Republic of the Gambia


Within the context of the UN Program of Action for

African Economic Recovery and Development

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THE GAMBIA'S EXPERIENCE IN THE IMPLEMENTATION OF THE
PROGRAM OF ACTION FOR AFRICAN ECONOMIC RECOVERY AND
DEVELOPMENT

BACKGROUND

Under United Nations classification, The Gambia is one of the Least Developed Countries (LDCs) with a population of 750,000 (end 1985). In mid 1985 per capita income was estimated at US $260.

The Gambian economy and hence its economic performance is heavily dependent on groundnuts production and exports. As a consequence, the factors of weather and export prices of groundnuts and groundnut products influenced to a large degree developments in the economy in the period of the 1970sand early 1980s. These factors have in one form or the other during these periods influenced achievements in the level of agricultural output, gross domestic product, export earnings, the balance of payments, revenues of government and incomes accruing to farmers. They have also influenced government's fiscal and other economic policies and the levels of public expenditure.

Although in the period between 1974/75 and 1982/83, the Gambian economy grew in real terms at about 1.8% per annum, negative trends set in as the circumstances of the economy worsen with the onset of persistent drought conditions, decline in the world market prices for groundnuts and worsening terms of trade. These adverse developments manifested themselves in acute shortages of foreign exchange, food deficits and inability by government to adequately meet its external obligations including servicing its increasing debt commitments.

These symptoms affecting the Gambian economy were similar to those affecting many of the countries in Sub-Saharan Africa. The increasing poor performance of African economies and the crisis that the continent was facing has been the subject of intensive and serious discussions resulting in the adoption of the African Priority Program for Economic Recovery (APPER) by the 21st Summit of the Heads of State and Governments of the OAU. Subsequently, the UN General Assembly during its special session in 1986 adopted a Program of Action for African Economic Recovery and Development, 1986-1990 (UN - PAAERD).
The main thrust of the UN-PAAERD (1986-1990) based on mutual commitment
and cooperation consist of two general elements:

(i) The determination and commitment of the African countries to
launch both national and regional programs of economic deve-
development as reflected in APPER.

(ii) The responses and commitment of the international community
to support and complement the African development efforts.

It is envisaged that the successful implementation of the Priority Program
which amongst other things gives emphasis to the development of the agricul-
tural sector and fundamental economic policy reforms will lay the foundation
for durable structural change, improve the levels of productivity and also
ensure the rapid recovery of the African economies whilst at the same time
enhancing long-term development prospects.

EXPERIENCE IN THE IMPLEMENTATION OF THE UN-PAAERD

THE GAMBIA'S ECONOMIC RECOVERY PROGRAM - 1986/87-1988/89

Prior to launching of the Economic Recovery Program in August 1985, The
Gambia like many developing countries pursued its national development
priorities and goals within the context of comprehensive development plans.
However, with the increased deterioration in economic circumstances and
setting in of very serious macro-economic imbalances which by their very
nature, resulted in plan implementation going off-track, it became imperative
to institute comprehensive programs to rehabilitate the economy for sustained
economic recovery and growth.

Also prior to the ERP, efforts were made to redress economic imbalances within
the context of IMF Standby Adjustment and Stabilization programs. Two such
programs were implemented in the period 1982/83 and 1984/86. However, despite
these efforts to adjust/stabilize the economy, The Gambia continued to
experience extreme budgetary and balance of payments difficulties which by
mid-1985 reached crisis level. By then foreign exchange earnings were so low
that the country could not meet the cost of domestic imports of essential
commodities like rice and petroleum and also meet the rising debt obligations.
The difficulties were further compounded by low production levels for cash and
food crops with the former reaching an all time low of 45,000 tonnes of marketed
output in 1984/85. The very serious food deficits were supplemented by food aid assistance from external donors.

A comprehensive diagnosis of the situation showed that the economy was facing structural bottlenecks which needed far reaching policy measures in order to deal with the crisis facing the economy and also achieve medium-term economic recovery. It was in this regard that The Gambia detailed an Action Program to serve as a framework for discussion with the International Donor Community on a joint strategy for sustainable economic recovery and growth. Following intensive consultations and in collaboration with the World Bank, the International Monetary Fund and the United Kingdom Overseas Development Administration, The Gambia's ERP was launch in 1985. The ERP is a comprehensive action strategy for overcoming the major imbalances in the economy over the short- and medium-term and laying the basis for sustained growth over the longer-term. Over the initial two years (1986-87) the program is designed to achieve:

- financial and balance of payments stability;
- maximum short-term expansion of output;
- elimination of major exchange rate and price distortions;
- curtailment and rationalization of the over-extended public sector; and
- creation of a climate conducive to the longer-term growth of the private sector.

In its Statement of Development Policy, the government outlined the long-term objective of the ERP which is to promote over a period of years sustained economic growth through progressive alteration in the structure of the economy. The Statement of Development Policy further outlined the direction to achieve this structural adjustment through:

- diversification of production and exports;
- increasing the degree of food self-sufficiency including increased consumption of traditional coarse grains;
(c) balancing the size of the public sector in line with the productive base of the economy;

(d) improving public investment planning in order to increase its productivity and ensure a proper balance with recurrent public outlays, and

(e) reforming the system of credit and financial intermediation to support the growth and diversification of the private sector.

To facilitate dialogue with the International Community, The Gambia presented its ERP aimed at reversing the economic deterioration to a Donor's Conference convened in London in September 1985. The donors accepted the program as an important and politically courageous set of policy adjustments. They also recognized that for this program to succeed, substantial short-term balance of payments support and a Paris Club rescheduling of The Gambia's external debt are critically important. Since the London Donor's Conference, the government has steadfastly adhered to its commitment in implementing the various measures of the ERP which have been further elaborated and refined into a time-bound and monitorable action program addressing the following major key areas amongst others:

I. Exchange Rate Reform

In order to introduce a realistic exchange rate for the efficient allocation of resources, a fundamental reform of the exchange system was implemented. A flexible interbank market system under which the exchange rate of the local currency, the Dalasi was permitted to float freely was introduced in January 1986. In support of this system, exchange control procedures were liberalized. The system since its introduction has been operating satisfactorily. It has increased the confidence of the private sector in the banking system with increased inflow of foreign exchange into the system. The thriving street operators in foreign exchange prior to the introduction of the system has abated drastically.

It is however recognized that an essential element for a flexible exchange rate system is a flexible pricing policy for key commodities in the economy whose prices are government-administered. Consequently, there has been a pass-through
The importation, marketing and pricing of such commodities like rice were also liberalized from a monopoly situation by the Gambia Produce Marketing Board to the private sector. Although initially prices rose dramatically as the private sector was adjusting to the new situation, the market has now stabilized with more certainty in the availability and price levels for rice.

II. Monetary and Credit Policies

In order to enhance adequate returns to assets held in local currency form, the government pursued a prudent credit policy stance and adopted a flexible interest rate policy. The latter was also meant to increase mobilization of domestic financial resources within the banking system. Interest rates were increased upwards and a weekly tender system for Treasury Bills introduced.

III. Agricultural Policy

The thrust of the policies and actions for the agricultural sector which accounts for a third of GDP and 85% of domestic exports and which will remain the principal engine of growth for the foreseeable future is to reverse its weak performance. Given its critical position in the success of the ERP, the government so far has implemented substantial increases in producer prices; improved the performance of the main credit institution - the Gambia Cooperative Union; reviewed subsidies on consumer foodstuffs (particularly on imported rice); and introduced an increasing measure of protection for domestic cereal producers with a view towards enhancing food self-sufficiency. Given the importance of an efficient Ministry of Agriculture towards improving the performance of agricultural production, the ministry is being restructured in order to define an appropriate and manageable focus for the ministry. Other policy measures implemented for increased agricultural production involved improvements in the availability and delivery of certified seed, increased application of fertilizer, focusing research programs on farming systems, cultural and cropping patterns and the development of integrated crop/livestock extension messages.
IV. Incentives for other productive sectors

To increase the economic base of The Gambia through the exploitation of the productive potentials available in fisheries, livestock, horticulture, tourism and manufacturing activities, a number of incentives packages have been implemented for these areas including revision of the Development Act with a view to improving its effectiveness as an investment incentive.

V. Public Administration

The government recognized the urgent need to restructure the public sector in order to improve its productivity and its capacity to implement the economic recovery program. It also recognized the need to bring the size of the public sector in line with the productive potential of the economy. It was in this regard that following a comprehensive review of the public sector that a large reduction in the number of public employees was instituted. The size of the civil service was reduced by 14% and a comprehensive administrative reform and staff development program launched. The thrust of these reforms is to reverse unproductive public service expansion and institute a smaller, adequately remunerated, better managed and better organized civil service. Service delivery and maintenance of productive assets will also be improved by instituting direct cost recovery policies.

VI. Public Enterprise Reform

To facilitate improvements in the performance of public enterprises, the government has already launched programs to:

(i) systematically divest government holdings in commercial sectors, and

(ii) increase the autonomy and accountability of public enterprises through the use of performance contracts. Three such contracts have already been entered into between government and three public enterprises.
VII. Public Investment Program

In order to meet the overriding objective of the ERP for the achievement of a substantial improvement in the productivity of public investments and ensure that recurrent cost implications of new investments are sustainable in the light of projected medium-term fiscal constraints, the government has revised its public investment program for the period 1986/87 to 1988/89 which has given emphasis to projects with net foreign exchange generation or saving potential; rehabilitation and maintenance projects; and long-term investments in education and basic health services to develop The Gambia's human capital. The government has also instituted the system of 3 year rolling investment programs.

Donor response in support of The Gambia's comprehensive and far-reaching program of economic reforms so far has come from the World Bank, the British ODA, the African Development Bank and the Saudi Fund, who have rendered financial support for the country's Structural Adjustment Program. The IMF has also rendered Standby Program, Structural Adjustment Facility and Compensatory Financing Facility financial resources. Other balance of payments support have been received from the Government of The Netherlands and the United States of America. The country has also been to the Paris Club for debt rescheduling. Most of these were commitments made during the London Donor's Conference held in September 1986.

The Gambia hopes that in response to the calls of UN-PAFED, the International Community will continue to give increased support to its courageous program for economic recovery. The government recognizes that although these policy changes are inducing a turn-around in the performance of the Gambian economy generally with the improvements registered in agricultural production, shift in confidence in the Dalasi with increased inflow of foreign exchange into the banking system, fall in overall base rate of inflation following a sharp rise in prices initially, which accompanied the devaluation of the dalasi, the reduction of fiscal deficits, the government's gradual ability to meet some of its external commitments, the hardships imposed on the general population could be mitigated through increased international financial support. The program of economic recovery can also be better sustained for achievement of the desired growth potential if the government's steadfast commitment to implementing the reform program is complemented by a high level of international financial support.