

INTERNATIONAL MONETARY FUND  
AND  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
  
THE GAMBIA

**POVERTY REDUCTION STRATEGY PAPER—ANNUAL PROGRESS REPORT  
JOINT STAFF ADVISORY NOTE**

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and the International Development Association

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**I. OVERVIEW**

1. **This Joint Staff Advisory Note (JSAN) reviews the first Annual Progress Report (APR) of The Gambia's PRSP.** The PRSP was finalized in April 2002 and presented to the Boards of the World Bank and the 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 PRSP included a multidimensional poverty analysis, an outline of a monitoring and evaluation framework, preliminary key performance indicators and targets, cost estimates of implementation, and an indicative financing gap. Although the PRSP provided a credible poverty reduction strategy, the Joint Staff Assessment at the time emphasized that the authorities should refine sectoral priorities, costing and monitoring, and strengthen the linkages between the strategy and the national budget.

2. **The Gambia's first PRSP APR, finalized in December 2004, analyzes the implementation of the strategy from July 2002 to December 2003.** The delay in preparing the report was due to the lack of capacity and resources, frequent personnel

turnover, and the need to address immediate macroeconomic difficulties during the period. The APR was prepared through a participatory process based on consultations with the public and private sectors and CSOs. The cabinet and the Inter-Departmental Steering Committee—the PRSP steering committee that comprises key government representatives—provided guidance and endorsed the report. The next steps should include wide public dissemination of the APR, including through regional workshops, and its submission to the national assembly.

**3. The APR indicates that The Gambia's progress in implementing the PRSP has been uneven.** Slow implementation mainly reflected low capacity, a lack of commitment, and poor prioritization of policies implemented in 2002-03. Among the five basic components, the authorities made the most progress in increasing access to basic social services. By contrast, they did not achieve most macroeconomic targets for 2002 and 2003. According to preliminary data, poverty-reducing expenditures fell. In addition, private sector participation and employment creation in the agricultural sector did not increase significantly, and such major initiatives as the Poverty Reduction Fund—designed to build the capacity of local communities and CSOs—were not implemented. The poverty rate likely increased during the first year and a half of implementation of the PRSP because of poor economic performance, particularly since the groundnut sector, with its high representation of the poor, experienced severe crop failures. The Millennium Development Goal (MDG) target for the percentage of people living on less than US\$1 per day is 27 percent by 2015, but this ratio increased from 54 percent in 1992 to 59 percent in 1998. Changes in the poverty rate will be confirmed once results from the 2003 household survey become available.

**4. The staff recommends that the authorities accelerate PRSP implementation by allocating more resources to poverty reduction programs, and by improving their monitoring and evaluation.** To this end, the authorities' priorities should be to (i) maintain sound macroeconomic policies to consolidate recent gains in lowering inflation, stabilizing the exchange rate, and rebuilding international reserves; (ii) increase the share of poverty-reducing expenditures, including on basic social services; (iii) strengthen public financial management and overall governance of public resources; (iv) promote private sector participation, particularly to make the agricultural sector more diversified and market-oriented; and (v) build the capacity of local governments, communities, and CSOs to create sustainable and accountable local development based on improved service delivery to the poor. Monitoring and evaluation should be strengthened through timely preparation of the APRs, improved reliability of data, greater refinement of indicators and targets, and more candid analysis of policy failures. Many of the staffs' recommendations would require donor support for their successful implementation. The staff believes that donor support is likely to be forthcoming if the authorities were to make a concerted effort to further strengthen the macroeconomic environment and the implementation of their poverty reduction strategy.

## II. PRSP POLICIES AND PROGRAMS

### A. Macroeconomic Policies and Public Resource Management

**5. Maintaining fiscal and monetary discipline will remain a critical priority.**

The authorities failed to achieve most of the PRSP macroeconomic targets for 2002 and 2003 because of inappropriate macroeconomic policies and crop failures. GDP declined by 3.2 percent in 2002 compared with the PRSP target of 6 percent growth. Fiscal deficits were larger than planned, and lax monetary conditions contributed to higher-than-targeted inflation rates. The dalasi depreciated substantially, and foreign exchange reserves did not accumulate as projected. These developments eventually led to The Gambia's unsatisfactory performance under the PRGF-supported program and its inability to complete a review of the program. However, economic performance has significantly improved since 2003 as a result of the recovery of the agricultural sector and substantially tighter fiscal and monetary policies. The recovery in output that started in 2003 when GDP expanded by 7 percent, continued in 2004 with a growth rate of 8 percent. In 2004, the basic fiscal primary surplus more than doubled to about 8 percent of GDP, and the rate of broad money growth was reduced by half compared with a year earlier. As a consequence, end-period inflation was reduced from 18 percent in January to 8 percent by end-2004. The exchange rate has stabilized, and international reserves have rebounded to US\$ 85 million in 2004 compared with US\$60 million in 2003, thus creating the conditions for a fall in interest rates. It will be critical for the authorities to maintain momentum while at the same time ensuring adequate funding of poverty-reducing expenditures. Also, the debt situation should be carefully monitored, the macroeconomic framework updated, and data inconsistencies with staff resolved.

**6. The staff recommends that the authorities place a top priority on strengthening governance.** Poor governance has been a central reason for The Gambia's weak economic performance in recent years. The off-budget expenditures of around 7 percent of GDP in 2001 signaled a serious breakdown in governance, which not only endangered the macroeconomic environment, but also helped undermine PRSP implementation. Governance problems were also reflected in questionable foreign exchange transactions in 2002 and 2003. While the off-budget expenditures took place before the launch of the PRSP, the weaker state of public finance in subsequent years contributed to the difficulty of maintaining spending on PRSP priority areas. In addition, the governance problems have been a factor reducing donor support, thus further limiting the availability of resources for implementation of the PRSP.

**7. The authorities should thoroughly identify the governance problems that gave rise to the misreporting of fiscal data, and develop and implement concrete measures to prevent such problems from recurring in the future.** While there has been some progress in improving governance through various initiatives to strengthen public financial management, notably in budget classification and aggregate fiscal control, many areas of weakness remain. Updating the public accounts is critical since the continued backlog undermines expenditure control and legislative and public oversight.

This should be done in the short-term even as other medium-term reforms are being pursued. PRSP policies should be more fully integrated into the budget process, including through greater prioritization and more refined costing of sectoral programs. Concrete actions toward the introduction of a Medium-Term Expenditure Framework over the medium-term are needed and should include fully integrating the recurrent and development budgets, improving revenue forecasting, and introducing a programmatic budget classification system. The authorities should also accelerate the ongoing initiative to implement the Integrated Financial Management Information System in order to strengthen public expenditure management and prevent further delays in preparing the accounts.

**8. The authorities should ensure adequate domestic funding of poverty-reducing expenditures whose share in the total budget seems to have decreased in 2003.** The authorities should also seek to protect these expenditures during periods of fiscal retrenchment. The FY04 multidonor Public Expenditure Review indicated that actual poverty-reducing expenditures as a share of domestic expenditures declined from 21.5 percent in 2002 to 14.9 percent in 2003. Although the analysis is based on preliminary data and there are some concerns that the budget codes do not adequately identify PRSP expenditures, the findings are consistent with the Poverty Reducing Expenditure Reports prepared by the authorities which similarly indicate a decline in poverty spending. The share of budget allocations to poverty-reducing expenditures increased in 2004, but it will be crucial that the authorities obtain up-to-date budget outturn data in order to verify that increased allocations resulted in increased actual spending. In the next APR, the authorities should analyze whether increased allocations in 2004 resulted in increased actual outlays.

## **B. Pro-Poor Growth and Employment**

**9. The staff encourages the authorities to fully develop and implement a rural development strategy.** The PRSP and the APR provide only limited information on the government's vision. Reducing poverty in rural areas will require a comprehensive approach encompassing high growth rates; employment creation; and health, education, and improved physical infrastructure. The immediate need to recover from the crop failures of 2002 apparently derailed the authorities' efforts to articulate more fully a rural sector development policy. Frequent changes in the top management of the Department of State for Agriculture also hampered those efforts. The authorities should focus on developing a comprehensive approach to reducing the agricultural sector's vulnerability to inadequate rainfall, including by strengthening the irrigation system. The Gambia's prospects of diversifying into horticulture and agro processing should be covered in the next APR. The overall objective of agricultural sector policy should be to diversify the sector away from subsistence-based activities and to make it market-oriented. The PRSP's focus on agricultural research and extension services should be matched by adequate resources and proper monitoring of the impact of these efforts.

10. **Tangible results in promoting private sector development should be a key goal of government public policy.** While this goal is acknowledged by the authorities, the APR could benefit from greater specificity about plans to achieve this objective. Given the slow pace of the privatization program to date, the authorities should develop an action plan with milestones for their comprehensive divestiture policies. The groundnut sector still needs to be reformed, including through the privatization of the groundnut-processing facilities. The monitoring of private sector activities should be improved, including through the planned economic census. The authorities have provided direct agricultural inputs, such as seeds and fertilizers, in response to the crop failures of 2002; however, in the future, they should be mindful that such subsidized direct interventions undermine private sector participation. The business climate can be further improved through the following: reform of the judicial system; strengthening of the administration of land transactions; streamlining of legislation and administrative procedures for businesses; and strengthening of trade and investment-promotion agencies. The next APR should more fully address developments in tourism, reexport and transit trade, and light manufacturing. Trade policy will need to be given higher priority in the medium-term. The Gambia has been selected as one of the countries under the Integrated Framework (IF) for Trade-Related Technical Assistance to Least Developed Countries. The IF is a cooperative interagency initiative that includes Fund and World Bank participation. Opportunities from regional integration and entrepot trade should be further explored.

### C. Basic Social Services and Infrastructure

11. **Improving the quality of education remains a major challenge.** The country has made progress in expanding access to basic education, particularly for girls, through a sustained classroom construction program. Education initiatives included important social policies, such as a girls' scholarship program and the Girl-Friendly School Initiative. However, the high failure rates in standardized tests indicate that the quality of education is still poor. The APR recognizes that to improve the quality of education, there is a need to strengthen the training, supervision, and support of teachers, and increase the supply of classroom materials. In addition, the authorities should improve the recruitment and retention of qualified teachers in rural areas by substantially increasing incentive packages, including through the Education For All initiative. Nonformal education and vocational education and technical training, both PRSP priorities, should be expanded. The MDGs for net primary enrolment ratio and girls to boys ratio in primary education are broadly on track, but the girls to boys ratio in secondary education needs to be increased.

12. **Inadequate staffing in the health sector, including from absenteeism, continues to impede the delivery of services.** While the APR describes in some detail the actions that the government has taken in the area of basic health provision, the issue of staffing has received insufficient attention. A key reason for the staffing problems is low salaries and the emigration of qualified staff to pursue more attractive careers overseas. Access to health services increased with the expansion of health facilities.

However, staffing in rural areas needs to be increased to reduce geographical disparity. The staffs' recommended strategic options include (i) increasing auxiliary midwives and assistant nurses to augment regular staff; (ii) improving incentive packages for jobs in rural areas; and (iii) using innovative staff-management methods, including performance-based contracting and part-time work. The key to improving health services is to further decentralize resources and responsibilities to regional units, particularly to the Divisional Health Teams, and to further develop and expand community-based services. Drug-supply management should be improved, including by implementing a more open and competitive procurement process. The authorities should reallocate funds from hospitals to primary health care. Basic MDG health indicators are on track except for the under-five child mortality ratio. An integrated policy to improve social welfare and protect vulnerable groups should be developed and implemented.

13. **The expansion of roads, telecommunication, and electricity and water services should better target the poor.** Much of the current expansion of roads targets urban areas and highways, whereas greater emphasis on feeder roads would better target the poor in rural areas. The expansion of telecommunication services should similarly ensure that rural areas benefit. The government should develop a strategy to ensure that the National Water and Electricity Corporation is able to increase investments in its generating capacity, distribution network, and maintenance.

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

14. **Decentralized public services and expanded social development funds are the basis for local community development.** The legal arrangements for decentralization are in place with new laws that call for extensive fiscal decentralization of the public sector. However, there has been little tangible progress in implementing the new laws. A country-owned implementation plan and sensitization program would build expectations and create momentum. The main mechanism for supporting local communities and CSOs in the PRSP is the Poverty Reduction Fund (PRF), a comprehensive social development fund. The authorities should develop and implement a plan to make the PRF operational. The Bank is currently preparing a project that combines community driven development and health which is aligned with the basic principles of the PRF. The next APR should provide a more comprehensive analysis of the activities and impact of the CSOs. A key PRSP objective to establish a poverty reduction dialogue forum should be implemented.

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

15. **The next APR should provide a more comprehensive assessment of population, gender, and environment policies.** Initiatives to reduce the incidence of HIV/AIDS and improve nutrition are being implemented. There is a reasonably strong political commitment to fight HIV/AIDS, but the policy interventions should better target the core transmitters because the infection rate has been gradually increasing. An education outreach program will be critical for changing traditional views that limit

opportunities for women and their access to resources. The Gambia is one of the most densely populated countries in sub-Saharan Africa. A proper assessment of the implementation of the government's National Population Policy should be included in future APRs. Similarly, future reports should assess how the country has addressed environmental pressures, such as coastal erosion, salinization of tidal lands, and deforestation.

### III. MONITORING AND EVALUATION

16. **Proper monitoring and evaluation of the PRSP process require greater resource allocation.** Notwithstanding its integration into the Department of State for Finance and Economic Affairs, the government's Strategy for Poverty-Alleviation Coordinating Office remains understaffed. Further, the Inter-Departmental Steering Committee should be more active in supervising the implementation activities. The four PRSP thematic groups should be reinvigorated; to date, only two have been active. However, even with organizational changes and increased resources, greater political leadership is the key to accelerating implementation of the PRSP. Otherwise, there is the risk that policies will continue to be implemented and monitored without sufficient interest and cooperation from other government agencies.

17. **Improving the timely availability of reliable data is the key to improving the monitoring and evaluation of the PRSP.** The timely monitoring of inputs has been difficult because of the significant delays in producing the public accounts. The APR should also be produced in a more timely manner. The list of PRSP targets and indicators should be further refined, prioritized, and explicitly linked to MDG targets. Incorporation of the targets into a summary policy matrix containing key actions and milestones would facilitate monitoring and analysis. The proposed Poverty Monitoring System should be made operational. Impact analysis needs to be strengthened, including by incorporating the results of the latest participatory poverty analyses, service delivery surveys, and pilot citizen report cards. The Central Statistics Department has limited capacity to produce timely and credible basic statistics. Therefore, it will be critical to accelerate its donor-supported reform agenda, including by implementing the draft institutional restructuring strategy, processing and analyzing the national census and the household survey, and conducting an economic census. The authorities should consider collecting employment data regularly, given that employment creation is a key PRSP objective.

### IV. CONCLUSION

18. **Greater political leadership will be critical in accelerating implementation of the PRSP.** Sustaining focus on the strategy in the public sector has always been a challenge given the low capacity, frequent turnover of personnel, and tendency to view the strategy as one of many competing agendas. The key to meeting the challenge is for the political leadership to institutionalize the strategy as a comprehensive approach to overall public policymaking, including through continued dissemination and education programs. The Gambia's reliance on external financing makes active dialogue with development partners essential. The upcoming roundtable meeting of donors should

focus on the PRSP. In addition, annual meetings with multistakeholders about the APR should be considered. For annual meetings to be conducted, the APRs would have to be more timely and candid, and the data improved. Proper assessment also requires that parts of the strategy, such as civil service reform, divestiture and decentralization, be more fully developed and costed.