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AND

INTERNATIONAL DEVELOPMENT ASSOCIATION

THE GAMBIA

**JOINT STAFF ADVISORY NOTE ON THE POVERTY REDUCTION STRATEGY PAPER
SECOND ANNUAL PROGRESS REPORT**

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

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I. OVERVIEW

1. **This Joint Staff Advisory Note (JSAN) reviews the second Annual Progress Report (APR) of The Gambia's PRSP.** The PRSP covers the years 2002 to 2005, and it was presented to the Boards of the World Bank and IMF in July 2002. The overall strategy was organized around five basic components: (i) macroeconomic stability and effective public resource management; (ii) promotion of pro-poor growth and employment through private sector development, particularly in the rural agricultural sector; (iii) improved basic social services and infrastructure; (iv) capacity building of local communities and civil society organizations (CSOs); and (v) strengthened multisectoral programs to reduce population growth, gender inequality, HIV/AIDS, malnutrition, and environmental degradation. The first APR covered the period from July 2002 to December 2003. It was presented to the Boards in April 2005. The second APR, with which this note is concerned, covers the period 2004, and it was finalized in March 2006.

2. **The preparation and monitoring of the PRSP and the APRs are done in a participatory and consultative manner.** The entire process is coordinated by the Strategy for Poverty Alleviation Coordinating Office (SPACO) under the Department of State for Finance and Economic Affairs (DOSFEA). The staffs recommend that the APRs be produced in a more timely manner, and that the PRSP process be better integrated with the government's budget preparation and policy making process. One possible option is to incorporate an analysis of poverty-related expenditures in the annual budget reports.

3. **The Gambia's first Annual Progress Report (APR) indicated that the progress in implementing the PRSP had been uneven.** The authorities made the most progress in increasing access to basic social services, but they did not achieve most macroeconomic targets, and preliminary data indicate that the share of poverty reducing expenditures fell. The first APR did not analyze in-depth private sector participation and employment creation in the agricultural sector. The Poverty Reduction Fund, which was to be the main instrument for building local capacity, was not implemented.

4. **The second APR acknowledges continued mixed performance in implementing the PRSP in 2004.** The macroeconomic environment improved, and the education and health indicators compared favorably with similar countries. However, the share of poverty reducing expenditures decreased further, the divestiture and decentralization programs experienced little progress, and the program supported under the Fund's Poverty Reduction and Growth Facility (PRGF) remained off-track. Monitoring and evaluation still need to be strengthened, particularly with respect to setting clear output targets and indicators. The APR identifies several reasons for the mixed performance: (i) large public debt service which crowded out poverty related expenditures; (ii) lack of capacity of the civil service, exacerbated by high attrition and turnover rates; (iii) reduced donor commitment; and (iv) delays in addressing governance problems, particularly with respect to the Central Bank.

II. PRSP POLICIES AND PROGRAMS

A. Macroeconomic Policies and Public Resource Management

5. **The APR appropriately characterizes macroeconomic performance in 2004 as positive, reflecting a significant improvement from the loose fiscal and monetary policies pursued in earlier years.** In particular, inflation fell from a peak of 21 percent in August 2003 to 8 percent by end of 2004, and the exchange rate stabilized. Fiscal performance improved significantly as a result of a successful revenue mobilization effort. However, the public debt continued to rise, reflecting in part sales of treasury bills by the Central Bank of The Gambia (CBG) to sterilize the impact of rebuilding international reserves. Interest rates remained high and interest payments on domestic debt alone accounted for more than 25 percent of government revenues and more than 30 percent of current expenditures. The staffs recommend that the authorities consolidate the recent macroeconomic gains and reduce the public debt through better control of public expenditures to allow interest rates to come down.

6. **The APR acknowledges that the original PRSP's macroeconomic targets for 2004 were not met, but this was largely due to exogenous factors.** The deviations from the PRSP targets for the fiscal balance, the current account, and money growth were largely due to large inflows of foreign capital, including official loans and grants and foreign direct investment. In this regard, the staffs recommend that future targets take into consideration foreign capital inflows.

7. **The APR alludes to but does not discuss the substance of governance problems at the root of monetary policy lapses at the CBG.** These problems included inadequate internal controls, questionable audit practices, and government interference in CBG operations. Tackling these problems is vital for sustaining the prudent macroeconomic policies that began to be implemented from late-2003. Recommendations by new external auditors who conducted re-audits of the CBG's accounts for 2001 and 2002 and special audits of foreign exchange transactions during 2000-03 provided the basis for an Action Plan to tighten internal controls that began to be implemented in 2005. The national assembly also approved a new central bank law in 2005 that aimed to provide a greater degree of independence to the CBG.

8. **The staffs recommend that the highest priority be placed on updating the public accounts.** This is a priority in the PRSP, and the APR indicates that some limited progress has been made. Greater resources allocated to the task and commitment to a clear timeline would facilitate clearing the large backlog in the government accounts. The ongoing implementation of the Integrated Financial Management Information System (IFMIS) and establishment of the Revenue Authority will be critical to improving public financial management. Such reforms will be sustainable only if their recurrent costs are adequately funded.

9. **The staffs recommend that a comprehensive assessment of civil service capacity be conducted.** Such an assessment should provide a basis for preparing a civil service reform program. Although a priority in the PRSP, the APR indicates that little progress has been made on civil service reform. A preliminary study on civil service attrition rates has been conducted, but it needs to be further expanded. Strong political leadership will be essential given the importance of civil service reform for the performance of the public sector.

10. **Declining share of poverty reducing expenditures critically undermines the PRSP process.** The APR appropriately notes the declining share, and identifies the large debt service as the main cause. However, the multidonor public expenditure reviews indicate a decline in expenditures on education and health as a share of total expenditures even when debt services are excluded. The authorities should increase the share of budget allocation for poverty reducing expenditures, and accelerate the updating of the public accounts in order to verify that increased allocations result in increased actual outlays. Continued investments in the social sectors will not be sustainable unless matching recurrent expenditures are provided.

B. Pro-Poor Growth and Employment

11. **The staffs recommend the preparation of a comprehensive rural development strategy.** It would facilitate greater strategic focus given that most of the poor are farmers in rural areas. A comprehensive strategy should encompass agricultural development, employment creation, and improvement of health, education, and physical infrastructure. The PRSP advocates such a strategy, but the

APRs fall short of assessing rural development in a comprehensive manner. Frequent changes in the top management of the Department of State for Agriculture have hampered efforts to develop such a strategy. The ongoing agricultural public expenditure review exercise could be used to analyze whether the PRSP's emphasis on agricultural research and extension and irrigation services have been matched by adequate allocation of public resources.

12. **The staffs advise that a comprehensive assessment of the investment climate be conducted.** Non-traditional exports stagnated in recent years, and total domestic exports averaged only 15 percent of imports if re-exports are excluded. The staffs believe that the planned Investment Climate Assessment is critical for identifying the key bottlenecks to private sector development and economic diversification. Some of the factors to consider are the judicial system, administration of land transactions, legislation and administrative procedures for businesses, and trade and investment promotion agencies. The planned Diagnostic Trade Integration Study (DTIS) is an opportunity to analyze and identify constraints to economic diversification. Horticulture and agro-processing would be some of the options to consider in a diversification strategy which takes advantage of the country's existing agricultural base. Opportunities to further develop tourism, reexport and transit trade, and light manufacturing could also be explored, including through greater regional integration.

13. **The staffs believe that the divestiture of the groundnut processing plants should be accelerated and conducted in a transparent manner.** The staffs agree with the APR that implementation of the divestiture program has been slow despite stated government intentions. Effective reform of the groundnut sector depends on withdrawal of direct government interests from the sector and promotion of market competition. The PRSP and the APR both emphasize the need to divest GGC, the groundnut deshelling operator. In addition, the staffs recommend the sale of government shares in GAMCO, the groundnut processing and marketing operator. The APR acknowledges that private sector participation in the supply of fertilizers and groundnut seeds has been minimal. In order to withdraw direct government interests from the sector, the authorities should gradually reduce such direct subsidized interventions in order to encourage private sector participation.

C. Basic Social Services and Infrastructure

14. **The staffs recommend prioritizing improvement of the quality of education.** This is in agreement with the APR. Enrolment rates compare favorably to other countries in West Africa, but the high failure rates in standardized tests indicate that the quality of education is still poor. The quality of education can be improved by strengthening training, supervision, and support of teachers, and increasing the supply of classroom materials. The recent practice of providing allowances for teachers working in rural areas contributed toward allocating qualified teachers in these areas. The proposed assessment of civil service capacity could include an analysis of the impact of low teachers' salaries. Non-formal and vocational education and technical

training should be made more demand driven, and the monitoring of their quality improved.

15. **The staffs recommend that primary health be given greater emphasis, and that the right balance be struck between the delivery of primary and tertiary health.** The staff recommends that the authorities put greater emphasis on primary services and preventive care. Preliminary data indicate that public expenditures in health have been decreasing in recent years, thus undermining PRSP programs. The key to improving health services is to further decentralize resources and responsibilities to regional units, particularly to the Divisional Health Teams, and to develop and expand community-based services. In contrast to the views expressed in the APR, quantitative and qualitative evidence indicate low drug availability, particularly in the rural areas. The staffs recommend that the authorities adapt a more transparent and competitive drug procurement process. As acknowledged in the APR, there is a need for a comprehensive strategy to address the lack of adequately trained and motivated personnel. The APR lacks information on the role of the private sector and on health sector financing and resource mobilization.

16. **The staffs agree with the APR that strengthening regulatory arrangements will improve infrastructural services.** The capacity and independence of the Public Utilities Regulatory Authority (PURA) could be strengthened through adequate staffing and fuller development of the regulatory framework. The staffs recommend that PURA should exercise more fully its regulatory mandate for the key utilities, such as by determining the level of tariffs. In general, the tendering process for infrastructure related licenses should adhere to open and competitive processes as outlined in the Gambia Public Procurement Act. In accordance with the PRSP, expansion of infrastructural services should target the poor. Therefore, the staffs recommend that expansion and rehabilitation of the major road networks should be complemented by a greater emphasis on feeder roads in rural areas.

17. **The staffs agree with the authorities that the National Water and Electricity Company (NAWEC) needs strengthening.** Lack of investment capital and managerial capacity seriously hamper efforts to improve the supply of electricity and water. The staffs recommend that the agenda for improving the operations of NAWEC include: (i) strengthening the legal regulatory environment, including PURA; (ii) strengthening the institutional oversight arrangement for NAWEC, possibly through public sector organizational restructuring; and (iii) bringing in private sector participation. Private capital infusion will allow for critical investments that are needed to improve generating capacity, distribution network and maintenance. However, private investors would need assurance of a robust and independent regulatory environment.

D. Local Governments, Communities, and Civil Society Organizations (CSOs)

18. **The PRSP emphasizes decentralization of public services and expansion of social development funds, but the APR indicates that implementation has been slow.** There has been little progress in decentralization of public services since the enactment of the Local Government Act in 2002. The staffs recommend the preparation of a country-owned implementation plan and a sensitization program which would build public expectations and create momentum. The Poverty Reduction Fund, a comprehensive social development fund, was the main instrument in the PRSP for supporting local communities and CSOs. The APR indicates that its operationalization still needs to be fully implemented. The staffs recommend improving the incorporation of the local participatory surveys such as the Participatory Poverty Assessments, Citizen Score Cards and the Service Delivery Surveys into the APRs.

E. Population, Nutrition, HIV/AIDS, Gender, and Environment

19. **The staffs agree with the APR that nutrition, HIV/AIDS and girls scholarship programs are some of the more successful PRSP programs.** The status of nutrition, vaccination and fertility rates has been progressing well, including consistent improvements in malnutrition. The HIV/AIDS infection rate recently decreased after years of gradual increase. The main challenges for these programs will be to sustain the successes achieved so far. The staffs recommend that the authorities continue to carry out intensive promotion of family planning methods and social marketing of condoms, particularly by targeting core transmitters. The increase in female enrolment rate, supported by a girls' scholarship program, is one of the key successes of the country's gender promotion programs. The staffs recommend an education outreach program for the general population for changing traditional views that limit opportunities for women and their access to resources.

20. **The APR lacks a comprehensive assessment of programs in population and environment.** The staffs recommend an assessment of the implementation of the National Population Policy. The recent decline in the fertility rate is an important achievement for the country as it is one of the most densely populated countries in Sub-Saharan Africa. The staffs also recommend a more comprehensive assessment of how the country has addressed environmental pressures, such as coastal erosion, salinization of tidal lands, and deforestation.

F. Monitoring and Evaluation

21. **The staffs recommend improving the timely availability of reliable data for the monitoring and evaluation of the PRSP.** The significant delays in producing the public accounts undermine monitoring of poverty related expenditures. The staffs recommend that APRs be produced in a more timely manner, better integrated into the budget process, and more fully utilized to update the PRSP. The

authorities are currently preparing the second PRSP covering the period 2007 to 2011. This is an opportunity to apply lessons learned from past implementation delays. The PRSP quantitative targets and indicators should be further developed and prioritized, particularly for outcomes. The staffs recommend fully operationalizing the poverty monitoring system. The staffs also recommend that the Central Statistics Department (CSD) place a high priority on finalizing the poverty analysis of the 2003 household survey data, and widely disseminating the data files. As indicated in the APR, it will be critical to implement CSD's institutional restructuring program based on the new Statistics Act (2005).

III. CONCLUSION

22. **A number of initiatives begun in the PRSP remain incomplete and would need to be further implemented in the new PRSP.** In the second PRSP, it will be critical for the authorities to consolidate the recent macroeconomic gains and reduce the public debt through fiscal discipline and continued improvement in public expenditure management. The staffs believe that a comprehensive strategy for developing the rural sector and diversifying the economy is the basis of a successful PRSP process. Promotion of the private sector will depend on accelerating the divestiture program and strengthening the regulatory regime. Good progress has been achieved in the education and health sectors, including nutrition and HIV/AIDS, and the next key steps will be to improve the quality of education services and to increase focus on primary and preventive health care. Further decentralization of public services and full implementation of the Poverty Reduction Fund are critical instruments for developing local communities and CSOs.

23. **The staffs recommend further institutionalization of the PRSP process as a comprehensive approach to overall public policymaking.** Greater integration with the budget process and continued public education programs are particularly needed. Improving monitoring and data remain a priority. Strong political leadership is critical to a successful PRSP process.

24. **Strengthened governance is a fundamental cornerstone of the PRSP process.** The staffs have worked closely with the authorities over the years in identifying governance weaknesses and putting in place appropriate measures. It will be critical for The Gambia to sustain ongoing efforts, especially in strengthening public expenditure management, the investment climate, and internal controls at the Central Bank. It will also be critical for the PRSP process to be open, transparent and participatory if it is to help identify governance problems. In this respect, free dissemination of information is critical and an independent media, supported by an enabling legal environment, is an essential participant in this process.