IN #7 AND #8 ARE MET;

C) THERE WILL BE NO DE JURE RESTRICTIONS ON THE OPERATION OF THE FORWARD MARKET; EITHER PUBLIC OR PRIVATE ENTREPRENEURS MAY CONTRACT FOR FORWARD COVER IN ANY AMOUNT.

10. CAR/BANJUL AND THE GOTG WILL MONITOR THESE POLICY REFORMS BY TRACKING THE FOLLOWING INDICATORS OF PROGRESS TOWARDS A VIABLE FINANCIAL SECTOR IN WHICH PRIVATE AND

PUBLIC ENTERPRISES OPERATE ON THE SAME BASIS BY THE SAME RULES:

A) FOR THE GOIB (1) AN IMPROVEMENT IN THE BALANCE SHEET I.E., AN INCREASE IN ASSETS AND DECREASE IN LIABILITIES; (2) AN EXPANSION IN DEPOSITS; (3) RECOVERY OF OUTSTANDING DEBTS IN THE MANAGED FUND; (4) INCREASE IN COMPETITION WITH OTHER BANKS AS THE MARGIN BETWEEN BORROWING RATES AND INTERESTS RATES ON SAVINGS NARROWS; (5) A SEPERATION OF THE DEVELOPMENT LOANS PORTFOLIO FROM COMMERCIAL LOANS; AND (6) AN IMPROVEMENT IN ITS DEBT/EQUITY POSITION.

B) FOR THE GCU: (1) AN IMPROVEMENT IN ITS PROFITS AND LOSSES STATUS; [illegible] AN IMPROVEMENT IN ITS [illegible]ETITIVENESS WITH THE PRIVATE SECTOR; (3) THE MAINTENANCE OF OR AN IMPROVEMENT IN ITS SHARE OF THE MARKET; AND (4) AN IMPROVEMENT IN ITS NET RECOVERY OF ALL CROP LOANS TO AT LEAST 95 PERCENT.

C) FOR THE FORWARD MARKET: (1) STABILITY IN THE FOREIGN EXCHANGE RATE; (2) A DECLINE IN INTEREST RATES; (3) A DECLINE IN THE GAP BETWEEN THE SPOT MARKET AND FORWARD MARKET RATE FOR FOREIGN EXCHANGE; (4) AN IMPROVEMENT IN THE AMOUNT OF MONEY FLOWING THROUGH THE FOREIGN EXCHANGE

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MARKET; AND (5) THE DEMAND FOR FORWARD COVER, I.E. IF THE PRICE IS TOO HIGH THERE WILL BE LOW DEMAND, AND IF THE PRICE IS TOO LOW THERE WILL BE EXCESSIVE DEMAND.

11. THE BENEFITS TO BE DERIVED FROM THESE REFORMS COMBINED WITH THOSE TO BE DERIVED FROM THE FORWARD MARKET ARE CLEARLY WORTH A 6 MILLION DOLLAR INVESTMENT. THE BENEFITS TO BE DERIVED FROM THE FORWARD MARKET MECHANISM HAVE BEEN DISCUSSED IN THE AEPRP PAIP. BY IMPLEMENTING THE REFORMS TO MAKE GCU AND GCDB OPERATE ON A COST-EFFECTIVE BASIS, THE GAMBIA WILL SAVE SCARCE FINANCIAL RESOURCES CURRENTLY BEING BLED OFF BY THESE INSTITUTIONS. AS GCU IS FORCED TO CEASE ITS INEFFICIENT, SUBSIDIZED OPERATIONS, PRIVATE OPERATORS WILL BE ABLE TO TAKE THEM OVER AND OFFER THEM AT A LOWER COST TO FARMERS, GENERATING SIGNIFICANT SAVINGS TO THE NATIONAL ECONOMY. ALREADY, IN RESPONSE TO EARLIER REFORMS, ONE MERCHANT IS BRINGING IN, ON A TRIAL BASIS, $100,000 WORTH OF AGRICULTURAL INPUTS FOR SALE PRIOR TO AND DURING THE NEXT PLANTING SEASON. INCREASING GCDB'S COMPETITIVENESS WILL HELP LOWER COSTS (I.E. INTEREST RATES ON LOANS) WHICH WILL IMPROVE EFFICIENCY IN SERVICES AND ENCOURAGE PRIVATE INVESTMENTS. AT PRESENT, FOR INSTANCE, STANDARD CHARTERED IS ABLE TO MAINTAIN A FIVE POINT SPREAD BETWEEN DEPOSIT INTEREST RATES AND LOAN RATES. THIS MARGIN SHOULD BE REDUCED AS GCDB BECOMES MORE COMMERCIALLY VIABLE.

12. THE MINISTRY OF FINANCE AND TRADE (MOFT), WHICH IS RESPONSIBLE FOR THE ERP, AND ESPECIALLY THOSE MEASURES RELATED TO FINANCIAL REFORM, WILL IMPLEMENT THESE POLICIES. USAID IS PROVIDING TECHNICAL ASSISTANCE UNDER ITS EPPA PROJECT (635-0226) WHICH WILL HELP THE MOFT IN THIS REGARD.

13. BECAUSE OF TIGHT DEADLINES WE ARE TAKING IMMEDIATE STEPS TO DEVELOP OUR PAAD BASED ON THESE IDEAS. PLEASE PROVIDE YOUR GUIDANCE ASAP.

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ACTION: AID-2 INFO : :

VZCZCDIC0623HL427 LOC: 158 151
PP RUEHJL 06 FEB 87 0147
DE RUEHC #4329/01 0370144 CN: 01152
ZNR UUUUU ZZH CHRG: AID
P 060412 FEB 87 DIST: AID
FM SECSTATE WASHDC
TO RUEHJL/AMEMBASSY BANJUL PRIORITY 9927
INFO RUEHAB/AMEMBASSY ~~ABIDJAN PRIORITY~~ 1274
BT
UNCLAS SECTION 01 OF 02 STATE 034329

AIDAC ABIDJAN FOR REDSO/WCA

E.O. 12356: N/A

SUBJECT: GAMBIA AEPRP (635-0228) PAIP REVIEW

1. AN ECPR WAS HELD ON 1/23/87 TO REVIEW THE SUBJECT PROGRAM GRANT. THE MEETING WAS CHAIRED BY DAA/AFR/WA LOIS RICHARDS AND WAS ATTENDED BY REPRESENTATIVES FROM AFR/PD, AFR/PRE, GC/AFR, PPC AND THE USAID MISSION (D. HERLEHY AND M. MCPHERSON).

2. THE ECPR APPROVED THE PAIP PROPOSAL SUBJECT TO THE RECEIPT OF AN ACCEPTABLE CABLE FROM USAID/BANJUL WHICH REVIEWS SUBSTANTIVE OPTIONS AND MORE CLEARLY DELINEATES THE PACKAGE OF POLICY REFORMS WHICH WILL BE LEVERAGED BY THE AEPRP. BECAUSE OF RESERVATIONS ABOUT ITS VIABILITY, THE FORWARD EXCHANGE MARKET SHOULD NOT BE MADE THE CENTERPIECE OF THE REFORM PROGRAM. ECPR ENCOURAGED BROAD RE-EXAMINATION OF POSSIBILITIES. THE CABLE SHOULD ARRIVE IN AID/W NLT END OF FEBRUARY AND WILL BE RESPONDED TO BY AID/W WITHIN TWO WEEKS. SPECIFICALLY THE CABLE SHOULD CONTAIN THE FOLLOWING ELEMENTS:

(A) A SHORT DESCRIPTION OF AREAS CONSIDERED FOR SUPPORT, ALONG WITH ADVANTAGES/DISADVANTAGES OF EACH.

ONCE AREA IS SELECTED, THE GENERIC TYPES OF POLICY REFORMS WHICH OAR/BANJUL ANTICIPATES WILL FORM THE BASIS FOR THE CONDITIONS PRECEDENT FOR THE TRANCHED DISBURSEMENT OF AEPRP FUNDS;

(B) HOW OAR/BANJUL AND THE GOTG WILL MONITOR THE PROGRESS OF THE POLICY REFORMS, PARTICULARLY, THE INDICATORS WHICH WILL BE USED TO MEASURE PROGRESS; THE PAAD WILL BE REVIEWED AND AUTHORIZED IN AID/W.

3. THE NEW AEPRP SHOULD BE DESIGNED TO SUPPORT THE REFORMS PROPOSED IN CABLE. THESE REFORMS SHOULD BE JUSTIFIED BY AN ANALYSIS THAT LINKS THE REFORM ACTIONS TO A SET OF PURPOSES AND GOAL WHICH THE MISSION WISHES TO SUPPORT. THE FORWARD FOREIGN EXCHANGE MARKET COULD THEN BECOME A MEANS OF DISBURSEMENT, RATHER THAN A CENTRAL OBJECTIVE OF THE PROGRAM.

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4. THE FOLLOWING ISSUES WERE ... KED BY THE PROJECT COMMITTEE ( ):

A ISSUE NO. 1: ARE THE ECONOMIC BENEFITS OF A FORWARD EXCHANGE MARKET IN THE GAMBIA SUFFICIENT TO JUSTIFY THE PROGRAM?

DISCUSSION: THE MISSION NOTED THAT, DESPITE THE IMPLEMENTATION OF A COMPREHENSIVE PROGRAM OF STRUCTURAL ADJUSTMENT OVER THE PAST 18 MONTHS, CONSTRAINTS STILL EXIST WHICH INHIBIT INVESTMENT IN PRODUCTIVE ACTIVITIES SUCH AS AGRICULTURE. THESE CONSTRAINTS INCLUDE: (A) INFLATIONARY EXPECTATIONS WHICH ARE ERODING THE VALUE OF THE DALA(ND WHICH ARE BE INCLUDED IN TRADER COST CALCULATIONS, THEREBY RAISING THE PRICE OF IMPORTS AND FUELING INFLATION EVEN THOUGH CURRENT INFLATION IS MUCH REDUCED FROM EARLIER LEVELS; (B) HIGH REAL INTEREST RATES WHICH ARE DISCOURAGING ENTREPRENEURS FROM MAKING THE INVESTMENTS NECESSARY TO INCREASE PRODUCTIVITY IN THE ECONOMY; AND (C) OTHER, AS YET UNIDENTIFIED CONSTRAINTS, WHICH MAY EXIST IN THE FINANCIAL MARKETS (CREDIT, TAXES, ETC.). TO RELIEVE THESE CONSTRAINTS, SO THAT ENTREPRENEURS ARE ENCOURAGED TO PARTICIPATE FULLY IN MARKET OPPORTUNITIES AND TO INVEST IN PRODUCTIVE ACTIVITIES, THE MISSION ARGUED THAT A FORWARD MARKET SHOULD BE ESTABLISHED AND COMPLEMENTARY POLICY REFORMS BE IDENTIFIED AND IMPLEMENTED. ESTABLISHING A FORWARD MARKET WILL REDUCE THE FOREIGN EXCHANGE RISK TO TRADERS BECAUSE FOREIGN EXCHANGE WILL BE PROVIDED ON A SECURE BASIS RATHER THAN ON A FLUCTUATING, AD HOC, DAY-TO-DAY BASIS AS IS THE CASE NOW. THIS WILL HELP REDUCE

INFLATIONARY EXPECTATIONS AND SPECULATIVE PRESSURE AGAINST THE DALASI. BRINGING STABILITY TO THE FOREIGN EXCHANGE RATE SHOULD ALSO HELP TO BRING INTEREST RATES DOWN BECAUSE INTEREST RATES INCLUDE A COMPONENT WHICH ALLOWS FOR EXPECTED INFLATION. REDUCING INTEREST RATES WILL HELP PROMOTE INVESTMENT. THE MISSION NOTED THAT ONCE THESE CONSTRAINTS ARE EASED, THERE MAY BE OTHER, AS YET UNIDENTIFIED, BOTTLENECKS TO INVESTMENT WHICH MAY ALSO HAVE TO BE ADDRESSED UNDER THIS AEPRP. THE MISSION EXPRESSED ITS WILLINGNESS TO STUDY FOREIGN EXCHANGE AND CREDIT MARKETS IN ORDER TO DETERMINE WHAT SUBSEQUENT STEPS MAY BE NECESSARY TO SUSTAIN THE FORWARD MARKET AND FURTHER ENCOURAGE INVESTMENT IN PRODUCTIVE ACTIVITIES. IT WAS AGREED THAT THE ECONOMIC RECOVERY PROGRAM FORMULATED BY THE GOVERNMENT IN JUNE 1985 SHOULD BE SEEN AS THE FRAMEWORK WITHIN WHICH FUTURE ADJUSTMENT MEASURES SHOULD BE CONSIDERED.

RECOMMENDATIONS: THE ECPR DISCUSSION RAISED SEVERAL

POINTS. FIRST, THE PROBLEM OF TRACKING THE IMPACT OF THE FORWARD MARKET WAS RAISED. THE MISSION RESPONDED BY NOTING THAT INDICATORS SUCH AS (A) THE CHANGE IN THE GAP BETWEEN THE FORWARD AND SPOT EXCHANGE RATES; (B) THE INCREASE IN FLOWS THROUGH THE FOREIGN EXCHANGE MARKET; (C) CHANGES IN INTEREST RATES; AND (D) DEMAND FOR FORWARD COVER COULD BE REGULARLY DETERMINED. HOWEVER, ADDITIONAL INDICATORS COULD BE DERIVED IN CONSULTATION WITH THE MINISTRY OF FINANCE AND TRADE (MOFT) AND CENTRAL BANK OFFICIALS. FOR PURPOSES OF PAAD DEVELOPMENT, THE MISSION WILL BE EXPECTED TO P PARTICULAR ATTENTION TO A PROGRAM EVALUATION PLAN WHICH TRACKS THE USE OF AEPRP FUNDS AND DEVELOPS A VIABLE SYSTEM FOR IMPACT MEASUREMENT. SECOND, THE ECPR NOTED ITS CONCERN OVER THE EXPERIMENTAL NATURE OF THE FORWARD MARKET, EXPRESSED SOME RESERVATIONS ABOUT ITS VIABILITY AND THEREFORE REQUESTED THAT THE FORWARD MARKET SHOULD NOT BE MADE THE CENTER PIECE OF THE AEPRP. IT WAS NOTED THAT THE FORWARD MARKET COULD BE A MECHANISM TO DISBURSE THE AEPRP FUNDS, BUT IT IS NOT A SUFFICIENT POLICY REFORM IN AND OF ITSELF. INSTEAD, THE PC WISHED TO SEE OTHER REFORMS BE MADE THE FOCAL POINT OF THE AEPRP SO THAT THE SUCCESS OF THE PROGRAM DOES NOT HINGE ONLY ON THE SUCCESS OF THE FORWARD MARKET. (FYI: SEVERAL POINTS ON THE POTENTIAL DEFICIENCIES OF THE FORWARD MARKET APPROACH WERE SUBMITTED BY STATE AND HAVE BEEN POUCHED TO MISSION.) THE MISSION RESPONDED THAT IN LIGHT OF CAR/BANJUL BAHL DISCUSSION WITH THE MINISTER OF FINANCE AND TRADE (REFTEL: BANJUL 254) ADDITIONAL POLICY MEASURES PRESENT NO PROBLEM TO THE GAMBIA

AUTHORITIES. THE MISSION URGED, HOWEVER, THAT ANY ADDITIONAL POLICY REFORMS ATTACHED TO THE AEPRP SHOULD BE CONSISTENT WITH THE ECONOMIC RECOVERY PROGRAM (ERP) OF THE GOTG. THE MINISTER ALSO URGED THAT THE CONDITIONS SHOULD TAKE ACCOUNT OF THE TECHNICAL AND ADMINISTRATIVE CAPABILITY OF THE MOFT IN LIGHT OF THE GOTG COMMITMENT TO MEET IMF AND IBRD CONDITIONS.

THE ISSUE WAS RESOLVED AS FOLLOWS: THE MISSION WILL SEEK TO IDENTIFY ANOTHER PACKAGE OF POLICY REFORMS THAT ARE CONSISTENT, COMPATIBLE AND COMPLEMENTARY TO THE IMF AND IBRD PROGRAMS, AND THAT THE FORWARD MARKET MAY BE USED AS THE MECHAN[ISM] TO DISBURSE THE AEPRP FUNDS, ASSUMING ITS FEAS[IBI]LITY IS ESTABLISHED DURING THE INTENSIVE REVIEW.

FINALLY, THE MISSION WAS ENCOURAGED TO EXAMINE CAREFULLY THE RECOMMENDATIONS CONTAINED IN THE ISSUES PAPER AS IT MOVES FORWARD WITH THE DEVELOPMENT OF THE PAAD.

B. ISSUE NO. 2: SHOULD THE FORWARD MARKET OPERATE FREELY OR SHOULD SOME RESTRICTIONS APPLY?

RECOMMENDATIONS: IT WAS NOTED THAT IAIP RECOMMENDED THAT ONLY TRANSACTIONS OF OVER DOLS. 200,000 WOULD BE PERMITTED. IT W[AS] AGREED THAT THIS AND ANY SIMILAR

RESTRICTION SHOULD BE ELIMINATED ON MARKET EFFICIENCY GROUNDS. DURING THIS DISCUSSION, IT WAS POINTED OUT THAT THE FY 87 CONTINUING RESOLUTION REQUIRES THE ESTABLISHMENT OF SEPARATE ACCOUNTS FOR ANY AID-FINANCED CASH TRANSFERS OF DOL. 5 MILLION OR MORE OBLIGATED ON OR AFTER FEBRUARY 1, 1987. IT WAS NOTED THAT AID/W POLICY ON USE OF SEPARATE ACCOUNTS FOR ESF FUNDS IS STILL BEING DEVELOPED AND THAT THERE IS ONLY A PRELIMINARY DRAFT AVAILABLE AT THIS TIME. AFR/PD WILL SUPPLY THE MISSION WITH THE FINAL GUIDELINES ADOPTED BY AID/W, FOR INCLUSION IN THE PAAI.

C. CONCERN NO. 1: SHOULD THE MISSION INITIATE A PROGRAM IN FOREIGN CURRENCY AND ECONOMIC RECOVERY WHEN ITS PRIMARY FOCUS IS AGRICULTURAL RESEARCH?

RECOMMENDATIONS: DAA/AFR NOTED THAT IT IS NOT NECESSARY FOR AEPRP TO BE IN THE SAME SECTOR AS THAT OF THE MISSION PORTFOLIO AND HENCE THIS IS NOT AN ISSUE WHICH REQUIRES RESOLUTION. THE MISSION POINTED OUT THAT, IN ANY CASE, CAR/BANJUL HAD A TWOFOLD PROGRAM THRUST INCLUDING BOTH AGRICULTURAL DEVELOPMENT AND ECONOMIC STABILIZATION AND REFORM, AS APPROVED IN THE FY 1985 AND

FY 1986 CDSS UPDATES. SHULTZ
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CLASS: UNCLASSIFIED
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APPRV: AMB:[illegible]
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CLEAR: AIDREP:[illegible]
DISTR: AID-4 AMB

AIDAC

FOR TOM [illegible], C/O A/SWA DAVE RYBAK, FROM AIDREP BAHL

E.O.12356 N/A
SUBJECT: AEPRP FOR THE GAMBIA - CONDITIONALITY

1. BOTH GOTG AND MISSION CONCUR IN ADDITION OF CONDITIONALITY ITEMS AS PART OF PAAD PREPARATION. MINISTER SISAY NOTED IN PHONECON WITH MALCOLM MCPHERSON THIS MORNING (I WAS IN MINISTER'S OFFICE AT THE TIME) THAT (I) THERE IS NO PROBLEM WITH ADDING CONDITIONS, (II) THAT THERE IS NO PROBLEM REGARDING GOTG WILL TO ACHIEVE THE CONDITIONS, AND (III) THAT THE ONLY PROBLEM IS TECHNICAL AND ADMINISTRATIVE CAPABILITY TO MEET THE CONDITIONS. THEREFORE, WE SHOULD TAKE CARE NOT TO STRAY FROM CORE PROGRAM THRUST INTO ADDITIONAL ADMINISTRATIVE MECHANISMS OR AREAS OF ENDEAVOR.

2. MINISTER SISAY EMPHASIZED THAT THE THRUST OF THE FORWARD MARKET AND ASSOCIATED POLICY CONDITIONS IS TO QUOTE DRAW THE PRIVATE SECTOR FULLY INTO THE AMBIENCE OF THE MARKET UNQUOTE. THE KEY CONTRIBUTION OF THE AEPRP TO DOING THIS IS TO ALLOW PRIVATE INVESTORS TO PLAN AHEAD. THE AEPRP HELPS THEM PLAN AHEAD IN TWO WAYS. THE FIRST IS TO PROVIDE FOREIGN EXCHANGE ON A SECURE BASIS RATHER THAN ON A FLUCTUATING, AD HOC, DAY-TO-DAY BASIS AS IS THE CASE NOW. THE SECOND IS TO CREATE THE POLICY CONDITIONS WHICH FURTHER SUPPORT PLANNING AHEAD - MAINLY THROUGH REMOVING BOTTLENECKS. THE MINISTER BELIEVES THAT IDENTIFYING AND REMOVING BOTTLENECKS THAT WILL ALLOW INVESTORS [illegible] ONTRACT OVER TIME ESTABLISHES THE LINE ALONG WHICH [illegible] CONDITIONS SHOULD BE SET.

3. PRIORITY WOULD BE GIVEN TO REMOVING BOTTLENECKS IN TH AGRICULTURAL AND, IF AGREED, CLOSELY RELATED PRODUCTIVE SECTORS. FOR EXAMPLE, AT PRESENT THE GAMBIA LACKS THE NUMBER OF TRUCKS NECESSARY TO HAUL THE GROUNDNUT CROP TO MARKET EFFICIENTLY, PRIVATE INVESTORS HAVE THE RESOURCES TO BUY TRUCKS, THERE AREN'T MANY OTHER INVESTMENT OPPORTUNITIES AND, ALL THINGS BEING EQUAL, PRIVATE INVESTORS SHOULD BE BUYING TRUCKS. THEY ARE NOT, HOWEVER AND ONE FUNCTION OF THE AEPRP WOULD BE TO REMOVE ANY POLICY RELATED OBSTACLES TO THEIR DOING SO - SUCH AS ENSURING THAT TRADING MARGINS ARE COMMERCIALLY VIABLE, HAULAGE RATES ARE EC[illegible]MIC AND THE LIKE. I SUGGESTED THAT ADDITIONAL BOT[illegible]LENECKS TO BE REMOVED WOULD INVOLVE

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MAKING THE GOVERNMENT'S AGRICULTURE MECHANIZATION SERVICE AND ITS SEED MULTIPLICATION UNIT EARLY TARGETS OF PRIVATIZATION (STUDIES HAVE ALREADY BEEN DONE), AND ENSURING THAT THE GAMBIA COOPERATIVE UNION IS GIVEN ANY ARBITRARY, UNECONOMIC TRADING ADVANTAGE. NEITHER MINISTER SISAY NOR CENTRAL BANK GENERAL MANAGER HUMPHRIES, WITH WHOM I ALSO SPOKE THIS MORNING OBJECTED TO THESE IN PRINCIPLE. THE MINISTER ALSO INDICATED TAKING SUPPORTIVE FISCAL POSITIONS AS BEING ANOTHER POTENTIAL AREA OF CONDITIONALITY.

4. RECOGNIZING THAT POLICY DEVELOPMENT AND IMPLEMENTATION IS A PROCESS OF CONSTANT ANALYSIS AND ADJUSTMENT, MINISTER SISAY SUGGESTED ESTABLISHMENT OF PRIORITY AREAS OF INVESTMENT FOLLOWED BY REGULAR, PERIODIC REVIEW TO SEE IF PRIORITIES WERE BEING MET AND, IF NOT MAKING POLICY ADJUSTMENTS.

5. BELIEVE ABOVE GIVES SUFFICIENT THEME AND SUPPORTIVE EXAMPLES TO GIVE REASON FOR CONFIDENCE THAT APPROPRIATE POLICY CONDITIONS WOULD BE DEVELOPED FOR INCLUSION IN PAAD IF TOMORROW'S ECPR RESULTS IN PID APPROVAL. MISSION WOULD PREPARE SOW'S FOR PAAD DESIGN ONCE IT SEES CONDITIONS ATTACHED TO PID APPROVAL.

6. 86 BANJUL 2694 PARA 4, DESCRIBES DEVELOPMENT OF TWO-FOLD PROGRAM THRUST INCLUDING BOTH (I) AGRICULTURAL DEVELOPMENT, AND (II) ECONOMIC STABILIZATION AND REFORM. APPROVED FY 1986 CDSS UPDATE WAS TRANSMITTED VIA 84 BANJU 1574 AND APPROVED FY 1985 CDSS UPDATE IN 83 BANJUL 229.

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Department of State

INCOMING TELEGRAM

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E.O. 12356 N/A
SUBJECT: FAA 121(D) CERTIFICATION

I, JIMMIE M. STONE, AID REPRESENTATIVE, USAID/BANJUL, CERTIFY THAT NO SAHEL DEVELOPMENT PROGRAM FUNDS WILL BE MADE AVAILABLE TO THE GOVERNMENT OF THE GAMBIA FOR DISBURSEMENT UNDER THE FOLLOWING PROJECT:

PROJECT NO.635-0231 AEPRP FOR TECHNICAL ASSISTANCE CODE A

HOROWITZ

5C(1) - COUNTRY CHECKLIST

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

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481; FY 1984 Continuing Resolution. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States government personnel or their dependents or from entering the United States unlawfully? NO

2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and NO
(b) the debt is not denied or contested by such government? NO

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

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

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

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

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

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

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

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? NO

15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? NO Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) NO

16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed NO

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

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

18. FY 1984 Continuing Resolution. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? NO

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

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

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest? NO

b. ISDCA of 1981, Sec. 725(b). If ESF is to be furnished to Argentina, has the President certified that (1) the Govt. of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interests of the U.S.? — N/A

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

5C(2) PROJECT CHECKLIST

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

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

A. GENERAL CRITERIA FOR PROJECT

1. FY 1987 Appropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project;	AID/W WILL SEND NOTICE BASED UPON ITS ESF BUDGET PROPOSAL FOR FY 87
(b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that amount)?	YES

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $100,000, will there be

	(a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?	YES YES
3.	FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?	THE GOVERNMENT OF THE GAMBIA HAS BEEN TAKING BOLD AND COURAG ACTIONS TO IMPLEMENT POLICY CHANGES VIA DECREE OR LEGISLATIV CHANGE, AS APPROPRIATE, SINCE JU 1985.
4.	FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973? (See AID Handbook 3 for new guidelines.)	N/A
5.	FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?	N/A

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

NO

N/A

ASSISTANCE WILL NOT ENCOURAGE REGIONAL DEVELOPMENT PROGRAMS.

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

a) ANTICIPATED GOVERNMENT POLICY RE FORMS SHOULD INCREASE TRADE;

b) POLICY INITIATIVES WILL FOSTER PRIVATE SECTOR INVESTMENT AND INVOLVEMENT IN ECONOMY;

c) REFORMS SHOULD MAKE THE GAMBIA COOPERATIVES UNION A MORE EFFICI AND EFFECTIVE INSTITUTION; AND REFORMS IN THE FINANCIAL SYSTEM SHOULD ENCOURAGE THE USE AND OPE TIONS OF SAVINGS AND LOAN ASSOCI TIONS;

d) POLICY MEASURES WILL DISCOURAGE MONOPOLY USE OF DONOR-PROVIDED I PUTS, AND ENCOURAGE COMPETITION MARKETING AND CREDIT SUPPLY;

e) POLICY CHANGES SHOULD IMPROVE TH TECHNICAL EFFICIENCY OF AGRICUL-TURE AND ESPECIALLY COMMERCE;

d) NO EFFECT ON LABOR UNIONS IS ANT CIPATED.

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

GOVERNMENT REFORMS WHICH WILL MAKE THE FINANCIAL SYSTEM MORE STABLE AN EFFICIENT SHOULD ENCOURAGE INVESTME IN GAMBIAN ECONOMY, AND US INVESTOR MAY PARTICIPATE. IMPROVING TRADING ENVIRONMENT MAY ALSO ENCOURAGE US EXPORTS, ESPECIALLY TEXTILES.

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9.	FAA Sec. 612(b), 636(h); FY 1982 Appropriation Act Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.	GOVERNMENT BUDGET (LOCAL CURRENCY) FUNDS SALARIES OF CIVIL SERVANTS WHO WILL BE INVOLVED IN POLICY MEASURES IMPLEMENTING AND MONITORING THIS AEPRP.
10.	FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	NO
11.	FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	N/A
12.	FY 1982 Appropriation Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?	N/A
13.	FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16? Does	YES

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[illegible] the project or program take into consideration the problem of the destruction of tropical forests? — N/A

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

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and — N/A otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

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

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

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

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than $100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character.

N/A

f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

N/A

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage

N/A

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

2. Development Assistance Project Criteria (Loans Only)

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

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

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

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic or political — THE ASSISTANCE WILL PROMOTE ECONOMIC STABILITY THROUGH STABILIZAT IN THE EXCHANGE RATE (VIA TH FORWARD MARKET) AND THROUGH

stability? To the extent possible, does it reflect the policy directions of FAA Section 102?	POLICY REFORMS IN THE FINANCIA SYSTEM. ENSURING ECONOMIC STA BILITY WILL PROMOTE POLITICAL STABILITY. (RE:FAA SECTION 10 UNKNOWN)
b. FAA Sec. [illegible](c). Will assistance under this chapter be used for military, or paramilitary activities?	NO
c. FAA Sec. 534. Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?	NO
d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?	N/A

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