

INTERNATIONAL MONETARY FUND
AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

THE GAMBIA

**ADDENDUM TO THE JOINT STAFF ADVISORY NOTE ON THE SECOND POVERTY
REDUCTION STRATEGY PAPER**

Prepared by the Staffs of the International Monetary Fund
and the International Development Association

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I. BACKGROUND

1. **Evidence of satisfactory implementation of the strategy described in a Poverty Reduction Strategy Paper (PRSP) for at least one year is required for a country to reach HIPC completion point.**¹ The Gambian authorities produced two Annual Progress Reports (APRs) covering implementation of the first PRSP during 2002-03 and 2004, respectively.² The APRs and accompanying Joint Staff Advisory Notes (JSANs) were presented to the Fund and World Bank Executive Boards in April 2005 and June 2006, respectively. During 2006, the authorities prepared a new PRSP (PRSP2) which encompasses an APR for 2005. PRSP2 and the accompanying JSAN were issued to the Boards in June 2007.³ PRSP2 reviews implementation during the entire span of the first PRSP (2002–05), elaborates a comprehensive policy strategy for the medium term (2007–11), and responds to shortcomings identified in previous JSANs. Notably, it includes a detailed action plan to achieve macroeconomic and structural targets and links objectives more closely to the achievement of the Millennium Development Goals (MDGs), including costed and time bound interventions to achieve each MDG.

¹ The Fund's PRGF-HIPC Trust instrument stipulates that a member country must implement satisfactorily the strategy described in the PRSP for at least one year by the completion point as evidenced by an Annual Progress Report that has been issued to the Executive Board normally within the previous 12 months but in any case within the previous 18 months, and has been subject of an analysis in a Joint Staff Advisory Note also issued to the Executive Board.

² The first PRSP covered the period 2002–05.

³ See IMF Country Reports No. 07/307 and 07/308, or 40079-GM (World Bank).

2. **This addendum focuses on PRSP implementation during 2005, to complement the forward-looking focus of the JSAN on PRSP2.** The JSAN concentrated on strategic priorities, risks and challenges, and key implementation issues. This addendum is organized around four of the main themes of the first PRSP: (i) macroeconomic stability and effective public resource management; (ii) promotion of pro-poor growth and employment creation through private sector development, particularly in the rural agricultural sector; (iii) improved basic social services and infrastructure; and (iv) capacity building of local communities and civil society organizations (CSOs).

II. PRSP IMPLEMENTATION DURING 2005

3. **Performance fell short of original targets, but solid progress was made in PRSP implementation in 2005.** The macroeconomic environment continued to improve, and education and health indicators compared favorably with similar countries. Significant steps were taken to enhance public resource management and accountability, and focus group discussions were held in each of the country's eight Local Government Administrative Areas to assess the strengths and weaknesses of the PRSP and discuss how PRSP2 might be better tailored to the needs of poor communities. However, PRSP-related expenditures amounted to 24 percent of the budget, below the authorities' target of at least 30 percent. Also, the divestiture program made little progress.

A. Macroeconomic Policies and Public Resource Management

4. **Macroeconomic performance in 2005 was characterized by a stable exchange rate, low single-digit levels of annual inflation, and real GDP growth at a respectable 5 percent.** However, the fiscal basic balance recorded a deficit of 0.1 percent of GDP, compared to the original target of a surplus of 2.8 percent of GDP. Fiscal performance deteriorated on account of extra-budgetary expenditures in the first half of 2005 and a shortfall in revenues in the second half of the year (related to the closure of the border with Senegal for two months due to a dispute over tariffs for crossing the River Gambia by ferry). The authorities increased the retail prices of petroleum products to avoid subsidization by the budget, and instituted expenditure cuts in the second half of the year to partially offset the impact of the extra-budgetary spending that occurred earlier in the year. As was the case in 2004, a wider-than-targeted external current account deficit in 2005 reflected mainly the increased availability of external financing in the form of foreign direct investment and official concessional loans.

5. **PRSP2 acknowledges that the original macroeconomic targets for 2005 were not met, but this was largely due to the persisting after-effects of past policy slippages and lower donor support.** Slippages in the early-2000s led to a considerable increase in the public debt and to donors' disengagement following the interruption of the PRGF-supported program. The large debt service crowded out poverty reducing spending while shortfalls in PRSP-related external assistance meant that the bulk of PRSP projects were not implemented

as planned. A high attrition rate in the civil service due to uncompetitive salaries lowered capacity and further exacerbated implementation problems. However, lapses in fiscal discipline contributed to the crowding out of PRSP-related expenditures, and delays in addressing governance problems in the Central Bank of The Gambia (CBG) were an important factor in the PRGF-supported program remaining off-track.

6. **The problems that derailed the 2002-05 PRGF-supported program began to be addressed, including under a Staff-Monitored Program (SMP).** In particular, an Action Plan to strengthen internal controls at the CBG was approved by the CBG Board and began to be implemented. Also, a new CBG Act aimed at enhancing the operational independence of the central bank was promulgated and coordination between monetary and fiscal policy improved with the establishment of the Monetary Policy Committee on which the Department of State for Finance and Economic Affairs is represented. Other notable structural measures implemented in 2005 included the submission of audited government accounts for 1992–99 to the national assembly and the introduction of new codes for PRSP-related expenditures in 2006 budget (formulated in 2005) to improve the monitoring of such expenditures. An SMP designed to re-establish the country’s record of policy implementation with the Fund was successfully implemented during October 2005-March 2006.

B. Pro-Poor Growth and Employment

7. **The staffs recommend that the authorities give more focus to reforming the agriculture sector.** Lessons could be drawn from the relative success achieved in the other two PRSP-designated priority sectors, namely education and health. PRSP2 notes that a new agriculture sector strategy is under preparation, aimed at promoting pro-poor growth and employment in the rural sector through private sector development. Meanwhile, the pattern of public expenditure on agriculture in recent years does not appear consistent with sectoral objectives; between 2001 and 2005, the share of spending on extension services declined substantially while spending on inputs (e.g., fertilizers) increased. The staffs share the concern expressed in PRSP2 about under funding of extension services and agree that responsibilities for the supply of inputs be shifted to the private sector, and that the Department of State for Agriculture concentrate on providing public goods and services.

8. **The staffs reiterate their earlier recommendation that the authorities prepare a comprehensive rural development strategy.** As noted in the JSAN on the second APR, such a strategy should encompass agricultural development, employment creation, and improvement of health, education and physical infrastructure. It should also draw on the 2006 agricultural public expenditure review to translate the PRSP’s emphasis on agricultural research and extension and irrigation services into budgetary allocations.

9. **The staffs recommend an acceleration in the authorities’ divestiture program.** The sale of government’s shares in the Senegambia Hotel was the main achievement on the divestiture front during 2005. An attempt to privatize the public sector groundnut processing

plants during 2005-06 was unsuccessful. A mid-term review of the divestiture program undertaken in 2005 has made little difference to the operations of the Gambia Divestiture Agency.

C. Basic Social Services and Infrastructure

10. **The staffs support the focus of the new education policy (2004–15) on the quality of education.** The government implemented an extensive program on expanding infrastructure, teacher training and school materials. The number of girls that benefited from government scholarships substantially increased in 2005. Enrolment rates at the primary and secondary levels, especially for girls in rural areas, are reported to have risen considerably between 1998 and 2005. However, enrollment dropped in some areas for boys at the lower basic school level (grades 1–6), and poor test results have raised questions about the quality of education being provided. A public expenditure review for the sector carried out in 2002 is being updated to help improve the targeting of resources to priority areas; it will also inform the preparation of a ten-year education master plan.

11. **Addressing the high incidence of malaria and tuberculosis pose major challenges to the health sector.** The focus of policy under PRSP2 is access to quality health services for all citizens. Primary and secondary health care have expanded significantly, particularly the construction of health centers through donor financing. Moreover, investments in health centers have mostly been made in poorer regions. Expansion in the coverage of immunization services has lowered mortality rates significantly. Survey results show substantial reductions in both infant mortality and under-five mortality rates between 1993 and 2005. For example, the infant mortality rate fell from 137 to 75 per thousand live births over the period. However, high incidence of malaria and tuberculosis pose major challenges to the health sector. The focus of policy under PRSP2 is access to quality health services for all citizens.

D. Local Communities and Civil Society Organizations

12. **During 2005, local communities and civil society organizations participated actively in a government-led dialogue on development priorities and strategies.** With support from the World Bank and UNDP, a Strategic Planning Process and Community Scorecards were employed to gather the views of a broad range of stakeholders across the country. Participants included community leaders, religious leaders, representatives of civil society organizations, local government officials, and members of the national assembly. The output from these consultations informed the preparation of PRSP2.

III. CONCLUSIONS

13. **Maintaining fiscal discipline remains vital for achieving PRSP objectives.** Macroeconomic stability was sustained in 2005 and progress continued to be made on improving access to social services, especially in education and health. Less progress was

made in promoting rural development as the centerpiece of the authorities' pro-poor growth efforts and in the divestiture program.

14. **The staffs recommend that APRs be produced in a timely manner, and that lessons learned be better used to revise the strategy going forward.** Specifically, APRs should be used to update the medium-term macroeconomic framework as well as annual sectoral plans in order to provide more current benchmarks against which to measure performance. The staffs welcome the authorities' intention to produce the first APR on PRSP2 implementation (covering 2007) by mid-2008. This will allow lessons from the first year to inform the formulation of the 2009 budget.