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THE GAMBIA

RECOVERING FISCAL DISCIPLINE

Public Expenditure Review

January 2005

PREM 4
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CURRENCY EQUIVALENTS

Currency Unit = Dalasi (GMD)

US$1 = 27, 725 GMD (as of end-July 2005)

Fiscal Year

January 1 – December 31

ACRONYMS AND ABBREVIATIONS

AGD	Accountant General's Department
AGO	Accountant General Office
BDI	Budget Deviation Index
CBG	Central Bank of The Gambia
CED	Customs and Excise Department
CFA	*Communauté financière africaine* (African Financial Community)
CRD	Central Revenue Authority
CRD	Central River Division
DOSE	Department of State for Education
DOSE	Department of State for Education
DOSFEA	Department of State for Finance and Economic Affairs
DOSFEA	Department of State for Finance and Economic Affairs
DOSH	Department of State for Health
EC	European Commission
FACS	Federation of Agricultural Cooperative Societies
GDP	Gross Domestic Product
GEF	Global Environment Facility
GIPFZA	The Gambia Investment Promotion and Free Zones Agency
GTA	Gambia Tourist Authority
HIPC	Heavily Indebted Poor Countries
HIV	Human Immunodeficiency Virus
ICRG	International Country Risk Guide
IFMIS	Integrated Financial Management Information System
IFMIS	Integrated Financial Management Information System
MMR	Maternal Mortality Ratio
MTEF	Medium-Term Expenditure Framework
NIRE	Non-interest Recurrent Expenditure
PER	Public Expenditure Review
PHC	Primary Health Care
PMO	Personnel Management Office
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
RA	Revenue Authority
SD	Spending Department
SDR	Special Drawing Rights
SPACO	Strategy for Poverty Alleviation Coordinating Office
SSA	Sub-Saharan Africa
STABEX	Stabilization of Exports
URD	Upper River Division
VISACAS	Village Savings and Credit Associations
WAEMU	Western Africa Economic and Monetary Union
WTO	World Trade Organization

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TABLE OF CONTENTS

TABLES

FIGURES

BOXES

ACKNOWLEDGMENTS

This report is part of a public expenditure review process conducted over a series of mission since June 2003, headed by Hoon S. Soh (Task Team Leader, AFTP4). The first mission in June 2003 was a preparatory mission through which the TTL and the authorities discussed the objectives of the study to be carried out with the participation of the government. The results of a preparatory consultancy study and the main issues to be analyzed in the proposed PER were discussed during the mission. Participants in the discussions recognized that the main challenge to conducting the study will be the availability of actual expenditure data. Due to the significant delays in updating the general ledger and preparing the public accounts, the actual expenditure data were not immediately available. Therefore, it was decided to delay the main PER mission for the field work until it could be reasonably anticipated that the data would be available.

In subsequent missions in October 2003 and February 2004, the TTL focused on gathering the necessary data for the study. The October 2003 mission continued the discussions on gathering the necessary expenditure data for the study. It was decided that the data would be assembled from various sources, including the IMF mission data, preliminary trial balances from public accounts, and preliminary figures from the Vote Charge Books. During the mission and in subsequent discussion, it was decided to conduct the study jointly with other development partners. Eventually, DFID and UNDP agreed to participate in the exercise. The main field work for the PER was conducted through a mission in February 2004. During the February 2004 mission, the TTL was joined by Feridoun Sarraf (Institutions and Governance), Thilakaratna Ranaweera (Macroeconomics and Poverty Analysis), Kossi Domenyo Baba (Budget Analysis), Nyada Baldeh (Liaison Officer), Fily Sissoko (Country Financial Accountability Assessment), Valsa Shah (Economist, DFID), Neil Boyer (Economist, UNDP), and Russell Craig (Education). Discussions were held with senior representatives of Department of States of Finance and Economic Affairs, Health and Social Welfare, and Education, SPACO, PMO and the Central Bank. DOSFEA appointed a staff, Lamin Jarju, who organized and participated in the meetings. Extensive discussions were held on the implementation status of the PRSP and the state of institutions and governance of public financial management. The mission benefited from a concurrent HIPC AAP mission.

Thanks to efforts by the Accountant General Department, the MTEF resident consultant, Christopher Willford, and the IFMIS resident consultant, George Okado, the preliminary expenditure data were provided towards the beginning of April, approximately a month after the end the February mission. The PER report was prepared by the core team of Bank, DFID and UNDP staff who participated in the February 2004 mission, and in addition John May (Health) and Kevin Lumbila (Debt Sustainability Analysis). The report benefited from the comments of William Dorotinsky (PRMPS, peer reviewer), Preeti Arora (AFTP1, peer reviewer), Robert Blake (AFTP4, Sector Manager), John McIntire (AFC14, Country Director), Iradj Alikhani (AFCSN, Country Program Coordinator), Jacques Morisset (AFTP4, Cluster Leader), Meskerem Mulatu (AFTH2), Daryoush Kianpour (AFTKL), Christopher Willford (MTEF resident consultant), George Okado (IFMIS resident consultant), Jon Shields (IMF) and Ulrich Jacoby (IMF). Josette Percival provided editorial assistance in document preparation.

EXECUTIVE SUMMARY

Recent economic performance in The Gambia was extremely poor and undermined efforts to implement the PRSP. Laxity in fiscal and monetary policies and low agricultural production resulted in low growth, high inflation, and rapid depreciation of the domestic currency. Real GDP shrank by 3.2 percent in 2002 before partially recovering to 8.8 percent in 2003. The fiscal deficit excluding grants sharply increased to 14.9 of GDP in 2001 and subsequently remained high at 8.1 percent in 2002 and 6.0 percent in 2003. Reliance on domestic financing and large Central Bank losses fueled the large increase in the broad money growth of 35.3 percent in 2002 and 43.4 percent in 2004, resulting in the average annual inflation rate increasing from 4.5 percent in 2001 to 8.6 percent in 2002 and 17.0 percent in 2003. Key macroeconomic targets in the PRSP were missed by a wide margin, and the IMF's PRGF program has been substantially off-track.

In response, the authorities initiated tighter fiscal and monetary policies by implementing a cash budgeting system towards the end of 2002 and raising the interest rates in an attempt to regain control over the deteriorating economic situation. Interest rates on Treasury bills were raised from 15 percent at end-2001 to 20 percent at end-2002 and 31 percent at end-2003. These policies were successful to varying degrees in preventing a further worsening of the recent economic deterioration. However, the impact of past policy decisions continues to be felt today. Past expansion of the money supply necessitates tight monetary policies in the form of higher interest rates, which have in turn increased public debt service and crowded out other public spending, including PRSP priority spending. The fiscal and debt sustainability analysis indicates that the country's fiscal situation is unsustainable if the current situation persists, particularly since the country continues to be vulnerable to exogenous shocks, such as the low rainfalls in 2002.

These adverse developments have undermined the PRSP and MDG objectives. The country is on track on only half of the education and health indicators. In addition, a poverty simulation analysis indicates that the poverty headcount target is substantially off-track. The target poverty headcount rate of 27 percent in 2015, based on a PPP adjusted US$ 1 a day poverty line, will be difficult to achieve even under the best of circumstances, unless there are large positive shocks to the economy. Unfortunately, the likelihood of negative shocks further derailing progress towards the poverty target seems just as likely given past experience of the country.

The fiscal deficit sharply increased in 2001 when revenue as a percentage of GDP was lowest and expenditure was highest in recent years. Tax revenue, particularly taxes on international trade, declined and has remained relatively low since 2001. At the same time, total expenditures as a percentage of GDP substantially increased in 2001 and remained high in 2002. The main cause of the fiscal slippage in 2001 was off-budget expenditures which amounted to 6.8 percent of GDP, but expenditures would have been relatively high even without these expenditures.

Although authorities began to regain fiscal discipline in 2003, this was not without costs as the budget continues to exhibit structural rigidities which will challenge efforts to further improve performance. The cash budgeting system focuses on reducing domestically financed expenditures, but evidence indicates that as a result current expenditures have been inadequately funded for the given amount of capital expenditures. The share of wages and salaries significantly declined over the recent years despite the fact that there has been no major civil service reform program. This indicates a decline in the real value of wages and salaries, which will likely further degrade civil service morale and performance. Expenditures on non-defense general administration are relatively large and increasing in recent years. On the other hand, recurrent expenditures on social services as a share of total expenditures, particularly for education, steadily declined over the recent years. This belies the fact that social services are priority PRSP sectors, and threatens to reverse the recent achievements in the sector. Further resources will be needed to address problems with retaining education and health personnel and improving the quality of services.

One of the most troubling developments has been the large increase of debt service since 2001, particularly domestic interest payments, which have effectively crowded out other recurrent expenditures. As a percentage of total recurrent expenditures, interest payments increased from 23.7 percent in 2001 to 28.1 percent in 2002 to 36.4 percent in 2003. They are projected to increase to between 45 percent and 55 percent in 2004. Due to the non-discretionary nature of debt service, the authorities will have much less fiscal space to maneuver in the near future. In particular, large debt service obligations limit the ability of the authorities to restructure the budget in order to implement PRSP priorities. Much restructuring will be required as domestically funded expenditures on PRSP related activities significantly decreased in 2003. In a sense, fiscal discipline was recovered in 2003 at the expense of PRSP expenditures.

It should be noted, though, that the validity of the analysis is only as good as the underlying data. Unfortunately, the quality, reliability and comprehensiveness of data are generally acknowledged problems in The Gambia. The present analysis points out that the actual expenditure data have internal inconsistencies that need to be resolved in order to fully validate the analysis.

Poor data quality is symptomatic of underlying fundamental deficiencies in the institutions and governance of public financial management and the authorities will have to address them in order to improve fiscal performance. This is also one of the priority areas of the PRSP. Recent assessments all conclude that the institutional capacity for public financial management in The Gambia needs substantial upgrading. One of the greatest concerns is the significant delays in the preparation and auditing of the public accounts. Public accounts have not been prepared since 1999, and have not been audited since 1991. In addition, the development budget is poorly prepared, internal control and internal audits are weak, large amounts of expenditures are executed outside of the normal budgeting process, and the civil service struggles with weak capacity and high turnover.

These deficiencies have been duly identified, but experience has shown that implementation of the suggested solutions has been problematic. The impression is that there is a proliferation of reform initiatives in an environment of limited capacity for implementation. The question is whether the public sector is essentially overwhelmed by the scale and number of reform initiatives. Experience so far seems to indicate that the answer is a partial "yes." Perhaps there was some amount of overambitious planning of the reform agenda, and realistically the authorities had little chance of implementing the agenda without some delays. However, delays were also due to a lack of prioritization, coordination and accountability within the government. Initiatives such as the sectoral PERs have been delayed despite the acknowledgement that they were top priorities and the fact that development partners offered to provide support to the process. Implementation can be improved through better strategic planning of the reform agenda by accounting for political and institutional incentives. For example, fiscal exigencies caused the authorities to adapt a cash budgeting system, but such a system could also undermine incentives to improve budget preparation.

The present PER seeks to analyze the reform agenda while mindful of local capacity and incentives. However, even if the agenda is carefully designed, in the end the success of the reform agenda depends on a high level of political commitment.

The following summarizes the major recommendations:

Reducing debt service through fiscal discipline should be a top priority. Large debt payments have crowded out other expenditures, in particular PRSP expenditures. The authorities need to achieve a minimum primary balance of 3.0 percent in the long run in order to maintain fiscal and debt sustainability. Primary balance greater than 3.0 percent will allow the authorities to reduce the debt level. It will also require improving the coordination of monetary and fiscal policies as high interest rates are the main cause of the large domestic debt burden.

PRSP priorities need to be further reflected in the national budget. The decline in the share of recurrent expenditures on social services, particularly for the Education sector, needs to be halted and reserved. Expenditures for government bodies directly supporting improvement of governance should be increased. They include National Assembly, the National Audit Office, DOS for Justice and Judiciary. Expenditures on non-Defense General Administrations should be reduced in order to release more resources for PRSP priority expenditures.

Major imbalances in the structure of the budget needs to be adjusted. First, the imbalance between current and capital expenditures should be addressed. Given the constraints in increasing current expenditures, the authorities should considered reducing the rate of increase of capital expenditures. Second, major declines in salary and wages should be achieved through civil service reform and not simply by real wage reductions.

Otherwise, civil service morale and performance will be adversely affected, and efforts to improve public financial management will be undermined.

Improve the quality of data. Poor data quality is pervasive in the public sector. It encompasses fiscal, monetary and economic data. Long delays in updating the general ledger and preparing the public accounts meant that the PER had to rely on provisional figures. Inconsistencies of these figures should be resolved.

Develop and commit to a time bound action plan on preparing and auditing the public accounts. Although the work plan would take into account the support to be provided by DFID, contingencies for delays in the support should be incorporated in the plan. The possibility of closing the account manually should be explored.

Phase out cash budgeting but in line with improvement in budget management. The current cash rationing system should be eventually replaced by a more conventional budget system, but the discontinuation of cash budgeting should be linked with improvements in overall budget management, particularly the strengthening of internal control and internal auditing. In the interim, the authorities should minimize the adverse effects of cash budgeting on service delivery by various measures, including by refocusing the centralized cash budgeting committee (NEFCOM) on issuing and enforcing broad cash ceilings instead of approving each payment item.

The MTEF and IFMIS work plans should be revised. The original schedule is no longer realistically feasible. The revision of the work plan needs to reflect the fact that there has been large delays due to local capacity constraints, lack of commitment, and lack of incentives. The sectoral PERs will need to be updated and expanded. The MTEF will be difficult to implement with the cash budgeting system in operation.

Recurrent expenditures for the social sectors should be increased, particularly for Education. For Education, the quality of teaching should be improved through training and performance monitoring of teachers, and higher allowance for teachers should be considered to reduce attrition. For Health, administrative capacity needs to be strengthened, personnel retention needs to be improved through financial and non-financial incentive schemes, and the supply of drugs need to be increased and better managed.

Some of the issues covered in the PER deserve further analysis as they have not been addressed in-depth given the limitations of time and resources. A proposed research agenda would included: (i) implementation of PRSP programs and activities; (ii) poverty assessment using the 2003 census and household survey; (iii) agricultural sector study; (iv) update of the Development Policy Review; and (v) assessment of the tax policy and regime. The annual PRSP Progress Report would cover the first item, and updating the agriculture and natural resources PER would cover the third item. Updating the existing sectoral PERs and expanding the PERs to other sectors are part of the key recommendations of the present PER, and could be considered part of the proposed research agenda.

Summary of Recommended Reform Measures

Reform Measures	Within 12 months	12 months to 3 years
Fiscal/Macroeconomic Stability		
Reduce debt service by maintain minimum primary balance of 3.0 percent	X	X
Improve coordination of fiscal and monetary policies	X	X
Poverty Reduction Policies		
Revise and commit to poverty rate targets	X	
Strengthen local governments for implementing and monitoring PRSP and MDGs	X	X
Further refine PRSP budget codes	X	
Revenue and Expenditure Restructuring		
Focus on increasing collection of tax on international trade	X	
Decrease expenditures on General Administrations	X	
Improve balance between capital and current expenditures (at present, too much capital relative to current expenditures	X	
Increase recurrent/current expenditures on Education	X	
Increase share of salaries and wages	X	
Increase expenditures on governance institutions (National Assembly, NAO, DOS for Justice, Judiciary)	X	
Institutions and Governance Reforms		
Enact and implement the national Revenue Authority Bill	X	X
Improve collection and use of revenue data, focusing on improving revenue projections in the budget	X	X
Reform present system of customs duty waivers and deferments	X	
Enact and implement the Government Budget Management and Accountability Bill, but involve AGD	X	X
Fully integrate the preparation and analysis of the recurrent and development budgets	X	
Revise and implement MTEF work plan (aligned with plans for the cash budgeting system), including sectoral MTEFs/PERs	X	X
Prepare and implement cash budgeting phase-out plan, but align it with strengthening of internal controls and auditing	X	X
Prepare and implement work plan for strengthening internal controls and auditing	X	X
Resolve discrepancies of actual expenditure data, including by incorporating off-budget expenditures of 2001	X	
Improve preparation and implementation of the development budget	X	X
Prepare and implement action plan for updating the general ledger and preparation and auditing of annual public accounts	X	
Revise and implement IFMIS work plan, focusing strengthening IT team, change management, and capacity building	X	X
Prepare and implement civil service reform plan	X	X
Education and Health		
Increase recurrent/current expenditures, particularly in Education	X	
Improve financial and non-financial incentives for health and educational personnel	X	
Strengthen health administrative capacity, particularly the planning unit and for management of supply/distribution of drugs	X	

MACROECONOMIC DEVELOPMENTS AND THE IMPACT ON THE POOR

MACROECONOMIC TRENDS

Low Growth And High Inflation

1. Recent economic performance of The Gambia has been below expectations and undermined efforts to implement the PRSP (see table 1.1). The key macroeconomic targets in the PRSP were missed by a wide margin almost from the beginning of the program, while the IMF's PRGF program has been substantially off-track. Laxity in fiscal and monetary policies and low agricultural production resulted in poor macroeconomic performance. Low rainfall exacerbated by problems with seed availability and distribution adversely impacted agricultural production in 2002. Fiscal indiscipline, combined with monetary slippages, led to high inflation, rapid depreciation, and large increases of domestic debt.

Table 1. 1.: Basic Macroeconomic Indicators

	1998	**1999**	**2000**	**2001**	**2002**		**2003**	
	Act.	Act.	Act.	Act.	Act.	PRSP	Act.	PRSP
Real GDP growth (annual percentage)	4.9	6.4	5.5	5.8	-3.2	6.0	8.8	6.0
Fiscal balance, excl. grants (% GDP)	-7.8	-4.8	-3.7	-14.9	-8.1	-5.0	-6.0	-2.7
Export growth (annual percentage)	-0.5	-8.3	5.3	-19.7	9.2	8.4	-8.1	8.2
Current account balance, excl. grants (% of GDP)	-10.6	-11.7	-10.6	-10.8	-12.8	-13.2	-13.8	-12.3
Current account balance, incl. grants (% of GDP)	-3.7	-4.4	-3.1	-3.5	-2.2	-5.4	-5.1	-5.0
Gross off. reserves (months imports)	5.6	5.8	7.0	5.3	4.8	5.0	4.6	5.2
Broad money growth	22.3	12.1	34.8	19.4	35.3	13.2	43.4	9.9
Inflation rate, avg. (annual percent)	2.8	3.8	0.9	4.5	8.6	5.5	17.0	4.0

Source: IMF staff reports and government documents

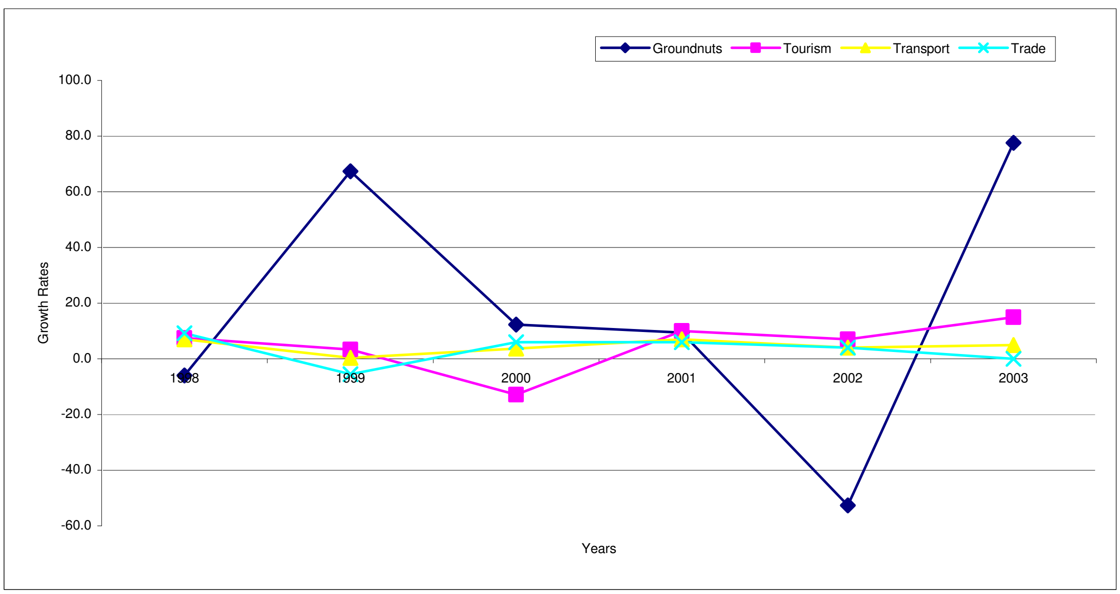
In response, the authorities initiated tighter fiscal and monetary policies. A cash budgeting system was implemented towards the end of 2002, interest rates on the Treasury bills were raised from 15 percent in September 2002 to 20 percent in December 2002 and to 31 percent in December 2003, and reserve requirements were increased from 14 percent to 18 percent during 2003. These policies were successful to varying degrees in preventing a further worsening of the recent economic deterioration. However, the impact of past policy decisions continue to be felt today. The large domestic debt and the higher interest rates have substantially increased public debt service. The increased debt service has effectively crowded out other public spending, including PRSP priority spending. The recent expansion of the money supply poses significant risks for continued high inflation.

Negative Growth in 2002

2. After steadily growing at an average rate of 5.7 percent from 1998 to 2001, the economy shrank by 3.2 percent in 2002 reflecting reduced agricultural output due to the low rainfall. The economy partially recovered in 2003 with an estimated growth rate of 8.8 percent, but the growth rate should be viewed in terms of the relatively low base in 2002. In fact, real GDP in 2003 was still below the long term trend level had the country been able to maintain the average growth rate of 5.7 percent. The partial recovery of the economy in 2003 was due to improved agricultural production which benefited from favorable weather. However, neither the volume of agricultural production nor the area under cultivation in 2003 reached the levels recorded for 2001, the year before the low rainfalls.

3. In addition to the partial recovery of the agricultural sector, tourism improved in 2003 as tourist arrivals increased by 13 percent. Tourist arrivals reached a recent peak of 122,000 in 1999 but subsequently fell to 77,000 in 2000 and remained broadly unchanged until increasing to 89,000 in 2003. The large drop in 2000 was primarily due to charter service cancellations associated with the bankruptcy of SABENA, the only major airline that maintained regular flights from Europe. New charter flights have since started providing services.

Figure 1.1: Sectoral Growth Performance



Source: IMF staff reports

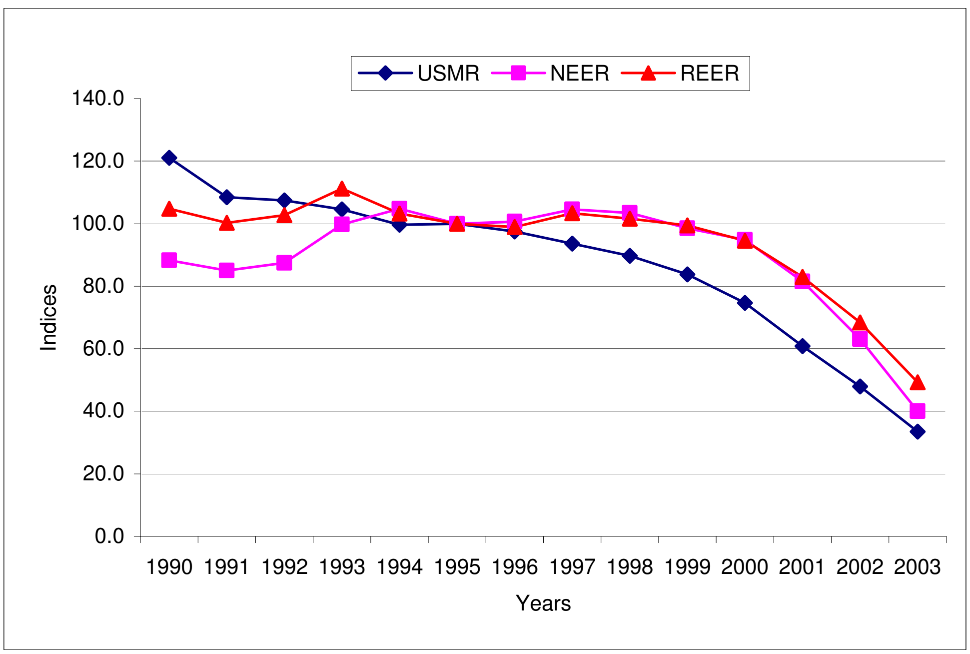
4. Performance of the trade and transport sectors only marginally improved in 2003 (see figure 1.1). Border disputes with Senegal continue to affect performance in these sectors. Re-export and transit trade in The Gambia have a number of advantages over its regional rivals, including efficient and rapid cargo handling at the Banjul Port, a liberal foreign exchange system, low import duties, and the presence of a large trading community in Banjul. However, the recent trade liberalization in the region, particularly

as a result of West African Economic and Monetary Union (WAEMU) reforms, has significantly eroded the country's comparative advantage in terms of lower import duties.

5. Credible data for overall consumption and investment do not exist, but rough estimates indicate that domestic absorption, particularly consumption, increased in 2003. The higher absorption is also evidenced by the increasing current account deficit.

6. After maintaining inflations rates below 5 percent and limited depreciation during the late 1990s, the average annual inflation rate increased to 8.6 percent in 2002 and 17.0 percent in 2003 and the nominal effective exchange rate depreciated by 34 percent in 2002 and by 30 percent in 2003.[1] The average nominal exchange rate of the dalasi with respect to the US dollar increased from 15.7 in 2001 to 19.9 in 2002 and 28.5 in 2003. The high rates of inflation and rapid depreciation were caused by excessive growth of the money supply resulting from domestic financing of large fiscal deficits and large Central Bank losses. Food prices increased faster than the overall price level. Given that the poor have a higher share of expenditure on food, it is likely that low income households have experienced a significant deterioration of their real income.

Figure 1.2: Exchange Rates



Source: CBG and IMF
Note: USMR is US dollar Market rate, NEER is nominal effective exchange rate, and REER is real effective exchange rate.

7. The authorities initiated several reforms towards the end of 2003 in an attempt to stop the slide of the dalasi. Only officially licensed establishments were allowed to trade foreign currencies, and the amount of foreign currency allowed by departing travelers

[1] The basket of goods used for the CPI does not provide enough weight to petroleum related costs. Thus, it is likely that the CPI underestimates the inflation rate.

was restricted. Furthermore, the authorities decreed that large private foreign currency holders deposit their holdings in foreign exchange bank accounts. Although these initiatives may have helped temporarily stabilize the dalasi, their exact impact is difficult to measure because at the same time the authorities pursued a tighter monetary policy in the form of higher interest rates. In addition, the dalasi is typically strengthened from January to April due to the foreign exchange earnings from tourism and groundnuts exports. However, sustained foreign exchange stabilization must result from improved foreign exchange earning capacity and continued implementation of a tighter monetary policy.

Lower Trade Activities and Declining Official Resource Flows

8. The current account deficit somewhat deteriorated in recent years. Further deterioration was prevented by a significant improvement in the trade balance. Both imports and exports have been significantly lower since 2001. Imports sharply declined in 2001, particularly imports for reexports. Border disputes with Senegal could have partially accounted for the decline. However, this can only be a partial explanation as reexports in 2003 have not yet attained the previous levels of late 1990s. Exports declined in 2003 partly as a result of the decline in the export of groundnuts. Groundnut exports declined as a result of the poor harvest in the previous year. However, imports also declined in line with the depreciation of the dalasi.

Table 1. 2: Balance of Payments

(millions of US dollars)

	1998	1999	2000	2001	2002	2003
Trade balance	-78.9	-68.7	-63.3	-43.1	-49.1	-51.8
Imports	-209.3	-188.9	-189.9	-144.7	-160.1	-153.8
Exports (F.o.b)	130.4	120.2	126.6	101.6	111.0	102.0
Current account balance						
Excluding official transfers	-45.7	-42.2	-44.5	-45.0	-47.0	-50.5
Including official transfers	-10.1	-12.2	-13.2	-14.5	-8.0	-18.9
Capital account balance	17.3	7.5	5.7	22.7	20.9	4.3
Overall balance (excl. PRSP)[1]	6.5	-5.3	10.1	-51.7	-4.9	-11.4

Source: IMF

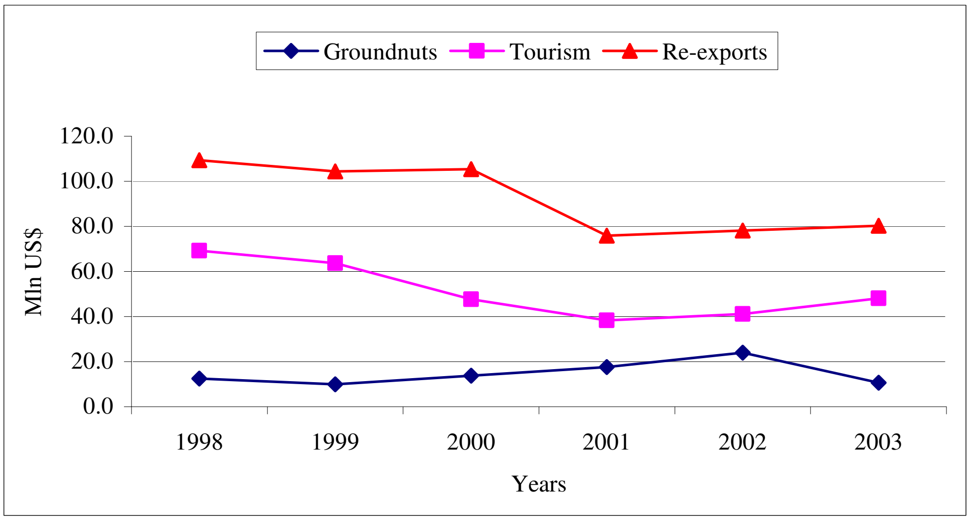
1. Includes errors and omissions.

9. While tourism earnings increased noticeably in 2003 (see figure 1.3), outflows for freight and insurance and other services prevented any gains in the services account. The deficit in the income account declined marginally in 2003 as a result of higher interest payments on official external loans. On average, external interest payments were higher during the period 2000 to 2003 than the previous years. In sum, the services earnings in recent years have not reached the levels reached prior to 2000, mainly because of the lack of a visible recovery in charter tourism.

10. In the past, The Gambia's current account deficits (excluding official transfers) have primarily been financed from official grants and loans, mostly on concessional

terms. However, financing of the current account deficit in 2003 was made difficult by a substantial decline in official loans, including project loans. The current account balance including grants increased from a deficit of 8.0 million US dollars in 2002 to 18.8 million US dollars in 2003 largely due to a sharp decline in official current transfers. As a result, the authorities had to draw down official reserves in order to finance the balance of payment deficit. Gross official reserves have continuously declined from a recent peak of 111.4 million US dollars or 7.0 months of imports in 2000 to 58.7 million US dollars or 4.6 months of imports in 2003.

Figure 1.3: Main Exports



Source: Gambian authorities and IMF.

Large Fiscal Deficits Financed Domestically[2]

11. Preliminary figures indicate that there was a significant loss of aggregate fiscal control in 2001. The overall fiscal deficit excluding grants increased from 4.1 percent of GDP in 2000 to 16.5 percent in 2001. The primary balance worsened from a surplus of 4.6 percent of GDP in 2000 to a deficit of 8.1 percent in 2001. The substantial fiscal slippages in 2001 were due to US$ 28 million of off-budget expenditures financed by the Central Bank. The presidential elections at the end of 2001 could have contributed to the overspending, a phenomenon which is common in many countries.

12. At present, information on the composition of the off-budget expenditures of 2001 is not available. There is no information on whether the off-budget expenditures were mostly used for current or capital expenditures. It is difficult to assess the impact of the expenditures on growth because the economy shrank by 3.2 percent the following year in 2002 due to the drought. Any positive impact on economic growth would have been overwhelmed by the adverse impact of the substantial decline in agricultural production.

[2] See chapter two for detailed analysis of revenue and expenditure developments, including detailed figures on fiscal operations.

Keeping this point in mind, there are no clear indications from subsequent economic performance that the off-budget expenditures have had a significant impact. It is difficult to determine the impact of the increased public expenditures on investment activities given the lack of reliable data in the country. By contrast, the impact of the off-budget expenditures on the money supply and consequently the inflation and depreciation can be more easily analyzed. The analysis is provided in subsequent paragraphs.

13. As of 2003, the authorities have not been able to fully regain aggregate fiscal control. Although the primary balance returned to a surplus since the sharp decline to a deficit in 2001, primary balances since 2001 have been lower than the levels attained in previous years. Similarly, the overall balances since 2001 have deteriorated compared to the balances before 2001. The average overall balance excluding grants has been a deficit of 8.3 percent of GDP since 2001, whereas it was 4.9 percent before 2001. The contrast is even greater if the significantly higher deficit of 2001 is included in the comparison. However, there were some positive developments in 2003. Total expenditure and net lending declined to the levels before 2001, and the main cause of the higher overall deficit was the decline in revenues and grants. The overall balance is projected to worsen in 2004 in scenario A and improve in scenario B. The two scenarios were developed by the IMF (see box 1.1 for description of the scenarios).

Table 1. 3 : Central Government Fiscal Operations

(Percent of GDP)

	1998 Act.	1999 Act.	2000 Act.	2001 Act.	2002 Prel.	2003 Est.	2004 Proj. A	2004 Proj. B
Revenue and grants	20.5	19.2	20.8	17.2	20.8	17.3	17.6	21.0
Expenditure and net lending	23.0	22.7	22.1	31.1	25.4	22.7	25.0	24.8
Overall balance (excl. grants)	-4.9	-5.6	-4.1	-16.5	-8.8	-7.8	-9.6	-8.0
Overall balance (incl. grants)	-3.0	-4.2	-1.8	-14.4	-4.4	-5.8	-7.4	-1.7
External (net) financing	1.2	0.6	-0.8	-0.4	1.9	0.6	-2.2	-0.4
Domestic financing	1.9	3.6	2.7	14.8	2.5	5.2	9.6	2.1
Primary balance	5.6	4.7	4.6	-8.1	2.7	3.6	5.1	4.0

Source: IMF

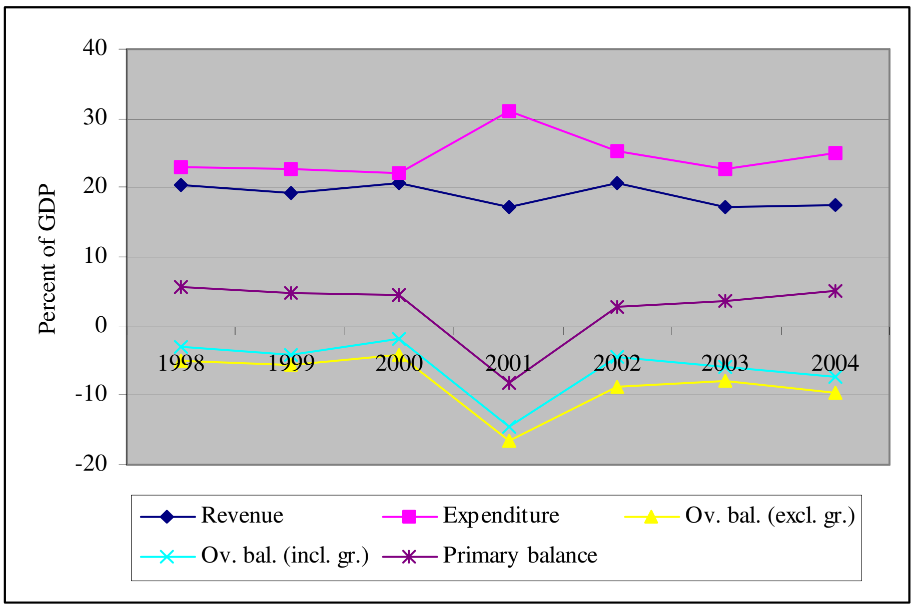
14. Total revenue and grants as a ratio of GDP declined from an average of 20 percent before 2001 to an average of 17 percent since 2001, not including 2002. Revenue and grants in 2002 were high due to an unusually large inflow of grants. The decline in the total was due to a decline in domestic revenue

15. By contrast, total expenditures substantially increased in 2001 due to off-budget expenditures amounting to 6.8 percent of GDP or 22 percent of total expenditure. The fiscal slippage continued in 2002 before the authorities regained control in 2003. However, expenditures are projected to increase again in 2004. The off-budget expenditures were domestically financed, thus injecting a sizable amount of liquidity into the monetary system.

16. Interest payments have continuously increased since 2001. Interest payments as a share of GDP increased from 294 million dalasis (4.5 percent of GDP) in 2001 to 620.8 million dalasis (6.0 percent of GDP) in 2003. Interest payments are projected to

substantially increase to 1,523.8 million dalasis (11.2 percent of GDP or 55 percent of recurrent expenditure) in 2004 under scenario A, and 1,022.5 million dalasis (8.2 percent of GDP or 45 percent of recurrent expenditures) under scenario B. The substantial increase of interest payments results from domestic interest rate increases and dalasi depreciation. In scenario A, the stock of domestic debt is projected to increase from 2,524.7 to 3,804.2 million dalasis (27.9 percent of GDP) due to a large deficit and complete reliance on domestic financing, and the interest payment as a percentage of the average stock of domestic debt is expected to increase from 16.7 percent to 39.6 percent. By comparison, the stock of debt in scenario B is projected to increase by a smaller amount to 2,742.4 million dalasis (22 percent of GDP) due to a smaller deficit and greater external financing, and the average interest payment is expected to increase to 30.2 percent.

Figure 1.4: Central Government Fiscal Operations



Source: IMF

17. To finance the fiscal deficits, the authorities mostly resorted to domestic financing in the absence of significant external financing, particularly through the Central Bank. The off-budget expenditures in 2001 were financed through the Central Bank as an advance which was later converted into a loan. The reliance on domestic financing continued in 2003 when 90 percent of the fiscal deficit was financed domestically, again mostly through the Central Bank. In 2004, the fiscal deficit is projected to further increase and the entire deficit is expected to be financed domestically under scenario A, while the deficit projected to decrease in scenario B. The reliance on domestic financing injected substantial amounts of liquidity into the economy, resulting in the high rates of inflation and depreciation. In response, the authorities raised interest rates in order to prevent further monetary slippages, thus further increasing the debt service.

Substantial Monetary Expansion Through CBG Funding of Deficits

18. Monetary sector data indicate substantial expansion during the period 2000 to 2003 that prevented the achievement of the PRSP inflation. Broad money in 2003 increased by 43 percent from the previous year. Monetary growth averaged 33 percent per year from 2000 to 2003 compared to average growth rates of approximately 15 percent from 1997 to 1999. It far exceeded the average real GDP growth rate of 4.2 percent during the same period. As a result, the annual CPI inflation rate increased to 17 percent in 2003, and the GDP deflator increased by 28 percent in 2003 and averaged 16 percent annually from 2000 to 2003. The excessive growth of the money supply resulted in the high rate of inflation.

19. The substantial monetary expansion resulted from the financing of the central government's deficit by the Central Bank. Central Bank credit to the government in 2001 included a foreign currency loan of US$ 28 million which accounted for all of the growth of reserve money. Reserve money growth in 2002 was driven by Central Bank credit to the government and large foreign exchange transaction losses of the Central Bank. Further reliance on Central Bank financing was avoided through withdrawals from the government's sterilization accounts held at the Central Bank.[3] In 2003, all of the banking sector's financing of the public deficit was provided by the Central Bank. While the Central Bank's claim on government increased by 656 million dalasis (6.4 percent of GDP), the commercial banks' claim on government decreased by 256 million dalasis (2.5 percent of GDP). Total net credit to the government provided by the Central Bank from 2001 to 2003 was 1.09 billion dalasis (10.6 percent of 2003 GDP).[4]

20. In conjunction with the expansion of the money supply, domestic credit by the banking sector significantly increased. Domestic credit expanded by an average annual rate of 62 percent during 2000 to 2003. Credit to the government increased by an annual average of 200 percent, credit to the private sector by 36 percent, and credit to public enterprises by 219 percent. Much of the credit expansion was for public enterprises. Much of the credit expansion in the private sector was concentrated in the trading sector which benefits from relatively high rates of sales turnover. By contrast, credit to manufacturers was relatively low.

21. The Central Bank responded to the monetary loosening by increasing the interest rates on the Treasury bills. Interest rates on the Treasury bills increased continuously from 12 percent in December 2000 to 15 percent in December 2001, 20 percent in December 2002, and 31 percent in March 2004. In the absence of a deep secondary market, the main instruments of monetary policy in the country are primary issues of Treasury bills and limited amounts of Central Bank bills. At the same time, the Treasury bill is the government's main domestic funding instrument. Hence, the fiscal and monetary policymakers share the same instrument. The Central Bank uses Treasury bills to mop up excess liquidity, but this increases the government's stock of debt and its debt burden. In The Gambia, the institutional mechanisms for fiscal and monetary policy

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[3] Sterilization accounts are proceeds from the sale of Treasury bills used for monetary policy purposes.
[4] See IMF (2004) for further details.

coordination seem to be in their infancy. Such coordination will have to be based on an integrated framework of fiscal, monetary and external policies.

PRSP Macroeconomic Targets Never Achieved

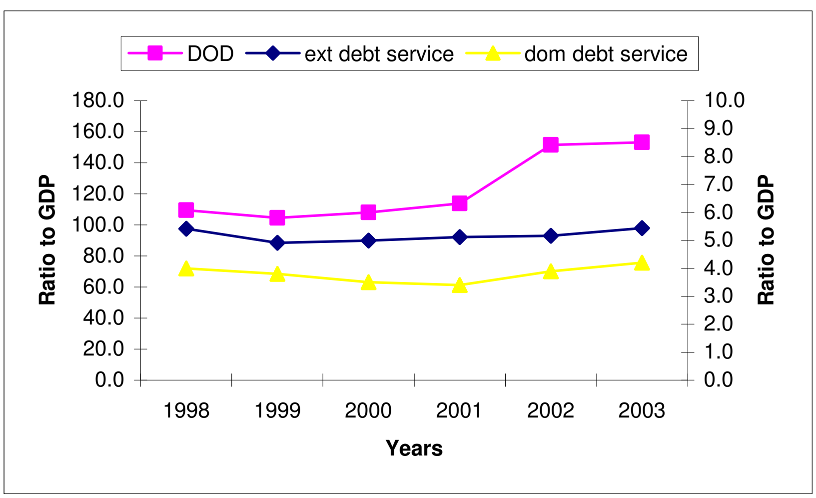
22. Actual macroeconomic performance has substantially underperformed the PRSP targets. The macroeconomic framework in the PRSP is no longer realistic (see Table 1.1). The PRSP targeted an annual GDP growth rate of 6 percent through 2005. However, the economy shrank by 3.2 percent in 2002 and grew by 8.8 percent in 2003. The high rate of growth in 2003 is due to the low base in 2002. At present, annual growth rates of 6 percent in the near future will be difficult to achieve given the recent experience of the country. The PRSP envisaged inflation rate at 5.5 percent in 2002 which reduces to 3 percent by 2005. In reality, the average annual inflation rate nearly doubled to 8.6 percent in 2002 and accelerated to 17.0 percent in 2003.

23. The loosening of fiscal and monetary policies resulted in the underperformance of the macroeconomic indicators. The fiscal deficit and the growth of broad money were both much larger than the PRSP targets. Policy choices will have to improve. In addition, exogenous conditions will have to remain favorable given the continued vulnerability of the economy to exogenous shocks.

Fiscal and Debt Sustainability Requires Policy Adjustments

24. The country's debt exposure has increased in the recent years. As a result, the nominal external debt to GDP ratio increased by 33 percent in 2002. The external debt service to GDP ratio remained broadly constant at around 5 percent. Domestic debt interest payments steadily increased from 3.4 percent of GDP in 2001 to 4.2 percent in 2003, and they are projected to increase to 9.2 percent in 2004 (see figure 1.5).

Figure 1.5: External Debt Exposure Indicators



Source: IMF and staff estimates.
Note: External debt service consists of interest payment and principal repayment, and domestic debt service consists of interest payment.

25. An analysis of the country's fiscal and debt sustainability indicates that the country's fiscal situation is currently unsustainable (see table 1.4). The sustainability analysis is based on a standard government budget constraint equation. It determines the fiscal balances that would be needed to achieve public sector sustainability, where sustainability is defined as a constant level of debt as a percentage of GDP (see appendix I for detailed explanation of the methodology). The analysis indicates that the authorities will need to take proactive measures to improve the fiscal balance. The conclusion follows from a sustainability analysis which was applied to the two different future macroeconomic scenarios developed by the IMF. Scenario A assumes continuance of the present situation where the authorities make no major policy adjustments, while scenario B assumes a more optimistic development where the authorities improve its policy response (see Box 1.1).

Box 1 1: IMF Future Macroeconomic Scenarios

The IMF developed two contrasting scenarios of expected future macroeconomic developments. They are summarized below and described in fuller detail in the 2003 Article IV Consultation Staff Report.

Scenario A assumes that the current policy stance will be maintained. It assumes no further fiscal measures beyond the 2003 budget, but monetary policy is expected to be tightened further. With no external budgetary support, domestic financing is projected to increase to 9.6 percent of GDP in 2004 and remain high in the later years. As a result, inflation will continue to be high and the dalasi will continue to rapidly depreciate. Structural reforms will be delayed, and domestic savings discouraged. The HIPC Completion Point will not be reached.

Scenario B assumes a more comprehensive and active policy response. Additional fiscal measures are implemented in 2004 amounting to 2.1 percent of GDP, monetary policy is tightened earlier in the year, and governance and data provision are further improved which lead to a resumption of donor budgetary support and the HIPC Completion Point. Reduced reliance on domestic financing will reduce the interest rates and exchange rate deprecation, thus lowering public debt service.

Selected Economic Indicators, 2004-2006
(Average percentage change, unless otherwise noted)

	Scenario A	Scenario B
Real GDP	4.4	5.0
Fiscal balance, excl. grants (% GDP)	-7.7	-1.4
Inflation rate	21.2	8.2
Broad money, end of period	23.5	12.8
Exports, f.o.b.	14.3	14.4
Imports, c.i.f.	8.3	11.4
Current account bal., incl. off. transfers (% GDP)	-2.4	-0.3

Source: IMF, 2003 Article IV Consultation Staff Report

26. In the status quo scenario A, the fiscal deficit remains large as the overall balance excluding grants is projected to increase to more than 9 percent of GDP in 2005. The

excessively expansive fiscal policy leads to escalating domestic debt, higher real interest rates, slower growth, and higher inflation. Growth is projected to remain at 4.1 percent between 2004 and 2008. Foreign aid becomes severely limited, and the authorities will be forced to rely even more heavily on its two remaining and costly sources of financing, domestic debt borrowing and money creation. The stock of domestic debt is projected to increase to 27.9 percent of GDP in 2004 from 25 percent of GDP in 2003. The authorities are paying a high cost by financing its deficit through bank borrowing due to the high real interest rates. With an inflation rate estimated at over 20 percent in 2004, further money creation would worsen macroeconomic instability while additional issue of government debt will further increase the interest payment.

27. As a result, the fiscal and debt sustainability analysis indicates that in scenario A the authorities will have to annually increase the overall balance by an average of 3 percent of GDP from 2005 to 2008 in order to reach a fiscally sustainable path. That is equivalent to raising tax revenue or reducing public expenditure by 3 percent every year over the medium term.

28. Table 4.2In scenario B which assumes a more proactive policy stance, active containment of public spending leads to lower domestic debt and real domestic rates, higher economic growth, and more stable prices. If the authorities were to decisively adjust its fiscal policy by containing and monitoring public expenditures while shifting resources to the priority economic and social sectors, growth would resume and public service delivery would improve. A successful macroeconomic stabilization program would lead to increased external assistance including budgetary support which would diminish the strain on domestic resource and lower domestic real interest rates and further promote growth.

Table 1. 4: Fiscal and Debt Sustainability Analysis

(Percent of GDP)

	2004	2005	2006	2007	2008
Overall balance (actual and projected, -deficit, + surplus)					
Status quo scenario A	-8.3	-9.7	-7.4	-6.1	-3.7
Policy improvement scenario B	-4.9	-1.5	0.1	1.5	2.3
Estimated sustainability effort					
Status quo scenario A	2.9	3.6	2.1	3.1	2.0
Policy improvement scenario B	-1.0	-2.6	-1.6	-1.8	-2.5

Source: Gambian authorities, IMF staff reports, and staff estimates
Note: The fiscal sustainability adjustment effort is the difference between the sustainability fiscal balance and the actual or projected balance. No adjustment is needed when the difference is negative

29. In contrast to scenario A, no further adjustment of the overall balance is needed in scenario B in order to restore fiscal sustainability. Achieving sound macroeconomic performance and the HIPC trigger points would allow the country to reach the Enhanced HIPC Completion Point, leading to reductions in the stock of the debt and manageable rates of inflation. The outstanding public external debt will be reduced and the external

debt-to-GDP ratio will decline from 75.6 percent in 2004 to 64 percent in 2008, with the fiscal stance being sustainable during the period 2004 to 2008.

POVERTY IMPACT ANALYSIS

Mixed Performance on PRSP and MDG Poverty Indicators

30. Recent economic developments have derailed progress on reducing poverty. Progress towards reaching the poverty targets under the PRSP and the Millennium Development Goals (MDGs) has been uneven. The MDGs and the PRSPs are closely linked in The Gambia as both aim to reduce poverty in the country. Both define poverty as a multidimensional phenomenon encompassing a wide spectrum of socioeconomic indicators. Many of the MDGs are incorporated in the PRSP (see table 1.5).

Table 1. 5: The Gambia PRSP Targets and the MDGs

MDGs	The Gambia PRSP target
MDG 1 Eradicate extreme poverty and hunger. Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.	A reduction by 66 percent of the number of women living in poverty by 2015. No specific target for population at large.
MDG 1 Eradicate extreme poverty and hunger. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.	A reduction by 50 percent of the number of malnourished people by 2015.
MDG 2 Achieve universal primary education. Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.	Universal primary education by 2015, with 80 percent completion in primary education by 2005.
MDG 3 Promote gender equality and empower women. Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education no later than 2015.	Attaining gender equity in primary and secondary enrollments by 2005.
MDG 4 Reduce child mortality. Reduce by two thirds, between 1990 and 2015, the under-five mortality rate.	A reduction of the 1990 infant and child mortality rates by 33 percent by the year 2015.
MDG 5 Improve maternal health. Reduce by three quarters, between 1990 and 2015, the maternal mortality rate.	A 50 percent reduction of the maternal mortality rate of 1990, and a further 50 percent by 2015.
MDG 6 Combat HIV/AIDS, malaria and other diseases. Have halted by 2015 and begun to reverse the spread of HIV/AIDS.	The PRSP contains no target directly linked to this MDG.
MDG 6 Combat HIV/AIDS, malaria and other diseases. Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases.	No specific target determined in PRSP.
MDG 7 Ensure environmental sustainability. Integrate the principles of sustainable development	No specific target determined in PRSP.

into country policies and programs and reverse the losses of environmental resources.

Source: World Bank (2003), Country Assistance Strategy

31. The PRSP is organized around five broad "pillars" or objectives: (i) improve the enabling policy environment to promote economic growth and poverty reduction; (ii) enhance the productive capacity and social protection of the poor and vulnerable; (iii) improve the coverage of the unmet basic needs of the poor; (iv) build capacity for local, people-oriented development through decentralization; and (v) mainstream gender equity, environmental issues, nutrition, governance and HIV/AIDS awareness into all development programs. The pillars broadly concur with the seven objectives of the MDGs. There are eleven specific targets distributed among the first seven MDGs. The eighth MDG is a relatively more qualitative target which emphasizes development partnership. The PRSP covers a shorter period from 2003 to 2005, while the MDGs are targets for 2015.

Table 1. 6: MDG Performance

MDG Indicators	Targets (%) 2005	2015	Actuals	Status
MDG 1: proportion of pop. below poverty line (US$1 per day)	38	27	59 percent in 1998, and results from 2003 household survey will provide more recent data	Severely off track
MDG 2: net enrolment ratio in primary education	78	100	60 percent in 2000, but should be 66 percent	Slightly off track
MDG 3: ratio of girls to boys in primary education	100	100	96 percent in 2002	On track
MDG 3: ratio of girls to boys in secondary education	100	100	79 percent in 2002, but should be 85 percent	Off track
MDG 4: under five child mortality (per 1,000 births)	82	45	135 deaths per thousand live births	Severely off track
MDG 5: maternal mortality ratio (per 100,000 births)	577	262	730 deaths per 100,000 live births	On track
MDG 6: spread of HIV/AIDS	-	-	HIV-1 prevalence rate among 15 to 49 year old pregnant women increased from 0.7 percent in 1995 to 1.2 percent in 2001	Off track
MDG 6: spread of malaria and other major diseases	-	-	Tuberculosis 1,212 cases in 1990 increased to 1,561 cases in 2000	Lack of data
MDG 7: loss of environmental resources	-	-	Proportion of land covered by forests 40.7 percent in 1993 and 41.5 percent in 1999	Lack of data
MDG 7: access to safe drinking water	66	76	84 percent in 1996	On track

Source: Gambian authorities (2003), "Millennium Development Goals Report," and staff estimates.

32. Compared to the PRSP, the MDGs focus on basic social services and cross-cutting issues but relatively neglect direct interventions to promoting growth and enhancing livelihood of the poor. The PRSP's focus on forming a conducive policy environment and enhancing the productive capacity of the poor are relatively absent in the MDGs. Most of the MDGs can be grouped into pillars three and five of the PRSP.

MDGs two, four, five and seven focus on the provision of basic services such as education and health and thus overlap with the objective of pillar three. MDG three (gender) and six (HIV/AIDS) are cross-cutting issues that overlap with pillar five.

33. Performance on the MDGs has been uneven as approximately half of the major education and health indicators are on track, and the poverty headcount ratio target is severely off track (see table 1.7). The country is on track for one and almost on track for another of the three major targets for education (MDGs two and three). The country is on track for one out of the two targets for health (MDG five). Note that the MDG targets are also part of the core social services targets in the PRSP. By contrast, the poverty ratio target is severely off track. In fact, the estimate of the poverty headcount from 1998 indicates that the proportion of the poor increased from 1992. Results from the 2003 household survey are not expected to be available until towards the end of 2004.

RECOMMENDATIONS

34. The monitoring and evaluation of PRSP and MDG targets need to be strengthened through improved tracking of regional disparities and greater involvement at the local levels:

- **Develop tools for monitoring the PRSP and MDG targets at the subnational level.** Poverty outcomes can substantially vary across different regions. Educational enrolment rates, maternal and child mortality, gender equality and availability of water and sanitation facilities decline as one moves further away from Banjul to the rural areas. Although the national rate for HIV infection is 2.1%, areas such as Sibanor can have double the national average at 4.8% (3.0% for HIV-1, 1.8% for HIV-2).

- **Strengthen local governments to implement and monitor the PRSP and MDGs.** The authorities are in the process of embarking on a comprehensive strategy of decentralization. Authorities have expressed the view that the process will be gradual. At present, the authorities are focusing on preparing the legal arrangement for decentralization. Modifications to the existing Local Government Act, a new Local Government Finance and Audit Bill, and a new Local Government Service Scheme have been prepared. Although the authorities have chosen to gradually proceed with decentralization, the PRSP emphasizes decentralizing the public sector and directly intervening at the community level. Local structures such as Ward and Village Development Councils should be given resources to finance their prioritized needs. In line with the proposed decentralization, local governments need the capacity and responsibility for implementing and monitoring the PRSP and MDGS.

- **Promote greater ownership of the PRSP and MDGs by sensitizing local elected officials and members of the National Assembly.** If implementation of the PRSP and MDGs are to become sustainable, there must be champions of the process. These champions must have a vested interest in the successful outcomes of the process. Local council officials and members of the national assembly should be sensitized on the relevance of the PRSP and MDGs to their specific constituencies or jurisdictions. The PRSP and MDG indicators can be compared across constituencies and used as measures of progress at the local level. The elected officials are then able to press claims for greater allocation of resources to their constituencies based on objective criteria. The indicators can also be used to promote greater accountability of elected officials.

Poverty Targets No Longer Feasible

35. The impact of macroeconomic developments on poverty was simulated using a model developed for the World Bank's Development Policy Review (2003). The model is an enhanced version of the World Bank's RMSM-X which incorporates a poverty module, Povstat. The poverty module estimates standard poverty indicators such as the poverty headcount ratio, the poverty gap and the Gini coefficient using the 1998 household survey data, then updates them to 2003 using annual estimates of sectoral growth and employment. The model was used to project poverty indicators for the future years based on the two scenarios of the IMF. The results are shown in figure 1.6.

Box 1 2: Methodology of Poverty Simulation Using Povstat

The analysis in this report is based on three inter-related components: a three-gap model describing the macroeconomy, a disaggregated sectoral growth accounting framework linked to the three-gap model and a module that links the above two inputs to poverty indicators based on household survey data.

The three-gap model for The Gambia consists of a flow-of-funds module and an external debt module designed to explore both external and fiscal sustainability. As such, the aggregate savings-investment balances and their public/private sector breakdown are fundamental features of the accounting framework. The financing of the savings-investment gaps and implications to external/domestic debt and inflation is also an important element of this framework. Given The Gambia's external environment, concessionary financing is accorded a significant role in the framework.

It was considered useful to work with a more disaggregated sectoral value added projection to explore both the balance of payments and fiscal implications of alternative growth paths and their poverty implications. In particular, it was necessary to explore effects of shocks to the main sectors of the Gambian economy, the groundnuts and tourism sectors.

In the groundnuts and other crops sectors, value added (ν_g) is projected on the basis of assumptions about land use (λ), yield (γ), and input use (ι):

$$\nu g = \phi(\lambda, \gamma, \iota)$$

Exogenous shocks to the groundnuts and other crops sectors, therefore, can be characterized by disturbances to any of these factors. Also, any shocks in these sectors are assumed to have repercussions on the trade, services, and exports.

In a similar manner, in the case of the tourism sector, the number of arrivals, the length of stay and earnings per tourist are the major factors affecting both the output and the level of foreign exchange earnings. Exogenous shocks to the sector are defined in terms of declines in the values of these indicators. The pass-through effects of any tourism-related shocks are also traced to the hotels and restaurants and related services sectors and eventually to the balance of payments and government finance.

For generating poverty indicators over a specified period of time, an Excel-based program called PovStat developed in the World Bank is used. The data for this exercise came from the Household Survey of 1998. The methodology assumes that the rate and sectoral pattern of growth determine how poverty measures evolve over time. The calculation of poverty indices under the PovStat program is focused on per capita consumption per month. The exercise has two parts: a) updating poverty indicators from 1998 to 2003; and b) projecting these for a specified number of years forward from 2003.

Detailed explanation of the model is provided in the World Bank's 2003 Development Policy Review.

36. The first two scenarios in figure 1.6 consist of a status quo scenario, scenario A, and a improved policy response scenario, scenario B. As described in the section on fiscal and debt sustainability analysis, scenario A assumes the continuation of low growth and high inflation due to the persistence of large budget deficits, and scenario B is a more favorable outcome based on improved fiscal policy and the resumption of external budgetary support. Improved management of domestic financing will result in lower interest rates and strengthening of the dalasi, and hence lower debt service. Money growth will be lower. Both scenarios assume the absence of any further exogenous shocks.

37. The MDG poverty target is to halve, between 1990 and 2015, the proportion of the population living below the poverty line. The poverty line is based on one US dollar per day adjusted for purchasing power parity. The poverty headcount ratio using the 1992 household survey was used as the baseline rate given the absence of a 1990 survey. The 1992 poverty headcount ratio was 54 percent, and therefore the target rate in 2015 is 27 percent. Assuming a uniform reduction in the poverty rate, then the target poverty rate in 2005 should be 38 percent. However, poverty actually increased in 1998 from 1992 as the 1998 household survey indicates that the poverty rate was 59 percent. Therefore, a uniform reduction of the poverty rate from 59 percent in 1998 to 27 percent in 2015 means that the target rate in 2005 should be 46 percent.

38. A striking feature of the simulation is that the MDG poverty target will not be met in either of the two scenarios. Without further policy improvements (scenario A), the poverty rates will broadly remain the same through 2015. Poverty will persist. The poverty rate is projected to be 61 percent in 2005 and 52 percent in 2015. Hence, both the PRSP poverty target in 2005 and the MDG target in 2015 will probably not be met.

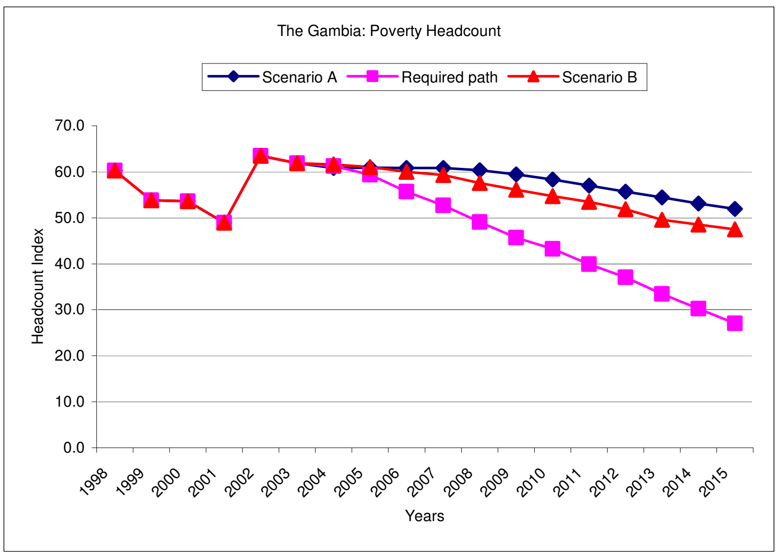
39. Even with policy improvements in scenario B, the poverty rate will be significantly above the target rate of 27 percent in 2015. Poverty declines by a greater degree compared to scenario A, but not enough for the country to meet the poverty targets. The poverty headcount ratio is projected to be 61 percent in 2005 and 48 percent in 2015. As in scenario A, both the 2005 and the 2015 targets are not met.

40. Poverty will likely worsen with any further shocks. Both scenarios assume the absence of any further exogenous shocks. The experience of 2002 indicates that the country is extremely vulnerable to exogenous shocks. The model estimates that the poverty rate increased substantially in 2002 and 2003 as a result of the economic

downturn, particularly since it emanated from the agricultural sector where most of the poor derive their livelihood.

41. The MDG poverty target can be achieved only under exceptional conditions. Figure 1.6 illustrates the projected decline of the poverty rate which would allow the country to reduce the poverty rate to 27 percent in 2015. Both scenarios A and B fall far short of the path required to reach the MDG poverty target. The macroeconomic conditions required for the path will be difficult to achieve given the country's past experience. The Gambia would have to attain an average growth rate of 8 percent, agriculture sector growth rate of 6 percent, and inflation rates of 3 percent. By contrast, the country had an average growth rate of 4.7 percent and an average inflation rate of 6.3 percent from 1998 to 2003, with significantly poorer performance in the most recent two years.

Figure 1.9: Poverty Simulation



FISCAL PERFORMANCE

REVENUE PERFORMANCE

Declining Revenues, Particularly International Tax

42. The Gambia's revenue performance is below the average of PRGF Sub-Saharan countries of similar development levels (see table 2.1). Total tax revenue and total revenue (total tax revenue plus grants) as a percent of GDP are below the average. Relatively strong performance in trade tax, namely customs duties, reflects the fact that the country relies heavily on trade related activities. The fact that revenue is below the average indicates that the country has the potential to increase public revenue, particularly the domestic tax on goods and services and nontax revenue. This will entail strengthening management and operations of tax administration.

43. The country generated 38 percent of its total tax revenue from customs duties in 2001, slightly above the average for PRGF Sub-Saharan African countries of 34 percent. However, indirect tax includes sales tax on imports collected at the point of customs clearance. Tax on international trade, defined as customs duties and sales tax on imports, was relatively high at 8.1 percent of GDP and 62 percent of total tax revenue in 2001. As a share of total tax revenue, taxes on international trade were approximately twice the average of Sub-Saharan African PRGF countries and three and a half times the average of Asian PRGF countries.

Table 2.1: Domestic Revenue Structure of Selected Countries

(Percent of GDP, unless otherwise noted)

	Total revenue	Total tax revenue	Direct tax	Indirect tax	Trade tax	Nontax revenue	Per cap. GDP[3]
The Gambia (2001)	15.1	13.0	3.8	4.2	5.0	2.1	310
PRGF SSA average	17.6	13.7	3.9	5.5	4.6	3.9	323
Cameroun	17.8	12.2	3.3	6.5	2.5	5.6	570
Guinea-Bissau	17.9	11.6	1.6	2.6	6.3	1.1	160
Mali	14.7	14.0	2.6	5.0	5.4	0.7	210
Senegal	17.3	16.8	3.6	6.6	6.5	0.5	454
Zimbabwe	28.1	26.3	16.0	10.0	4.0	1.8	665
PRGF Asian average	16.2	12.8	3.1	7.3	2.3	3.4	427
Mongolia	28.5	20.8	5.3	13.4	2.1	7.7	400
Vietnam	20.6	15.6	5.5	6.3	3.4	5.0	410

Source: World Bank (2003), Guinea PER (original source, IMF country staff reports)

Note: Figures are average from 1999 to 2001. Trade tax for The Gambia excludes sales tax on imports. Per capita GDP is in US dollars.

44. The authorities have the potential to improve collection of sales tax (indirect tax) given that it has underperformed the PRGF Sub-Saharan African average. Total sales tax in 2001 was comprised of 77 percent in tax on imports and 23 percent in tax

on domestic manufacturing and services. The structure of the sales tax indicates that The Gambia lacks a broad based consumption sales tax since the sales tax on imports is not comprehensive and final consumers may not ultimately bear the burden. It also indicates a relatively low rate of collection from domestic manufacturing and service industries.

45. In general, tax assessment and reporting requirements in The Gambia do not seem to be particularly burdensome for investors.[5] Corporate taxes are 35 percent of profits or 3 percent of turnover, whichever amount is higher. Personal income tax rates range from zero to 35 percent. There is a 15 percent sales tax on domestically manufactured goods, and certain services mainly related to tourism, professional services and air services. Imported goods are taxed at 10 percent, and telecommunication services at 18 percent. The country does not operate a value-added tax (VAT). Customs tariff schedule consists of only three rates, 5, 10 and 18 percent, but there are generous concessions and large number of exemptions.

46. At present, the major tax policy reform initiative is the Income and Sales Tax Bill which will replace the existing Income Tax Act of 1948. The Bill is currently going through the legislative process. In addition to more comprehensively describing the tax base, accounting rules and administrative procedures, the new draft law introduces a self-assessment system, establishes a Tax Tribunal, and replaces the existing ring system of sales tax with a credit mechanism. A major issue not covered by the Bill is the large number of sectoral taxes. A number of sectoral taxes, including annual fees which are similar to taxes, are collected by local governments, line Departments and CRD. They include the entertainment tax, pool betting tax, the national education levy, stamp duty, environment tax, casino and gaming machines tax, excise duty, and various annual business license fees. These taxes tend to be uncoordinated, each pursuing different policy goals.[6]

47. Domestic revenue has mostly been on a downward trend in recent years. Total revenue and grants were between 19 and 21 percent of GDP during the late 1990s, but decreased to the 17 percent range since 2001 except for 2002 which benefited from unusually large grant inflows (see table 2.2). A large share of the decrease in total revenue and grants can be traced to the tax on international trade which decreased from 10.7 percent of GDP in 2000 to 8.1 in 2001 and 2002, and 7.0 percent in 2003. Revenue losses from trade were not compensated by increased revenue from other sources.

48. The decrease of the tax on international trade should be viewed within the context of the external tariff reforms. Between 1998 and 2000, the authorities simplified the tariff structure and reduced the rates in an effort to further strengthen the country's comparative advantage as a regional trading center. The series of reforms culminated in 2000 when the maximum external tariff was reduced to 18 percent and the number of tariff bands was lowered to three nonzero bands. As a

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[5] See draft 2004 FIAS report on The Gambia.

[6] Ibid.

result, tax on international trade as a share of imports (c.i.f.) decreased from between 22 to 23 percent during 1998 to 2001 to 18.7 percent in 2002 and 16.8 percent in 2003. Customs duties as a share of imports decreased from between 14 and 15 percent during 1998 to 2001 to 11.5 percent in 2002 and 9.8 percent in 2003. In addition, imports decreased over the same period both in terms of the level and share of GDP, thus pushing the tax on international trade further downward.

Table 2.2: Economic Classification of Expenditures

(Percent of GDP)

	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Prel.	2003 Est.	2004 Proj.A	2004 Proj.B
Revenue and grants	20.5	19.2	20.8	17.2	20.8	17.3	17.6	21.0
Domestic revenue	18.6	17.9	18.5	15.1	16.3	15.3	15.4	16.8
Tax revenue	16.8	15.7	16.2	13.0	14.1	13.3	12.9	14.1
Direct tax	4.1	4.1	4.2	3.8	4.3	4.0	3.6	4.0
Indirect tax	12.6	11.6	12.0	9.2	9.8	9.3	9.3	10.2
Tax on goods and services	1.5	1.6	1.4	1.1	1.7	2.3	2.1	2.3
Tax on international trade	11.2	10.0	10.7	8.1	8.1	7.0	7.2	7.9
Nontax revenue	1.8	2.1	2.3	2.1	2.2	1.9	2.5	2.7
Grants	2.0	1.3	2.3	2.1	4.4	2.0	2.2	4.2
Expenditure and net lending	23.0	22.7	22.1	31.1	25.4	22.7	25.0	24.8
Recurrent expenditure	17.9	18.0	18.3	18.9	17.9	16.6	20.4	18.2
Wages and salaries	6.3	6.1	6.3	5.2	5.4	4.4	3.9	4.2
Other charges	6.2	6.8	7.4	8.1	7.0	5.5	4.9	5.3
Interest	5.3	5.0	4.6	4.5	5.0	6.0	11.2	8.2
External	1.3	1.2	1.1	1.0	1.1	1.8	2.0	1.8
Domestic	4.0	3.8	3.5	3.4	3.9	4.2	9.2	6.4
HIPC expenditure	0.0	0.0	0.0	1.0	0.5	0.7	0.5	0.5
Development expenditure	5.8	5.3	4.6	11.2	7.9	6.4	4.8	6.8
Foreign financed	4.7	4.5	3.7	3.4	6.7	5.0	3.6	5.5
Domestic financed	1.1	0.8	0.9	0.9	0.8	0.8	0.5	0.5
HIPC funded	0.0	0.0	0.0	0.0	0.4	0.7	0.8	0.7
Extrabudgetary expenditure	0.0	0.0	0.0	6.8	0.0	0.0	0.0	0.0
Net lending	-0.7	-0.6	-0.7	1.0	-0.4	-0.3	-0.2	-0.3
Overall balance (excl. grants)	-4.9	-5.6	-4.1	-16.5	-8.8	-7.8	-9.6	-8.0
Overall balance (incl. grants)	-3.0	-4.2	-1.8	-14.4	-4.4	-5.8	-7.4	-3.8
Primary balance	5.6	4.7	4.6	-8.1	2.7	3.6	5.1	4.0
Financing	3.0	4.2	1.8	14.4	4.4	5.8	7.4	1.7[1]
External (net)	1.2	0.6	-0.8	-0.4	1.9	0.6	-2.2	-0.4
Domestic	1.9	3.6	2.6	14.8	2.5	5.2	9.6	2.1

Source: IMF.

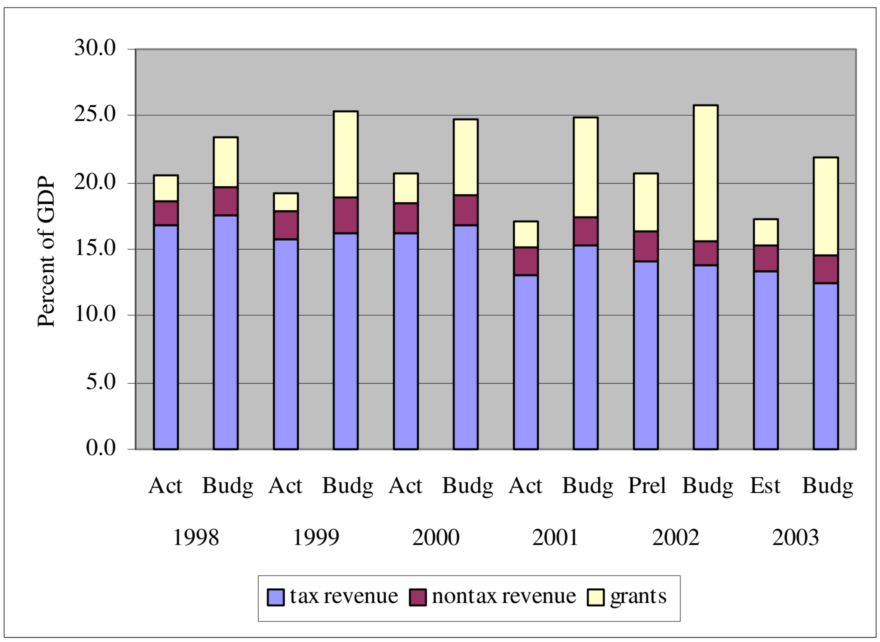
1. The projection assumes that unspecified fiscal measures amounting to 2.1 percent of GDP reduces financing need from the overall deficit of 3.8 percent of GDP to 1.7 percent of GDP.

49. The authorities have consistently overestimated total revenue. The overestimation results mostly from an optimistic estimate of external grants, mainly project and program grants (see figure 2.1). In fact, estimated actual non-grant domestic revenues were greater than the budget estimates in 2002 and 2003. By

contrast, budget estimates of grants were two to three times greater than the actuals. As a result, the authorities would have had to further reduce actual expenditures just to achieve the original deficit target in the budget. The planned level of expenditure in the budget would not have been sustainable. The consistent and significant overestimation of revenue reduces the credibility of the budget and undermines the budget planning process. The incentive to overestimate is that difficult decisions on expenditure reduction can be postponed from budget formulation to budget execution.

50. The authorities have embarked on a comprehensive set of reform and modernization of tax administration.[7] Some of the major initiatives are: (i) establishment of a national Revenue Authority; (ii) drafting and enactment of new laws to provide legislative backing to the reforms; (iii) establishment of a Large Taxpayer Unit (LTU); and (iv) transfer of domestic sales tax operations from CED to CRD. The domestic sales tax operations have been transferred to the income tax, while implementation of the other major initiatives are ongoing.

Figure 2.1: Actual and Budgeted Revenues



51. The main objectives of the reforms are to clearly separate managerial and operational responsibilities, enhance transparency and accountability, and improve working conditions. Successful implementation of the reforms will require a high level political commitment, and a soundly managed action plan based on clear objectives. So far, DOSFEA has been committed to the process, but the pace of reforms have been slower than initially expected.[8]

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[7] Chapter 3 contains more detailed information.
[8] See chapter three for more detailed analysis and recommendations.

RECOMMENDATIONS

- International comparisons indicate that public revenue can be increased, particularly domestic sales tax and nontax revenue.

- Revenue projections for external project and program grants need to be improved given the consistent and large overestimations.

- The authorities need to continue its commitment to implementing key tax administration reforms, including institutional restructuring and capacity building.

- The impact of the various sectoral taxes on business activities should be reviewed with a view to consolidating them. Taxes which do not result in significant revenue but create administrative burden should be abolished, while other taxes should be merged and procedures streamlined.

EXPENDITURE TRENDS

Significant Fiscal Slippage in 2001

52. Total expenditure and net lending as a share of GDP substantially increased in 2001 and 2002. After maintaining expenditure levels at 22 to 23 percent, it increased to 31.1 percent in 2001 and 25.4 percent in 2002. In particular, the significant increase in total expenditure in 2001 was due to off-budget expenditures equivalent to 6.8 percent of GDP. However, total expenditure would have been a relatively high level of 24.3 percent even without the off-budget expenditures. Fiscal loosening continued in 2002 before the authorities began to regain control in 2003.

53. Detailed information on the off-budget expenditures of 2001 has so far not been available. Currently, there are no documented figures on the composition of the expenditures, although the authorities have indicated broad areas of spending. Therefore, it is difficult to obtain a comprehensive description of overall spending in 2001. This limits the PER analyses, including analyses of PRSP spending. The fact that such large expenditures were executed without going through the normal budgeting channels indicates serious deficiencies in public financial management.

54. Recurrent expenditures peaked at 18.9 percent of GDP in 2001 but have since decline to 16.6 percent in 2003. The peak coincides with the peak in development expenditure, indicating a general loss of fiscal discipline in 2001. Despite the recent downward trend, recurrent expenditures are expected to substantially increase to 20.4 percent in 2004 under scenarios A and 18.2 percent under scenario B.[9] The increase in recurrent expenditures is mainly due to interest payments which is projected to

[9] See box 1.1 for explanation of the two scenarios.

increase from 6.0 percent of GDP in 2003 to 11.2 percent in 2004 in scenario A and 8.2 percent in scenario B.

55. Development expenditures net of off-budget expenditures have increased since 2002 due to an increase in foreign financed expenditures. Development expenditures averaged 5.0 percent of GDP between 1998 and 2001, but increased to 7.9 percent in 2002 and 6.4 percent in 2003. Development expenditures are projected to decrease to 4.8 percent in 2004 in scenario A and increase to 6.8 percent in scenario B. The difference in the projections of development expenditures is mainly due to externally financed expenditures. As expected, the size of development expenditures tends to fluctuate from one year to the next due to the reliance on foreign financing.

56. The share of recurrent expenditures in total expenditures significantly declined since 2001. It averaged 80 percent from 1998 to 2000, but subsequently declined to 60.7 percent in 2001, 70.5 percent in 2002, and 73.2 percent in 2003. The significantly lower share in 2001 was due to the large off-budget expenditures. It raises the risk that recurrent expenditures are underfunded with respect to development expenditures. In addition, the recent sharp increase in debt service has crowded out other recurrent expenditures, further raising the risk that recurrent expenditures are underfunded. Non-interest recurrent expenditures as a share of total expenditures decreased to 46.5 percent in 2003 after peaking at 62.0 percent in 2000. The share is projected to decrease to 37.1 percent in 2004 under scenario A and 40.6 percent under scenario B.

57. The remaining sections of the chapter analyze in detail public expenditures according to economic, functional, administrative, and PRSP classifications. Recommendations for restructuring expenditures are provided at the end of the chapter. In summary, the main findings of the analysis are:

- Significant increases in debt service have crowded out non-interest recurrent expenditures. Interest payments increased from 4.5 percent of GDP (23.7 percent of total recurrent expenditures) in 2001 to 6.0 percent of GDP (36.4 percent of recurrent expenditures) in 2003, and they are projected to further increase to between 8.2 and 11.2 percent of GDP (44.9 and 54.6 percent of recurrent expenditures) in 2004.

- The country has a higher share of capital expenditures and a lower share of current expenditures compared to the average of developing countries. Current expenditures in 2002 were 76.8 percent of total expenditures, lower than the average of 80.9 percent. Conversely, capital expenditures were 23.2 percent, higher than the average at 19.5 percent. In addition, the share of recurrent expenditures in total expenditures declined and the share of development expenditures increased by up to 10 percentage points since 2001. It indicates that there is potentially an imbalance between current and capital expenditures.

- Analyzed in terms of functional classification, the share of expenditures on non-Defense general administration was 22.5 percent in 2002, which was slightly larger than the Sub-Saharan African average of 21.2 percent and significantly larger than the East Asian average of 17.4 percent. In addition, the share of domestic expenditures on general administration increased from 48.1 percent in 2002 to 54.67 percent in 2003. The share of expenditures on economic services was significantly smaller compared to the average of other countries.

- Analyzed in terms of the administrative classification, recurrent expenditures on education and health steadily declined and development expenditures on economic services increased in the recent years. The budget for general administration is quite sizable at an average of 30 percent of total expenditures from 1998 to 2002. Most of the expenditures are recurrent, and it has the largest share of the recurrent expenditures.

- Expenditures on social services decreased steadily from a peak of 34.0 percent of total expenditure in 2000 to 28.1 percent in 2002. The share of recurrent expenditures decreased from peak of 24.7 percent in 1999 to 16.4 percent in 2002. This downward pattern continued in 2003 when domestically financed expenditures on social services sharply decreased from 24.0 percent of total domestically financed expenditures in 2002 to 18.2 percent in 2003. All of the decline in the domestic expenditures on social services was from expenditures on education.

- Domestically financed PRSP expenditures as a share of total domestically financed expenditures sharply declined in 2003, the first full year of PRSP implementation. Domestic PRSP expenditures decreased from 21.5 percent of total domestic expenditures in 2002 to 14.9 percent in 2003. PRSP expenditures on education declined by the largest amount, from 10.8 percent of total domestic expenditures in 2002 to 7.1 percent in 2003.

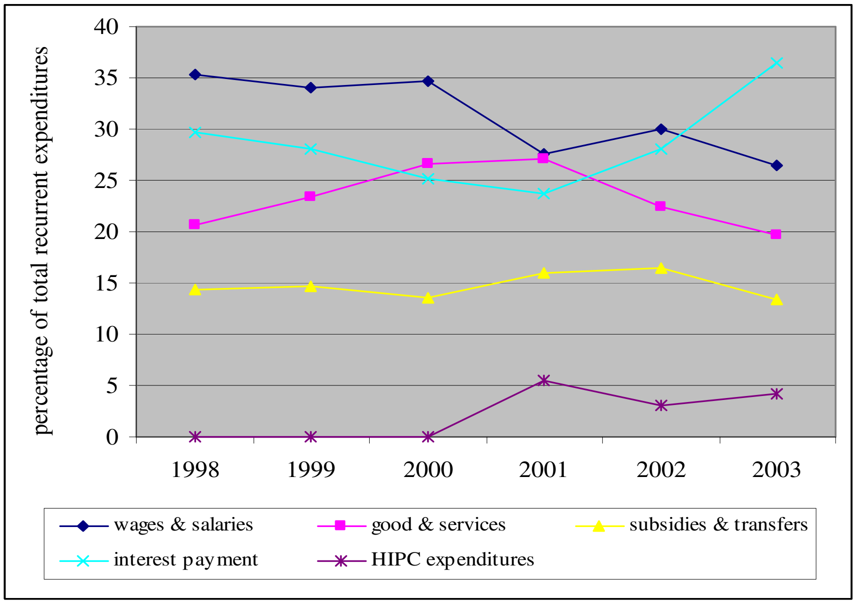
ECONOMIC CLASSIFICATION

Large Debt Services Crowding Out Other Expenditures

58. Interest payments have significantly increased since 2001, crowding out other recurrent expenditures. Total recurrent expenditures have declined at the same time interest payments have sharply increased, indicating that non-interest payment recurrent expenditures have substantially decreased (see figure 2.2). Whereas total recurrent expenditure decreased from 18.9 percent of GDP in 2001 to 17.9 percent in 2002 and 16.6 percent in 2003, debt service increased from 4.5 percent in 2001 to 5.0 percent in 2002 and 6.0 percent in 2003. As a result, debt service as a share of recurrent expenditure increased from 23.7 percent in 2001 to 28.1 percent in 2002 to 36.4 percent in 2003. In addition, debt service is projected to increase to 11.2 percent

of GDP and 54.6 percent of recurrent expenditure in 2004 under scenario A and 8.2 percent of GDP and 44.9 percent of recurrent expenditures under scenario B. Accordingly, the crowding out of non-interest recurrent expenditures will worsen in 2004.

Figure 2.2: Recurrent Expenditure by Economic Classification



59. Wages and salaries as a percentage of GDP decreased by 2 percent from 2000 to 2003 after remaining broadly constant from 1998 to 2000. Wages and salaries declined from 6.3 percent of GDP and 34.6 percent of recurrent expenditure in 2000 to 4.4 percent and 26.4 percent respectively in 2003. Spending is projected to further decrease to 3.9 percent of GDP and 18.9 percent of total recurrent expenditure in 2004. Wages and salaries as a share of total recurrent expenditures net of debt service and as a share of total expenditures net of debt service similarly declined over the same period. Country cases of such large declines have been few, particularly cases where there were no explicit civil service reform program. The decrease has the potential to further deteriorate morale and performance of the civil service, particularly for upper managerial and professional staffs which have higher vacancy and turnover rates. The deterioration of civil service salaries in real terms highlights the need to initiate a program of civil service reform as advocated in the PRSP.

60. Spending on other services as a percentage of GDP increased steadily from 1998 to 2001, but has since substantially deteriorated. Such a sharp decline in expenditures on nonwage operations and maintenance could have deteriorated service delivery. Other charges declined from 8.1 percent of GDP and 43.1 percent of recurrent expenditure in 2001 to 5.5 percent and 33.0 percent respectively in 2003. However, The Gambia has benefited from interim HIPC relief since 2001 which has augmented its spending on other charges. Adding HIPC expenditure increases

spending on other charges to 9.1 percent of GDP and 48.6 percent of recurrent expenditure in 2001 and 6.2 percent and 37.1 percent respectively in 2003. Note that spending on other services decreases significantly even with the addition of the HIPC expenditure such that spending in 2003 equals the recent low in 1998. Spending on other services is projected to decrease even further in 2004.

61. The decrease in expenditure on other services resulted from a decrease in goods and services and, to a lesser extent, from subsidies and transfers. Expenditure on goods and services decreased from 5.1 percent of GDP in 2001 to 3.3 percent in 2003. If we assume that half of HIPC spending were for goods and services, then the level of expenditure decreases from 5.6 percent of GDP in 2001 to 3.7 percent in 2003, a significant decline which accounts for 66 percent of the total decline in expenditures on other services.[10] By contrast, expenditures on subsidies and transfers were broadly constant at 3.0 percent of GDP in 2001 and 2002 before declining to 2.2 percent in 2003.

62. Focusing on recurrent expenditures limits the analysis because the development budget also contains current spending.[11] The economic classification adapted by the authorities classifies expenditures broadly into recurrent and development expenditures. However, both the recurrent and development budgets are a mixture of current and capital expenditures. For example, the recurrent budget includes acquisition of capital assets, and the development budget includes wages and salaries. Thus, focusing on only recurrent expenditures could result in a biased analysis. Unfortunately, the following analysis will be limited by the fact that actual expenditures classified by current and capital expenditures are available only for 2002 for all expenditures (see table 2.3) and from 2001 to the present for domestic (GLF and HIPC) expenditures (see table 2.4).

63. The composition of total expenditures indicates a bias towards capital expenditures. The country has a higher share of capital expenditures compared to the average of developing countries (see table 2.4). Capital expenditures were 23.2 percent, higher than the average at 19.5 percent. Conversely, current expenditures in 2002 were 76.8 percent of total expenditures, lower than the average of all developing countries at 80.9 percent.

64. The country has a lower than average share of current expenditures despite the large share of debt service. As a result, expenditures on salaries and wages and current transfers are low. By contrast, expenditures on goods and services were higher than the average. The share of expenditures on fixed capital assets were almost twice as high as the average. Acquisitions of fixed capital assets were 23.1 percent of total expenditures in 2002, compared to the average of 12.5 percent.

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[10] This is a conservative estimate as the 2003 budget indicates that approximately 25 percent of HIPC expenditure were allocated to goods and services, and 75 percent to subsidies and transfers.

[11] Capital expenditures consist of purchase or production of new or existing durable goods. Current or recurrent expenditures include wages and salaries, other goods and services (including non-wage operations and maintenance, or "O&M"), interest payments, and subsidies and other current transfers.

Table 2. 3 : Total Expenditure by Current and Capital Expenditures

(Percentage of total expenditure)

	Including debt service		Excluding debt service	
	2002 (Prel.)	All Countries[1]	2002 (Prel.)	All Countries
Current Expenditures	**76.82**	**80.92**	**70..28**	**77.78**
Salaries, wages, other pers. Exp.	22.48	30.65	28.83	34.86
Goods and services	20.73	18.32	26.58	20.83
Current transfers	11.60	15.71	14.87	17.87
Interest payment	22.02	12.53	-	-
Capital Expenditures	**23.18**	**19.54**	**29.72**	**22.22**
Fixed capital assets	23.14	12.46	29.67	14.17

Source: 2002 budget report and Pradhan (1996).
1. The average of all developing countries from 1985 to 1989.

65. The composition of total expenditures excluding debt service also indicates a relatively large share of capital expenditures. It indicates a bias towards new investments as opposed to recurrent spending. Expenditures on salaries and wages and current transfers were below the average of all countries, while expenditures on goods and services were above the average.

Table 2.4: Domestic (GLF and HIPC) Expenditures by Current/Capital Expenditures

(Percentage of total domestic expenditure)

	2001 Actual	**2002 Prel.**	**2003 Est.**	**2004 Budget**
Including debt service:				
Current Expenditures	**90.71**	**90.15**	**94.15**	**93.39**
Salaries, wages, other personnel exp.	24.73	29.12	25.87	19.40
Goods and services	21.93	17.86	19.58	20.91
Current transfers	16.69	13.88	10.04	12.78
Interest payment	27.36	29.28	38.66	40.30
Capital Expenditures	**9.28**	**9.85**	**5.82**	**6.57**
Acquisition of fixed capital assets	9.05	9.80	5.54	6.50
Acquisition of land and intangible assets	0.23	0.05	0.27	0.07
Lending and equity participation	**0.01**	**0.00**	**0.03**	**0.04**
Excluding debt service:				
Current Expenditures	**87.21**	**86.07**	**90.47**	**88.93**
Salaries, wages other personnel exp.	34.04	41.17	42.17	32.50
Goods and services	30.19	25.26	31.92	35.02
Current transfers	22.97	19.63	16.38	21.41
Capital Expenditures	**12.78**	**13.93**	**9.48**	**11.00**
Acquisition of fixed capital assets	12.46	13.86	9.04	10.89
Acquisition of land and intangible assets	0.31	0.07	0.45	0.11
Lending and equity participation	**0.02**	**0.00**	**0.05**	**0.07**

Source : Trial balance (2001), AGO's Vote Charge Books (2002, 2003), and annual budget report (2004). Debt service charges based on Fund figures.

66. Current domestically financed expenditures as a percentage of total expenditures increased and capital domestic expenditures decreased significantly in 2003 (see table 2.4). Current expenditure increased from 90.2 percent of total domestic expenditure in 2002 to 94.2 percent in 2003, and conversely capital

expenditure decreased from 9.9 percent in 2002 to 5.8 percent in 2003. Such changes in the composition of expenditures are in line with experiences of other countries which have sought to reduced expenditures, particularly for domestic expenditures which the country can directly control. Countries facing tough expenditure choices typically preserve immediate welfare and security interest at the expense of longer term capital investments.[12] Given the need to reduce overall expenditure, the capital component of domestic expenditures was reduced to a greater extent than the current component. Although clearly the authorities made efforts to preserve current expenditures during the recent years, the share of recurrent expenditures decreased due to the increase of development expenditures.

67. The increase of debt service accounts for the increase in current expenditures in 2003. By contrast, salaries and wages decreased by a substantially amount, from 29.1 percent of total domestic expenditure in 2002 to 25.9 percent in 2003. Essentially, increase in interest payment crowded out expenditures on salaries, wages and current transfer, while the expenditure share of goods and services was allowed to increase.

68. Acquisition of fixed capital assets sharply decline in 2003. Expenditures on fixed capital assets decreased from 9.8 percent of total domestically financed expenditures in 2002 to 5.5 percent in 2003. However, the balance between current and capital expenditures cannot be fully analyzed without incorporating data on externally financed expenditures on fixed capital assets. All domestically and externally financed expenditures organized by current and capital expenditures are available only for 2002 (see table 2.4).

FUNCTIONAL CLASSIFICATION

General Administration Large, Economic Services Small

69. The authorities adapted in 2004 for the first time a functional classification to the budget. It is a preliminary attempt at adapting the classification and further refinement will be needed, particularly through discussions with the spending agencies. The administration classification codes were mapped to the GFS (Government Finance Statistics) functions at the main function and sub-function levels. The functional classification will allow for the introduction of a programmatic classification in the future. Presently, the 1986 Classification of Functions of Government (COFOG)/GFS was introduced, but this can be easily converted to the 2001 standard. All expenditures, both domestically and externally funded, classified according to the new functional classification are available only for 2002 (table 2.5). Domestically funded expenditures by functional classification are available from 2001 as a result of retroactively applying the new classification (table 2.6).

[12] World Bank (1995).

70. As a share of total expenditures, The Gambia spent more on debt service and non-defense general administration, but less on economic services compared to the average of other countries. The analysis again indicates that debt service is relatively large, constraining public spending choices (see table 2.1). The problem has likely worsened since 2002 given that debt service has substantially increased.

Table 2. 5: Total Expenditures by Functional Classification (Percentage of total expenditures)

	2002	Avg. SSA	Avg. E. Asia
General Administration	**25.47**	**29.66**	**28.22**
Defense	2.96	8.46	10.87
Social Services	**37.43**	**26.18**	**33.51**
Education	14.69	13.98	20.45
Health	11.90	5.47	7.03
Social Security and Welfare	1.17	2.29	3.09
Housing and Community Amenities	9.16	2.44	2.19
Economic Services	**10.75**	**22.19**	**25.17**
Fuel and Energy	0.00	1.32	1.31
Agriculture, Forestry, Fishing and Hunting	4.93	7.44	8.12
Mining, Minerals, Manufacturing & Construction	0.02	2.17	1.89
Transportation and Communication	5.80	6.21	9.36
Others (including debt service)	**26.34**	**21.64**	**18.26**

Source: The Gambia's 2002 expenditures from the 2004 budget report, and average for Sub-Saharan and East Asian countries from 1985 to 1989 from Pradhan (1996).

71. The share of total expenditures on non-defense general administration was slightly above the Sub-Saharan Africa average but significantly larger than the East Asia average. Although expenditures on general administration were smaller than the average, this was solely due to the fact that expenditures on defense were low. In fact, the share of expenditures on general administration is greater than the average if the share for defense were the same as the average.

72. The share of expenditures on economic services, other than transportation and communication, was substantially lower than the average. In 2002, The Gambia spent 10.8 percent of total expenditures on economic services, whereas the average for the second half of 1980s was 22.2 percent for Sub-Saharan African countries and 25.2 percent for East Asian countries. Expenditures on transportation and communication were similar to the Sub-Saharan African average but lower than the East Asian average. Expenditures on economic services other than transportation and communication were less than the average of both Sub-Saharan African and East Asian countries.

73. The larger than average share of expenditures on social services was due to relatively large expenditures on health and housing and community amenities. The large amount of expenditures on health was mostly financed from donor projects. In fact, recurrent expenditures on health have declined over the recent years at the same time development expenditures have increased (see table 2.7), indicating that recurrent expenditures have not kept pace with development expenditures. The relatively large expenditures on housing and community amenities in 2002 were

mostly due to disbursements from a single project, JGCTA's Improvement of Artisanal Coastal Fisheries in Gunjur. The share of expenditures of housing and community amenities excluding the project becomes 2.13 percent, and the share of social services becomes 30.4 percent. The share of expenditures for education was similar to the Sub-Saharan average, but substantially lower than the East Asian average. In addition, tables 2.6 and 2.7 indicate that domestic expenditures on education have declined since 2002.

Table 2. 6: Domestic (GLF and HIPC) Expenditure by Functional Classification

(Percentage of total domestic expenditure net of debt service)

	2001 Actual	**2002 Prel.**	**2003 Est.**	**2004 Budget**
General Administration	**49.32**	**48.10**	**54.67**	**49.44**
General Public Services	36.64	33.91	39.31	37.57
Defense	6.08	5.81	5.80	3.96
Public Order and Safety	6.59	8.38	9.56	7.91
Social Services	**35.58**	**36.14**	**31.69**	**36.48**
Education	18.69	20.65	14.19	16.30
Health	11.99	11.98	13.88	16.84
Social Security and Welfare	0.09	0.35	0.38	0.51
Housing and Community Amenities	3.71	2.21	2.33	2.00
Recreational, Cultural and Religious Affairs	1.10	0.95	0.93	0.83
Economic Services	**11.51**	**12.58**	**10.93**	**11.68**
Fuel and Energy	0.00	0.00	0.03	0.07
Agriculture, Forestry, Fishing and Hunting	6.19	4.89	6.17	5.76
Mining, Mineral Resources, Manuf. & Constr.	0.08	0.04	0.03	0.07
Transportation and Communication	5.24	7.64	4.70	5.77
Others	**3.59**	**3.19**	**2.70**	**2.40**

Source : Trial balance (2001), AGO's Vote Charge Books (2002, 2003), and annual budget report (2004). Debt service charges based on Fund figures.

74. Domestic expenditures increased for general administration and decreased for social services and economic services in 2003 (table 2.6). Among the sectors, domestic expenditure increased the most in general public services and decreased the most in education in 2003. This does not seem to correspond to PRSP priorities. Domestic expenditures in general public services as a share of total domestic expenditures net of debt service increased from 33.9 percent in 2002 to 39.3 percent in 2003, whereas it decreased in education from 20.7 percent in 2002 to 14.2 percent in 2003. Other categories which experienced significant changes were health and agriculture and forestries which increased, and transportation and communications which decreased. However, with respect to health, the increase in domestic expenditures was accompanied by a decline in recurrent expenditures.

ADMINISTRATIVE CLASSIFICATION

Declining Recurrent Spending on Education and Health

75. The main pattern that emerged over the recent years was that recurrent expenditure on education and health as a share of total expenditure steadily declined, and development expenditure on economic services increased (see table 2.7). As a result, total expenditures on social services declined and economic services increased over the recent years.

Table 2. 7: Administrative Classification of Expenditures
(Percent of total expenditure)

	1998 Actual	**1999 Actual**	**2000 Actual**	**2001 Actual**	**2002 Prel.**
Recurrent Expenditure	**75.32**	**87.78**	**76.74**	**78.78**	**66.94**
General administration	24.94	28.40	28.26	28.23	22.86
Economic services	4.55	4.83	3.63	4.15	3.66
Agriculture	2.23	2.36	1.92	1.98	1.53
Transportation and communication	0.83	0.82	0.71	0.68	0.61
Social services	20.36	24.68	21.26	19.57	16.26
Education	13.37	15.70	13.18	11.81	10.03
Health	6.42	8.42	7.56	7.23	5.87
Public debt service	22.60	26.49	20.51	23.95	21.91
Pensions and gratuities	2.87	3.38	3.08	2.88	2.26
Development Expenditure	**24.68**	**12.22**	**23.26**	**57.68**	**33.06**
General administration	3.57	1.99	4.35	3.50	5.02
Economic services	8.23	3.94	6.14	7.77	16.50
Agriculture	3.39	2.61	3.95	4.20	3.16
Transportation and communication	3.85	1.15	2.04	2.84	5.52
Social services	12.87	6.29	12.77	9.95	11.54
Education	11.86	2.45	5.70	7.79	5.23
Health	1.01	3.84	7.08	2.13	6.29
Extrabudgetary expenditure	0.00	0.00	0.00	36.46	0.00
Total Expenditure	**100.00**	**100.00**	**100.00**	**136.46**	**100.00**
General administration	28.51	30.39	32.62	31.73	27.88
Economic services	12.78	8.77	9.77	11.92	20.16
Agriculture	5.62	4.96	5.87	6.18	4.68
Transportation and communication	4.68	1.97	2.75	3.52	6.13
Social services	33.24	30.97	34.03	29.52	27.79
Education	25.23	18.15	18.87	19.60	15.27
Health	7.43	12.25	14.64	9.36	12.16
Public debt service	22.60	26.49	20.51	23.95	21.91
Pensions and gratuities	2.87	3.38	3.08	2.88	2.26
Extradbudgetary expenditure	0.00	0.00	0.00	36.46	0.00

Source : For recurrent expenditure, national accounts (1998, 1998), trial balance (2000), AGO's Vote Charge Books (2001), annual budget report (2002). For development expenditure, annual budget reports. Public debt service and exrabudgetary expenditure based on Fund figures.
Note: The table presents data up to 2002 beyond which actual development expenditures are not available.

76. Development expenditures in 2001 were more than twice the previous years due to off-budget expenditures. The composition of the off-budget expenditures are not known. The composition of development expenditure changes significantly from year to year depending on the rate of implementation of donor projects.

77. The budget for general administration is quite sizable at an average of 30 percent of total expenditures. Most of its expenditures are recurrent, and it has the largest share of the recurrent expenditures. The Department of States with the largest budgets are Finance and Economic Affairs, Defense, Interior and Religious Affairs, the Office of the President, and Local Government and Lands. Development expenditure for general administration comprises on average 14 percent of total development expenditure, smaller than for economic and social services. The largest donor projects are the World Bank's Capacity Building for Economic Management Project (CBEMP) implemented under DOSFEA, EDF's Skills Development Project under DOSLG&L, and the World Bank's Poverty Alleviation and Capacity Building Project (PACBP) under DOSLG&L.

78. Total expenditures for economic services increased over the recent years, mainly due to the increase of its development expenditures. Whereas recurrent expenditure for economic services remained broadly constant over the recent years, development expenditure increased from a low of 3.9 percent of total expenditure in 1999 to 16.7 percent in 2002. The large increase in 2002 was due to a large disbursement from a JGCTA project, Improvement of Artisanal Coastal Fisheries in Gunjar, without which development expenditure reduces to 9.2 percent of total expenditure.

79. Both recurrent and development expenditures for agriculture have broadly remained constant over the recent years. The sector is characterized by a proliferation of donor projects. Major projects include IFAD and AFD's Lowland Agricultural Development Project (LADEP), IFAD's Rural Finance Project, and FAO's Special Program for Food Security.

80. The development budget for transportation and communication steadily increased from 1.15 percent of total expenditure in 1999 to 5.58 percent in 2002. Expenditures on road construction and rehabilitation comprised the majority of development expenditure in this sector, with 60 percent of the development expenditure financed through GLF and HIPC funds. The authorities prioritized the construction of new roads. However, expenditures on operations and maintenance need to be kept abreast of the increase in capital expenditures. In the case of road constructions, road maintenance is a component with a high rate of return which governments often neglect. Capital expenditure on road construction increased by one and a half whereas road maintenance only doubled from 2001 to 2002.

81. Expenditures on social services decreased steadily from a peak of 34.0 percent of total expenditure in 2000 to 28.1 percent in 2002. Recurrent expenditure decreased from a peak of 24.7 percent in 1999 to 16.4 percent in 2002, while development

expenditure fluctuated sharply year to year around an average of 10.7 percent. The development budget for social services is on average larger than the development budgets for general administration and economic services. It reflects the sizable amount of donor support. The large amount of donor support also causes the sharp fluctuations of the development expenditure as externally funded expenditure typically falls far short of projected amounts.

82. Education has the largest budget among all Departments of State, but its recurrent expenditure has decreased continuously from 1999. Recurrent expenditure on education as a share of total expenditure decreased from 15.7 percent in 1999 to 10.1 percent in 2002. However, education still has the largest recurrent budget among all Departments of State, mostly due to the large number of teachers on the public payroll. Although the share of development expenditures fluctuated sharply on a yearly basis, education also has the largest development budget among all the Departments of State, with an average of 6.6 percent of total expenditure and 24.4 percent of total development expenditure. The World Bank's Third Education Sector Project provided 80 percent of total education development spending in 2002. ADF's Education III project which started disbursing more recently will also provide a sizeable amount of support to the sector.

83. Health has the second largest budget after Education. Like Education, its share of recurrent expenditure also declined since 1999, particularly in 2002. Recurrent expenditures on health as a share of total expenditure decreased from 8.42 percent in 1999 to 5.87 percent in 2002. Its development expenditure fluctuated sharply on a yearly basis. The largest projects are the World Bank's Participatory Health, Population & Nutrition Project (PHPNP), ADF's Health Services Capacity Building Project, and IDB's support to Serekunda Hospital.

84. In the more recent years, domestically financed expenditures on social services exhibited a clear decline in 2003 in line with the increase in debt service (table 2.8).[13] The changes in the expenditure composition does not seem to adhere to the PRSP priorities. Debt services charges as a share of total dometically financed expenditure increased from 29.1 percent in 2002 to 38.6 percent in 2003, while domestically financed expenditure on social services declined from 24.0 percent in 2002 to 18.2 percent in 2003. During the same years, general administration remained constant at 33 percent while economic services declined from 11.1 percent in 2002 to 8.1 percent in 2003.

85. All of the decline in the domestically financed expenditures for social services was from expenditures for education. Education expenditure as a percentage of total domestically financed expenditure declined from 15.3 percent in 2002 to 9.4 percent in 2003, while expenditure on health remained broadly constant. The percentage

[13] The period of analysis of the composition of total expenditures by administrative classification ends in 2002, and the analysis of the more recent years up to 2004 is based only on domestically financed expenditures. This is due to data availability.

decline of expenditures on education was the largest among all Departments of State, and represented 62 percent of the increase in debt service.

86. The decline in expenditures on economic services resulted entirely from the decline in expenditures on Department of State for Presidential Affairs, Works, Communication and Information. The decline results mostly from a decrease in the expenditures for road construction and rehabilitation.

87. Expenditures on general administration essentially remained constant. It remained constant in the face of the large increase in the debt service. However, the composition of general administration changed. Expenditures for Foreign Affairs increased by the largest amount while Finance and Local Government increased incrementally. The other spending agencies decreased incrementally, except for Justice and Judiciary whose average share of total domestically financed expenditure declined by approximately half. In addition to Justice and Judiciary, the budget for all the governance related government bodies declined. They include the National Assembly, Independent Electoral Commission, Public Services Commission, and the National Audit Office.

Table 2. 8: Domestically Financed Expenditure by Administrative Classification
(Percentage of total domestically financed expenditure)

	2001 Actual	2002 Prel.	2003 Est.	2004 Budget
General Administration	**34.83**	**32.81**	**32.70**	**29.24**
Office of President	5.30	4.51	3.63	3.35
National Assembly	0.53	0.74	0.55	0.47
Judiciary	1.05	1.63	0.69	0.64
Independent Electoral Commission	0.77	0.15	0.11	0.12
Public Service Commission	0.03	0.04	0.03	0.02
National Audit Office	0.32	0.27	0.19	0.18
Defense	4.42	4.08	3.61	2.37
Interior & Rel. Affairs	4.24	5.76	5.45	4.44
Foreign Affairs	4.61	5.92	7.60	3.98
Justice	0.71	0.63	0.39	0.37
Finances, Economic Affairs	8.65	6.19	6.70	6.41
Local Government, Lands	2.30	0.94	0.98	0.82
Miscellaneous	1.92	1.93	2.75	6.05
Economic Services	**10.11**	**11.08**	**8.12**	**7.90**
Agriculture	3.87	2.85	3.27	2.89
Trade, Industry & Employment	0.49	0.84	0.43	0.48
Fisheries, Natural Resources, Environment	1.13	1.36	1.06	1.00
Pres. Affairs, Works, Comm., Information	4.02	5.51	2.87	3.19
Tourism	0.60	0.52	0.50	0.34
Social Services	**24.43**	**24.03**	**18.24**	**20.58**
Education	15.09	15.33	9.42	10.34
Health, Social Welfare	8.71	8.23	8.35	9.83
Youth, Sports	0.64	0.48	0.47	0.42
Other Expenditures	**30.63**	**32.08**	**40.94**	**42.27**
Debt Service Charges	27.34	29.07	38.63	40.36
Pensions and Gratuities	3.29	3.00	2.31	1.91
Total	**100.00**	**100.00**	**100.00**	**100.00**

Recurrent	89.93	88.85	92.87	91.08
Recurrent w/o debt service	62.59	59.78	54.24	50.72
Development	10.07	11.15	7.13	8.92

Source : Trial balance (2001), AGO's Vote Charge Books (2002, 2003), and annual budget report (2004). Debt service charges based on Fund figures.

PRSP ANALYSIS

Large Decrease in PRSP Expenditures in 2003

88. Domestically funded expenditures on PRSP related activities as a share of total domestically funded expenditure significantly decreased in 2003. The PRSP analysis is based on the PRSP codes which identify whether each budget line item is a PRSP related expenditure (see box 3.1). The significant decrease in the share of PRSP expenditures in 2003 is disconcerting given that it was the first full year of PRSP implementation. Domestically (GLF and HIPC) financed PRSP expenditures decreased from 21.5 percent of total expenditure in 2002 to 14.9 percent in 2002 (see table 2.9). The share of PRSP expenditures decreased in all three major administrative categories, general administration, economic services, and social services.

Table 2. 9: Domestically Financed PRSP Expenditure by Administrative Classification

(Percentage of total and sectoral expenditure)

	2001		**2002**		**2003**		**2004[1]**	
Share of :	**Total**	**Sector**	**Total**	**Sector**	**Total**	**Sector**	**Total**	**Sector**
General Administration	**0.00**	**0.00**	**1.13**	**3.46**	**0.87**	**2.67**	**1.08**	**3.69**
Office of President	0.00	0.00	0.19	4.11	0.12	3.20	0.28	8.22
Judiciary	0.00	0.00	0.55	33.48	0.05	7.89	0.10	15.54
Finances, Ec. Affairs	0.00	0.00	0.21	3.34	0.54	8.05	0.55	8.54
Economic Services	**2.85**	**28.19**	**6.69**	**60.34**	**3.52**	**43.37**	**4.23**	**53.57**
Agriculture	2.35	60.63	1.99	70.00	2.09	64.11	2.22	76.63
Fisheries, NR,, Environ.	0.50	44.56	1.17	86.26	0.86	81.11	0.76	75.70
Pres. Aff., Wks, Com., Info.	0.00	0.00	3.50	63.44	0.51	17.97	1.18	36.93
Social Services	**11.04**	**45.19**	**13.68**	**56.93**	**10.54**	**57.80**	**14.72**	**71.53**
Education	8.62	57.11	10.79	70.39	7.14	75.81	7.22	69.81
Health & Social Welfare	2.43	27.86	2.89	35.18	3.39	40.60	7.43	75.61
Total	**13.89**		**21.50**		**14.94**		**20.04**	
Recurrent	11.34	12.62	13.60	15.30	11.70	12.60	14.97	16.43
Development	2.55	25.28	7.91	70.93	3.23	45.37	5.07	56.85
Total net of debt service	19.12		30.32		24.34			33.60

Source : Trial balance (2001), AGO's Vote Charge Books (2002, 2003), and annual budget report (2004). Debt service charges based on Fund figures.

1. Figures for 2004 are budget allocations, not actual expenditures.

89. The share of PRSP expenditures in economic services decreased by a greater amount than general administration and social services. PRSP expenditures in economic services as a percentage of total domestic expenditures declined by almost half in 2003. The decline in the share of PRSP expenditures in the social services

from 13.7 percent in 2002 to 10.5 percent in 2003 was mainly due to an overall decline in domestic expenditures in the sector as opposed to a decline in the share of PRSP expenditures in the sectoral budgets.

90. PRSP expenditures on Education as a share of total domestic expenditure decreased by the largest amount, from 10.8 percent in 2002 to 7.1 percent in 2003. This is in line with the overall decrease in domestic spending in the sector. PRSP expenditures in Judiciary and Works and Communication similarly declined by a large amount. By contrast, PRSP expenditures on Health and Agriculture both increased from 2002 to 2003. PRSP expenditures in Health increased mostly because the share of PRSP expenditures within the sector increased, whereas PRSP expenditures in Agriculture increased because overall domestic expenditure in the sector increased.

91. Judiciary and Works and Communication experienced the largest decline in intrasectoral share of PRSP expenditures. The PRSP expenditures as a share of sectoral spending decreased from 33.5 percent in 2002 to 7.9 percent in 2003 for Judiciary, and 63.4 percent to 18.0 percent in 2003. Within these two Departments, expenditures on PRSP related items decreased and non-PRSP related items increased.

Box 2. 1: PRSP Classification of the Budget

A PRSP code identified whether each budget line item was a PRSP related expenditure. These codes were first applied to the 2003 budget, then further refined for the 2004 budget through greater consultations with stakeholders. The PRSP codes quite appropriately identify education, health and agriculture as the areas with the highest concentration of PRSP related expenditures items. The Office of the President also has a large share of line items identified as PRSP related expenditures, including expenditures for National Nutrition Agency, the National Environmental Agency, and the HIV/AIDS Rapid Response Project.

- Many of the externally funded development expenditure line items are not coded PRSP but these items could be considered PRSP related. For example, the Capacity Building for Economic Management Project is not identified as a PRSP related expenditure although it supports strengthening public expenditure management, one of the key objectives of the PRSP.
- With respect to Agriculture, donor contributions to select projects such as the Lowlands Agricultural Development Project and the Livestock Development Program are not identified as PRSP, but these items could be considered PRSP related.
- With respect to Education, development expenditures for Gambia Technical Training Institute, National Training Authority, and components of the Third Education Sector project such as the policy planning and budgeting component are not identified as PRSP, but these items could be considered PRSP related.
- With respect to Health, subvention for the Independence Stadium is identified as a PRSP related expenditure, but this does not seem to be a poverty related expenditure. Recurrent and development expenditures for hospitals are identified as PRSP, but this does not seem to agreed with the PRSP's emphasis on primary health care. Recurrent expenditures for Directorate of Planning are not identified as PRSP related expenditures, but they could be considered PRSP related. Development expenditures for components of the Participatory Health, Population and Nutrition Project and Health Services Capacity Building Project are not identified as PRSP, but they could be considered PRSP related.
- With respect to Finance, all expenditures for SPACO could be considered as PRSP related. Transfers to the counterpart contingency fund is identified as a PRSP expenditure, but this does not seem to be necessarily PRSP related. Various development expenditures for building basic capacity

for economic management could be considered as PRSP related.

- With respect to Works and Construction, expenditures for coastal defense works are identified as PRSP, but they do not necessarily seem to be PRSP related. Major road projects are identified as PRSP related expenditures, but typically PRSPs focus on feeder roads and not highways.
- With respect to Interior, expenditures for police and fire stations are identified as PRSP, but they might not necessarily be considered PRSP related.

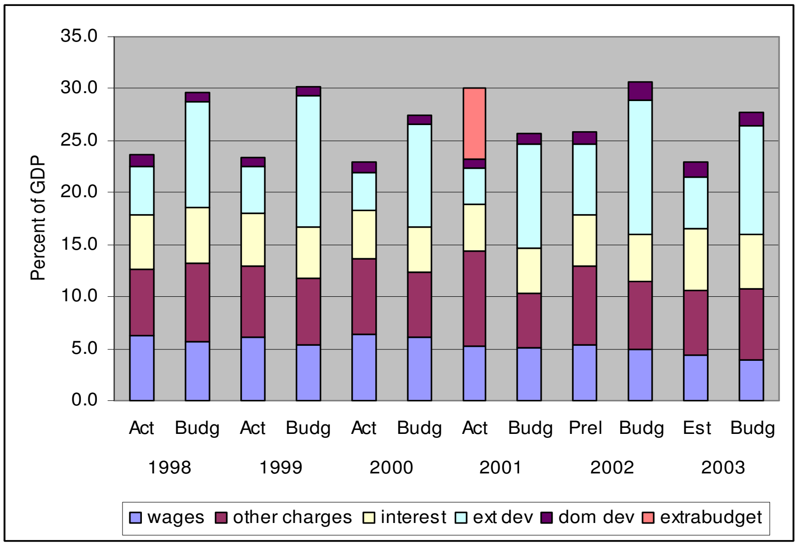
92. The 2004 budget allocates a much greater share to PRSP expenditures. Total PRSP expenditures as a share of total domestically funded expenditures increases to 20.0 percent, near the previous high in 2002. The 2004 budget also increases PRSP expenditures in the social services back to the 2002 level by increasing PRSP expenditures in Health. If implemented, the 2004 budget to a large extent reverses the 2003 decline in PRPS expenditures.

93. The PRSP analysis is constrained by the availability of the actual expenditure data and the limitation of the PRSP codes. The analysis was applied only to the domestically financed expenditures due to the unavailability of recent development expenditure data. Furthermore, PRSP codes need to be further refined (see box 3.1). Two of the recommendations are to revisit much of the development expenditures which are presently not coded as PRSP expenditures, and to reconsider identifying hospitals as PRSP expenditures given that the PRSP emphasizes primary health care.

Actual and Budgeted Expenditures Comparison

94. Total actual expenditures have been consistently less than the budget, except for 2001 when there were sizable off-budget expenditures. However, the fact that actual expenditures have been less than the budget was entirely due to the fact that the externally funded development budget has been consistently and significantly over-budgeted by an average of 6.4 percent of GDP between 1998 and 2003 (see figure 2.3). By contrast, actual recurrent expenditures have been consistently greater than the budget, indicating weaknesses in aggregate fiscal control.

Figure 2.3: Figure Actual and Budgeted Expenditures



Source: IMF

95. The overspending of recurrent expenditures reached its peak in 2001, then subsequently declined. Actual recurrent expenditures were greater than the budget by 4.3 percent of GDP in 2001, then the difference declined to 1.9 percent in 2002 and

0.6 percent in 2003. Most of the overspending was due to discretionary spending on other charges, consisting of goods and services and subsidies and transfers. However, actual expenditures on other charges were lower than the budget by 0.6 percent of GDP in 2003, resulting in a decline in the overspending of recurrent expenditure against the budget. The large gap in 2001 indicates a serious loss of fiscal discipline. It was also the year when revenues were overestimated by 45 percent, the largest in recent years. It indicates that overestimating revenues encourages overspending of recurrent expenditures. The under-budgeting of debt service increased in the recent years in conjunction with the increase of total debt service. As a result, the projected debt service for 2004 is greater than the budgeted debt service by 3.9 percent of GDP.

96. Expenditures for Education and Health were substantially smaller than their respective budget allocations. In fact, the under-funding for the two Departments was larger than any other Departments in 2003. The fact that the under-budgeting of the debt service was greater than the combined under-funding for the two Departments indicates that the increase in debt service crowded out expenditures in Education and Health. Only three Departments had actual expenditures greater than their budget allocations, DOS for Foreign Affairs, Interior and Religious Affairs, and Defense. None of these three Departments are high priority areas in the PRSP.

Table 2. 10: Recurrent Expenditure by Administrative Classification

(Percentage of total recurrent expenditure)

	2001	2002	2003

	Act.	Budg.	Diff.	Prel.	Budg.	Diff.	Est.	Budg.	Diff.
General Administration	**35.83**	**33.58**	**2.25**	**34.15**	**34.37**	**-0.22**	**33.47**	**33.48**	**-0.01**
Office of President	5.64	4.93	0.70	4.77	5.17	-0.40	3.71	4.24	-0.53
Defense	4.86	4.38	0.48	4.57	4.23	0.34	3.82	3.16	0.66
Interior & Rel. Affairs	4.43	5.25	-0.82	5.96	4.95	1.01	5.75	5.53	0.23
Foreign Affairs	5.12	5.61	-0.49	6.67	5.65	1.02	8.15	5.42	2.73
Finances, Ec. Affairs	8.96	6.81	2.15	6.00	7.01	-1.02	6.26	6.90	-0.65
Local Govt., Lands	1.20	1.41	-0.22	0.93	1.26	-0.33	0.78	1.11	-0.33
Miscellaneous	2.13	1.97	0.16	2.17	3.47	-1.30	2.96	4.74	-1.77
Economic Services	**5.27**	**6.24**	**-0.97**	**5.46**	**6.34**	**-0.87**	**4.95**	**6.43**	**-1.48**
Agriculture	2.51	2.44	0.07	2.28	2.65	-0.37	2.53	3.28	-0.74
Pres. Aff., Wks, Com., Info.	0.86	1.29	-0.43	0.91	1.16	-0.25	0.66	1.14	-0.49
Tourism	0.56	0.53	0.03	0.56	0.57	-0.01	0.52	0.58	-0.06
Social Services	**24.84**	**28.83**	**-3.98**	**24.29**	**27.71**	**-3.42**	**17.50**	**24.52**	**-7.03**
Education	15.00	17.20	-2.21	14.99	15.45	-0.46	8.71	12.88	-4.17
Health, Social Welfare	9.18	10.94	-1.77	8.77	11.62	-2.85	8.33	11.19	-2.86
Other Expenditures	**34.06**	**31.36**	**2.70**	**36.10**	**31.59**	**4.51**	**44.08**	**35.57**	**8.51**
Debt Service Charges	30.40	28.17	2.23	32.72	28.26	4.46	41.60	33.36	8.23
Pensions and Gratuities	3.66	3.19	0.47	3.38	3.33	0.05	2.48	2.20	0.28

Source: :Trial balance (2001), and AGO's Vote Charge Books (2002, 2003), and annual budget report (2001, 2002, 2003). Debt service charges based on Fund figures.

DATA QUALITY

Actual Expenditure Data Have Major Discrepancies

97. There are major discrepancies in the data on actual expenditures. Total expenditures by administrative classification differs from total expenditures by economic classification (see table 2.11). The former figures are from the national accounts, preliminary trial balances and preliminary figures from budget reports, whereas the latter figures are from the IMF staff reports. In general, the total from the economic classification is larger than the total from the administrative classification. Data discrepancies indicate that the PER analysis should be interpreted with caution. The analysis should be viewed as broadly indicative. As a result of the discrepancies, the analysis focused on shares of total expenditures as opposed to levels.

98. The data discrepancies further corroborate various recent assessments, including the 2003 CFAA, the 2004 HIPC AAP and chapter three of this PER, that the system of accounting for public expenditures is extremely weak. The institutions and governance of public financial management need to be strengthened as a basis for improving the quality and availability of data.[14]

Table 2.11: Comparison of Actual Expenditure Data

(millions of dalasis)

	1998	1999	2000	2001	2002
Domestically financed (GLF & HIPC)					

[14] See chapter three for more details.

Economic classification (IMF)	611.58	678.71	787.47	1,004.28	1,037.74
Admin. Classification (PER exercise)	604.49	615.80	749.14	780.57	904.04
Difference (econ. - admin.)	7.09	62.91	38.34	223.71	133.70
Externally financed (grants & loans)					
Economic classification (IMF)	211.16	220.97	196.67	224.49	495.22
Admin. Classification (PER exercise)	206.66	73.28	269.50	152.06	417.44
Difference (econ. - admin.)	4.50	147.69	-72.83	72.43	77.78
Total difference (econ. – admin.)	11.59	210.59	-34.49	296.15	211.48

99. The absence of detailed information on the off-budget expenditures in 2001 also severely limits the analysis. The findings of the present analysis can significantly change depending on the nature of the off-budget expenditures.

100. The functional classifications are preliminary and need to be refined. The analysis of total expenditures organized by functional classification compares a single year with the average of previous years. This was due to data availability. However, it was earlier noted that expenditure composition significantly changed in 2003, which could impact the findings of the analysis. Also, the average of other countries is not necessarily the ideal, and country specificity need to be further considered.

RECOMMENDATIONS

101. **The primary fiscal objective should be to reduce the debt service.** The analysis clearly indicates that the recent sharp increase in the debt service has crowded out other domestic expenditures, including PRSP expenditures. Although debt service is not a discretionary expenditure, it can be lowered over time through prudent fiscal and monetary policies. The authorities need to maintain low fiscal deficits which will reduce dependence on domestic financing of the deficits. It will also prevent further monetary loosening and thereby allow the interest rates to decline. This will reduce the debt service burden of the authorities.

102. **Discrepancies of the expenditure data should be resolved, and the off-budget expenditures incorporated.** Discrepancies in the expenditure figures and the lack of information on the off-budget expenditures undermine the credibility and reliability of the data, and reduces the transparency and accountability of the budget process. They are symptoms of the underlying institutional and governance weaknesses. Spending decisions can only rely on indicative figures if the current data situation is not improved. The authorities need to ensure that the ongoing PEM reforms will improve the comprehensiveness, timeliness and reliability of the expenditure data.

103. **The PRSP codes should be further refined.** Substantial improvements were made through stakeholder consultations. However, box 3.1 indicates there are still several areas that need to be reviewed. Among them are the fact that hospital expenditures are identified as PRSP expenditures although the PRSP emphasizes

primary health, and that much of development expenditures are not identified as PRSP related expenditures.

Expenditure Decreases:

- **General Administration.** Expenditures on non-Defense general administration are large compared to the average of other countries, and in addition they have increased in the recent years. Two of the largest Department of States are the DOS for Foreign Affairs and the DOS for Interior and Religious Affairs. Neither of these Departments are high priority areas in the PRSP. Expenditures for these two Departments were greater than their budget allocations in recent years. Domestically financed expenditures for Foreign Affairs were the third highest after Education and Health in 2003. Therefore, there seems to be some scope for cutbacks. A review could be conducted of the necessity of maintaining the current number of embassies. Rental expenses can be lowered, operations scaled down, and waste reduced.

- **Capital expenditures relative to current expenditures.** There are indications that capital expenditures have outstripped current expenditures in recent years. Externally funded development expenditures have increased and outpaced recurrent expenditures. Given the fiscal constraints in increasing recurrent expenditures, the authorities should exercise greater caution in planning and executing the development budget such that current expenditure implications are adequately addressed. Sectors in which development expenditures are significant and increasing, such as education, health and transportation, are prime candidates for the under-funding of current expenditures. The authorities will need to strengthen the budget process in order to improve the planning and execution of the development budget. The preparation of the recurrent and development budgets need to be fully integrated in order to ensure adequate funding of current expenditures. The present lack of a well articulated development budget strategy constrains expenditure choices.

Expenditure Increases:

- **Salaries and wages.** The relative decline of salaries and wages is particularly large for a country with no explicit civil service reform program. The decrease has the potential to further deteriorate moral and performance of the civil service, particularly for higher managerial and professional staffs which the public sector experiences greater problems in hiring and retention. The deterioration of civil service salaries in real terms highlights the need to initiate a program of civil service reform as advocated in the PRSP.

- **Education (current expenditures).** Domestic expenditures and PRSP expenditures on Education declined by the largest amount among all Departments in 2003. Education is one of the key sectors in the PRSP. With the continued large inflow of externally funded capital spending, the authorities need to ensure that there is a corresponding increase in the domestic expenditures to fund adequate matching levels of current spending. The proposed increase of current expenditures in Education should focus on goods and services which have been particularly neglected.[15]

- **Governance.** Improving governance is one of the key objectives of the PRSP. It implies greater expenditures for the National Assembly, the National Audit Office, DOS for Justice, and Judiciary. In particular, Judiciary experienced a significant decline in expenditures, including PRSP expenditures. However, greater allocations must be followed by greater results. The authorities should outline specific objectives to be achieved in return for greater allocation of resources.

[15] See chapter four for more details.

Public Financial Management Institutions and Governance

104. The institutions and capacity of public financial management in The Gambia need substantial upgrading. There has been several recent assessments which have outlined the various weaknesses and made recommendations in public revenue management, public expenditure management (PEM), decentralization of the government finances, and the capacity of the civil service. The present PER analysis draws on these earlier assessments, particularly the multidonor CFAA (2003) and the second joint World Bank-IMF HIPC AAP (2004). It assesses progress on the earlier recommendations, notes new developments, and highlights new areas in need of policy decisions. Particular attention was given to the country's limited administrative and technical capacity, and requirements for external technical and financial assistance.

PUBLIC REVENUE MANAGEMENT

105. The authorities have prepared a Revenue Authority Bill which fundamentally reorganizes public revenue management through the establishment of an independent national Revenue Authority. In conjunction, amendments to the income tax law have been prepared. Both draft laws are currently under consideration by HILEC. The authorities have indicated that the legislative process of both laws will be completed by June 2004. In addition to the establishment of a Revenue Authority, there are several ongoing capacity building reforms of tax administration. The chapter summarize the major findings and recommendations, and detailed descriptions are in the appendix II.

An Independent and Adequately Funded Revenue Authority

106. The Revenue Authority will be a semi-autonomous government body that has overall authority over the tax administration operations, including both income tax and customs. The overall objective of establishing the Revenue Authority is to create credible government commitment to taxpayers that tax administration will be more competent, effective, and fair. The commitment is evidenced by providing independence and adequately funding to the Authority. This legitimizes the tax system, increases tax compliance, and therefore results in greater tax collection. The experiences of other countries indicate that the credibility of the commitment, and therefore the impact on tax collection, depends to a great deal on the perceived level of autonomy of the Revenue Authority (see Box 3.1).

Box 2. 2: Revenue Authority in Uganda and Tanzania

Uganda established a semi-autonomous Revenue Authority in 1991,and Tanzania in 1996 as part of major reforms of tax administration. The aim was to limit political interference by the Ministry of Finance, and to free tax administration from the constraints of the civil service system.

The reforms resulted in some short-term revenue successes, but these achievements have been difficult to sustain in the longer run. In Uganda, reported tax revenue increased sharply from 7 percent of GDP in FY 1991 to more than 10 percent in 1997, and corruption seemed to be declining, too. However, since then the tax-to-GDP ratio has stagnated, and there are clear indications that corruption is on the rise again. In Tanzania, reported revenue increased in the first year of the Revenue Authority's existence, from 10 percent of GDP in 1997 to almost 11 percent in 1997, but thereafter the tax-to-GDP ratio has declined. In both Uganda and Tanzania, the initial increase in revenue collection was followed by stagnation or decline despite continued economic growth, further reforms of important tax legislation, and accumulated operational experiences in the new revenue administrations. There may have been two major factors that explain this trend.

First, the autonomy of the Authorities steadily waned over time. Eventually the Ministry of Finance almost fully controlled the Board, and the Board and the government increased their interference and micromanagement of the administrative affairs of the Authority, particularly in staffing matters. This undermined the authority and legitimacy of the Commissioner General and the top management of the agencies. Managerial autonomy was also undermined by the increasing use of tax exemptions.

Second, corruption continued to thrive even with relatively high wages and good working conditions. Pay raises could not compensate for the amount that could be gained from bribery without extensive and effective monitoring. The initial pay increases were not sustained as nominal wages remained stagnant over time. The use of dismissals was reduced substantially over time, and those dismissed were often recruited by the private sector as "tax experts." Initial appointments of executives known for their integrity were undermined later by politically motivated appointments and interference in Revenue Authority Affairs. The Ugandan authorities recently appointed an expatriate as the Commission General in an effort to limit corruption.

Source: Fjeldstad, Odd-Helge et al., "Autonomy, incentives and patronage. A study of corruption in the Tanzania and Uganda Revenue Authorities," CMI Report WP 2003 (9), Chr. Michelson Institute.

107. Revenue Authorities are funded in a variety of ways: (i) budgetary provision or subvention; (ii) percentage retention of revenue collection; and (iii) combination of the previous two methods. The first option in The Gambia has not been effective in providing adequate funding for the tax administration. Typically, it requires 1.5 to 2.0 percent of revenue collected in order to properly fund the operation of a maturing tax administration organization.16 In The Gambia, the combined budget for CRD and CED amounted to 0.5 percent of the domestic revenue in 2001. Therefore, the budget for revenue administration has been underfunded.

108. There are many examples of countries funding their revenue administration through a combination of budgetary provision and a percentage retention of revenue collection. In addition to securing its operating budget through the national budget, the Authority is permitted to retain a specific percentage of revenue collections that exceeds the revenue targets. Some countries go a step further and put a total cap on the operating budget not to exceed a certain percentage of revenue collections.

[16] Hall, Jeffrey M. and Jenkins, Glenn P., "The Transition to a Revenue Authority, unpublished paper, International Tax Program, Harvard University, April 27, 1995.

Kenya's Revenue Authority Act earmarks 1.5 percent of the tax revenue for the Revenue Authority. In addition, 3.0 percent of the excess of the revenue over the projections is provided as a bonus. However, the total amount available to the Authority may not exceed 2 percent of the revenue collected. In Argentina, the law provides for the Authority to obtain their budget the traditional way and then contributes 0.6 percent of tax revenue to a compensation fund for the revenue agents and inspectors. Uganda's Revenue Authority relies on an annual contract negotiated between the government and the Revenue Authority for a fixed percentage of total tax receipts.[17]

RECOMMENDATIONS

109. **The authorities should expedite the submission of the Revenue Authority Bill and the amended Income Tax Bill to the National Assembly, and begin the preparatory work for their timely implementation.** The preparation for implementing the new laws consists of organizational, administrative, and technical reforms. Several key steps need to be taken immediately by the Revenue Reform Committee and DOSFEA in order to establish and operationalize the new agency. In summary, they are:

- Review and redraft organizational structure, prepare draft functional statements for all the major organizational components, and prepare draft position descriptions for the major headquarters positions

- Ensure that plans for the new Revenue Authority building are consistent with the proposed organizational structure

- Establish a target date when the Revenue Authority will be effective

- Define responsibilities of the Board and appoint Board members, including the Commissioner General, according to the guidelines in the Revenue Authority Bill

- Prepare and execute a work plan to implement the Revenue Authority

- Develop a sensitization strategy for informing the public of the change in tax administration, such as through pamphlets, public notices, and the media

- Develop a preliminary budget for the Revenue Authority, including a pay and incentive scheme

[17] Ibid

- Establish a human resource management system, including for filling new positions through new hires and transfers, and for staff training

- Upgrade IT capacity

110. **Adequate funding for the Revenue Authority should be secured through a combination of budgetary provision and a percentage retention of revenue collection.** The revenue administrations have been underfunded in the past. The authorities could consider placing a total cap on the operating budget to not exceed a certain percentage of revenue collections.

111. **The authorities can improve tax collection on international trade by reforming the present system of duty waivers and deferments.** The analysis of chapter two indicated that the collection of customs duties sharply declined in recent years. This could indicate that exemptions, preferential rates, and evasions have increased over the recent years. Experiences in many countries have shown that abuse of duty exemptions are common. A system of strict controls is needed to avoid revenue losses from abuse of duty waivers. Recently, the media reported on cases of duty waivers arbitrarily granted to contractors in the private sector. The Gambian authorities operate a system of direct deliveries where customs clears goods without charging duty provided that the duty waiver is later approved by DOSFEA. If no waiver approval is provided, the importer is required to pay duties within 45 days. In practice, this has been difficult to enforce, and the amount of duty waiver awaiting approval far exceeds the amount of approved duty waivers. In addition to reforming the duty waiver and deferment system, the authorities should fully implement the customs computer (ASYCUDA) system, and train customs staff in the effective valuation of goods.

Improve Collection and Use of Revenue Data

112. Central Revenue Department (CRD) and Customs and Excise Department (CED) have never had employees that were fully trained in IT. In addition, they typical did not have a service contract with an outside firm, nor adequate funding for individual maintenance and repair services when problems occurred. Therefore, there had been significant period when their IT system was not operating, and the tendency was to abandon the computer system and revert to some form of a manual. CRD took this option when there was a Y2K problem with their system. This is disconcerting given that CRD is preparing to develop and install a new computer system. CED has continuously had problems maintaining the customs computer system, ASYCUDA, in a fully operational mode.

113. An inadequate IT system means that CRD and CED lack necessary data for effective management of tax administration. In addition, data that are available do not seem to be properly utilized. Currently, revenue targets are the major objectives of both Departments, but there are no clearly articulately plans based on available data for reaching the targets.

RECOMMENDATIONS:

114. **Upgrade IT support through staff training and outside service contracts.** A minimum of two employees from CRD and two from CED should be fully trained to provide IT support. They would perform routine maintenance and make minor repairs and modifications to the system. They would perform what is commonly called "Help Desk" duties which would require them to respond to questions from users of the system. These employees should be transferred to the centralized IT Department when the Revenue Authority is formed. In addition, the government should enter into a service contract with an outside organization for major maintenance, repairs and modifications to the computer system. The contractor should be contractually required to be onsite within 24 hours to make the major repairs. It should be a no cost contract until work is performed.

115. **Management should prepare a action plan for improving revenue performance.** The action plan should outline the actions and activities that need to be carried out in order to reach revenue targets. The proposed actions and activities should be based on an analysis of the available data.

PUBLIC EXPENDITURE MANAGEMENT

LEGAL AND INSTITUTIONAL FRAMEWORK

Implementing Improved Budget Law Requires AGD's Cooperation

116. The new draft organic budget law, titled Government Budget Management and Accountability Law (GBMAL), strengthens transparency, comprehensiveness, accountability in the budget process. The authorities first prepared the bill in December 2002 with assistance from the IMF, solicited comments from development partners, and are currently finalizing the bill for its submission to the National Assembly. The current Finance and Audit Act (1964) contain very limited coverage for managing government budget and financial operations. Although the Financial Instructions issued in 1989 addressed some of the shortcomings of the Act, neither the Instructions nor the Act satisfy the minimum requirements of a modern expenditure management system.

117. The draft law defines the tasks and responsibilities of DOSFEA and the powers and duties of the Secretary of State and Permanent Secretary in government budget preparation, execution, accounting, and reporting. It contains provisions on: (i) government fund management and banking arrangements18; (ii) budget bill

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[18] The draft law allows for extrabudgetary expenditures and departmental self-raised revenues, but requires that they be included in the budget documents and government fiscal reporting system.

documentation and presentation, and structure of the appropriations; (iii) budget execution and budget accounting; (iv) government borrowing and debt management; (v) annual accounts and budget reporting; and (vi) penalties and surcharges.

Table 3. 1: Comparison between the New Draft Budget Law and the Current Laws

draft GBMAL	1964 Finance and Audit Act and 1989 Financial Instructions
Apart from annual budgeting and accounting, covers provisions on macroeconomic and fiscal issues, medium-term framework, and fiscal transparency	Limited to annual budgeting and accounting matters only.
Inclusion in the budget documentation, the extra-budgetary funds and departmental self-raised revenues, with required provisions for management flexibility.	These remain off-budget.
A format for budget documentation data, including preliminary projections for out-year revenues and expenditures, deficit, government guarantees, and inclusion of legal amendments/provisions needed for smooth operation of the government programs.	Limited to revenue and expenditure tables for the budget year, though only revised estimates of the year prior to budget year is included in the budget document.
Appropriation structure (approved format of budget) is for each spending agency by economic classification items for recurrent expenditures as well as for each development project.	Total spending agency for recurrent expenditure and total of each development project.
More time is envisaged for the analysis and scrutiny of the budget in Parliament	Very limited time available.
Regulated virements for below 15 percent of budget of each spending agency with the approval of the DOSFEA and beyond that limit requiring approval of a committee in parliament	Unlimited virements by executive branch.
Revised and supplementary budgets to be approved by Parliament in advance and no unbudgeted expenditure is allowed.	Often the executive branch receives approval of the parliament ex-post, and the President has authority to initiate unbudgeted expenditures.
AG (Director of the Treasury) performs his/he duties under direct supervision of the Permanent Secretary of Finance.	The law is silent. Though this is mentioned in 1989 Financial Instructions, since it is not a legal requirement, old tradition prevails, and AG has an independent status.
Streamlines government borrowing and debt management.	Practiced as experience has developed over last four decades, with no or minimum legal base.
Streamlines in-year budget reporting, closure of accounts and submission of final accounts for external auditing.	No or minimum laws and rules, and is acted upon by tradition and in a free format.

118. In conjunction with the draft budget law, the authorities will need to draft and approve the enabling financial instructions and other statuary instructions. In the

meantime, the existing financial rules and regulations will be in force but in the context of the new legal arrangements. The new financial instructions and other statuary instruments would need to be more comprehensive and detailed in order to address the new legal requirements. Several issues which were part of the current financial instructions have now been incorporated into the draft budget law.

119. The draft budget law transforms the Accountant General's Department (AGD) into a Treasury Directorate within DOSFEA. The Treasury Directorate will be under the direct supervision of the Permanent Secretary of Finance. All existing functions, tasks and responsibilities of the current AGD will be transferred to the new Treasury Directorate.

120. The Accountant General (AG) continues to have reservations about the proposed reorganization of the AGD under the draft budget law, and currently there does not seem to be much dialogue on the matter. However, implementing the new budget law will be difficult without active cooperation from AGD as it will involve reorganization of the AGD office.

RECOMMENDATIONS:

121. **The authorities should expedite the passage of the new budget law, the Government Budget Management and Accountability Bill.** Furthermore, the authorities should begin drafting the enabling statuary instruments. This will probably require external technical assistance.

122. **The authorities need to ensure that all existing functions of the current AGD remain within a single organizational unit.** The functions include: (i) processing receipts and payments of public funds, including conducting pre-audits and issuing checks; (ii) managing the government bank accounts, and reconciling the financial accounts with the bank accounts; (iii) projecting and monitoring cash flows; and (iv) maintaining the general ledger, the payable and receivable ledgers, closing government accounts, and preparing and submitting financial statements for the National Auditing Office.

123. **The authorities need to internally reach a consensus on how to restructure the office as part of the process for implementing the new budget law.** Although ultimately it will be a legal requirement once the draft budget law is enacted, the proposed restructuring will proceed more smoothly with the active cooperation of the AGD. The authorities should immediately initiate greater internal dialogue on the draft budget law and the proposed restructuring of AGD.

Draft Decentralization Laws Prepared But Little Actual Progress

124. The Local Government Act was enacted in 2002 but it has yet to be implemented. The Act fundamentally restructures the public sector through large scale fiscal decentralization. However, since its enactment, the authorities have decided to gradually decentralize government services due to concerns about the lack

of capacity of the local governments. In addition, the authorities have recently amended selected provisions of the Act, and they have drafted a Local Government Finance and Audit Bill which provides the public financial arrangements for the Act. The amendments to the Local Government Act and the Local Government Finance and Audit Bill are currently being considered by the Cabinet, and subsequently they will be submitted to the National Assembly. Decentralization is one of the cornerstones of the PRSP.

RECOMMENDATION:

125. **Ensure that the Local Government Finance and Audit Bill is in line with the draft budget law.** These two bills impact each other as both fundamentally restructure public financial management. DOSFEA needs to ensure that the Bills are consistent with each other, even if the authorities intend to implement the Local Government Finance and Audit Bill in a gradual and phased manner.

126. **Prepare a plan for implementing the amended Local Government Act and the Local Government Finance and Audit Bill.** The authorities have expressed the preference for a gradual and phased approach to decentralization, but currently no implementation plan exists. The decentralization implementation plan should include major milestones with target dates. It would serve as a basis for dialogue with all stakeholders, including civil society and development partners. Commitment by the authorities to an implementation plan would prevent a repeat of the previous situation where a new law was enacted but never seriously considered for implementation.

BUDGET PREPARATION

127. Budget preparation calendar is generally observed, but participation in the budget formulation process is weak. Spending agencies submit budget proposals which are normally higher than the limits in the budget circular, and sometimes with significant delays. The recurrent and development budgets are prepared separately with little linkage. The macroeconomic framework and the resulting resource envelope are poorly projected, resulting in consistent overestimation of actual revenues. Budget outturn for the previous years are preliminary figures due to the several years of backlog on the closing and auditing of government accounts. The budget mechanism for incorporating PRSP priorities needs to be strengthened.

Budget Presentation Much Improved But Budget Preparation Lags

128. The new GFS based economic classification introduced for the 2004 budget significantly improves the organization of the budget. The new classification has been integrated into the government accounting system. In addition, development projects were listed under the vote of their respective spending agencies for the first time in the 2003 budget. In the past, development projects were listed in the budget

document under broad functional categories with no reference to the organization holding the vote of those projects. The recurrent and developments budgets are now presented in the same classification. The new classification provides a basis for improving budgeting, accounting, and economic analysis of government fiscal operations.

129. A GFS based functional classification was introduced to the 2004 budget at the main function and sub-function levels by mapping the existing administrative classifications to functional classification. The functional classification is a sound base for the introduction of a programmatic classification in the future. At present, the 1986 Classification of Functions of Government (COFOG/GFS) was introduced, but this can be easily converted to the 2001 COFOG/GFS since the difference is marginal.

130. PRSP codes were introduced for the first time in the 2003 budget. A budget code for each line item identifies whether an expenditures is a PRSP priority expenditure. An interdepartmental task force refined the codes for the 2004 budget. The PRSP codes quite appropriately identify education, health and agriculture as the areas with the highest concentration of PRSP related expenditures items (see box 2.1). In addition, the disaggregation of the administrative classification of the budget into sub-units facilitates the identification and tracking of poverty-reducing expenditures as those sub-units that are engaged in service delivery are separated from other sub-units of a spending agency.

131. Although the new budget classifications are major steps toward the integration of recurrent and development budgets, more needs to be done to ensure a full and meaningful integration. Although the 2004 budget integrates the recurrent and development budgets for the first time, the two budgets are still prepared separately. As a result, resources are allocated in a partial and fragmented manner, without consideration of the budget in its entirety. The problem is exacerbated by the fact that DOSFEA takes a passive approach to externally financed projects, with the main focus on the local counterpart funds.

RECOMMENDATIONS:

132. **The preparation of the recurrent and development budgets should be fully integrated.** The recent improvements in budget classifications allow the budget to be presented with its recurrent and development budgets integrated. The next step is to reform the budget preparation process so that the two budgets are prepared in an integrated manner. The restructuring of the budget preparation process has to be linked with the MTEF initiative.

133. **The authorities should refine the functional classification and gradually introduce programmatic classification.** Further refinement of the functional classification and preparation of the programmatic classification require consultations

with the spending agencies. The introduction of a programmatic classification should be coordinated with the preparation of the sectoral PERs/MTEFs.

134. **The PRSP codes should be further refined and incorporated into the PRSP monitoring and evaluation system.** Box 2.1 in chapter two describes a number of issues that need to be resolved. Many of the externally funded development expenditure line items are not identified as PRSP expenditures even though they could be considered as PRSP priority expenditures. Expenditures on hospitals are identified as PRSP related although the PRSP emphasizes primary health care. The authorities should monitor and evaluate PRSP expenditures using the new codes, and report the findings in the PRSP annual progress reports.

Towards A More Realistic MTEF Work Plan[19]

135. The ultimate objectives of the PRSP in The Gambia can in many ways be met through the implementation of a multi-year planning framework focused on outputs and outcomes of public expenditures. These objectives include macroeconomic stability, sustainable and fully costed sectoral expenditure programs oriented towards poverty reduction, and identification and mobilization of donor resources in a more predictable and stable manner. The benefits are improved macroeconomic performance, consistency between long-term strategies and the annual budget process, effective and efficient allocation of resources, and improved quality and efficiency of service delivery by linking expenditures to outcomes and outputs. For the spending agencies, the additional benefit is the greater certainty of future resources.

136. However, many of the benefits will be achieved only when the MTEF is at an advanced stage. The attainment of the benefits will also depend on the degree to which spending agencies can depend on the future planned allocation of resources. In The Gambia, the authorities have had plans to adopt a MTEF. A long term resident MTEF technical adviser has prepared a medium term work program for implementing the MTEF.

137. It has become clear that the work program was overly ambitious. There has been some progress in improving the budget framework, particularly with respect to budget classification, integration of recurrent and development budgets, but targets for updating the sectoral PERs and implementing pilot MTEFs in 2004 have not been met, and the target for implementing a MTEF for the whole government in 2005 does not seem feasible. The public sector at present has limited capacity to implement the framework despite the technical assistance. The delays in the MTEF work program reflects the fact that the country lacks the basic building blocks for implementing the framework. As a result, the activities of the resident technical adviser have so far focused on strengthening the basic foundation for the eventual adaptation of the framework.

[19] See appendix III for more detailed analysis and recommendations.

138. The initiative to implement a MTEF has been slower than initially expected due to limited capacity and commitment. The budget process continues to focus on a one year horizon with little effort to link sectoral analyses to a medium term macrofiscal framework. Sectoral PERs, which are ideal instruments for the sectoral analyses, have not been updated for Education, Health, and Agriculture since 2001. Partial multi-year fiscal envelopes were developed and applied to the budgeting process, but the estimates have proven to be unrealistic and only a few agencies have responded to the request to estimate their expenditure needs in the medium term. Projections of external resources in the medium term are unrealistic due to poor donor coordination, although the situation could improve with the proposed SWAps in Education and Health.

139. At present there is little incentive to prepare a MTEF, particularly for the line Departments, with the continued existence of a cash budgeting system. A cash rationing system undermines the incentives for effective planning by the line Departments by reducing the predictability of cash releases. Line Departments will have little incentive to heavily invest in a MTEF exercise if the resulting budgets are not implemented due to cash rationing. At present, the Departments are not even able to receive their annual appropriations due to the tight fiscal stance.

140. In addition, delays in producing government accounts is a key bottleneck to the MTEF initiative because reliable data on past actual expenditures are the basis for determining future allocations. Government accounts have not been finalized since 2000. The MTEF resident adviser prepared preliminary actual figures for the recent years, but they are tentative estimates that need to be confirmed by the government accounts. The present PER analysis indicates that there are discrepancies in the preliminary figures.[20]

RECOMMENDATIONS:

141. **Plans to implement the MTEF should be delayed to reflect local capacity constraints and the level of commitment by the line Departments.** The original work plan was to fully implement a MTEF for the 2006 budget. Experience so far indicates that this was overly ambitious given local conditions. Therefore a more gradual and phased implementation will be needed (see table 3.1).

142. **The authorities should initially focus on strengthening the foundations of the budgeting process.** It would be prudent to further strengthen the budget process while maintaining a single year horizon before attempting to adapt a multiyear horizon framework. Afterwards, the authorities could implement pilot sectoral MTEFs in select Departments for the 2006 budget. Existing sectoral PERs should be updated to implement the pilot MTEFs. In addition, the proposed SWAps would be ideal instruments for preparing the pilot MTEFs. Experience in implementing pilot

[20] See chapter two.

MTEFs should be consolidated and the number of participating agencies expanded for the 2007 budget. The target for implementing the framework to the entire budget should be the 2008 budget, although the authorities could later adjust the target year based on lessons learned from implementing the pilot MTEFs in the previous years.

143. **Plans to implement the MTEF should be further delayed as long as the cash budgeting system is maintained.** The political and institutional dimensions of MTEF reform should be explicitly addressed. Bureaucratic incentives to support the reform should be taken into account. In an environment in which a "temporary" cash budgeting system allocates funds on a monthly basis, players have little incentive to invest their scarce time and resources on developing a framework which depends on predictable medium term resource allocations. The authorities will need to make a decision on the sequencing of activities such that the disincentives present in the current system do not undermine efforts to adapt a medium term planning framework. A consensus should be reached through a broad consultative process so that the resulting decisions are regarded as legitimate and desirable. The MTEF process must be credible so that Departments would have incentives not to opt out of the exercise. Involvement of the President and Cabinet could play an important in legitimizing the exercise.

Table 3. 2: Revised MTEF Work Program

	2004				2005				2006			
1. Macroeconomic framework												
Expenditure figures for 2001 to 2003												
Rev. forecasting, incl. donor financing												
Indicative multiyear budget ceilings												
2. Expenditure analysis												
Pilot MTEF/PER in two sectors												
Pilot MTEFs in three more sectors												
3. Budget system												
Integrated recur./dev. Budgets prep.												
Program. classification in pilot sectors												
Program based budgeting in pilot sectors												
4. Human resources												
HR gap analysis												
Training plan												
Deliver training												
Sustainability plan												

Budget Comprehensiveness And Transparency Compromised

144. The authorities have made progress on improving the comprehensiveness of the budget through various initiatives. The number of below-the-line (BTL) accounts was recently reduced by approximately 80 percent. The government accounts

reported only the total amounts transferred to these accounts and not the details of expenditures from the accounts. Government spending funded through self-raised revenues and extrabudgetary funds have been minimal at less than 3 percent of total expenditures. The new budget law requires that the authorities submit the budgets and accounts of the extrabudgetary funds to the National Assembly.

145. However, the comprehensiveness of the budget was seriously compromised by large amounts of unprogrammed and unreported extrabudgetary expenditures in 2001 financed by off-budget sources. The existence of the off-budget expenditures became known only recently. These expenditures amounted to 6.8 percent of GDP, 45 percent domestic revenue, or 22 percent of total expenditures. Detailed information on the expenditures are not yet available. This practice undermines progress made on existing initiatives to improve the comprehensiveness and transparency of the budget, and also undermines the integrity and credibility of the entire budget process.

146. In addition, the government budget and its accounting reports do not include all donor financed expenditures. All donor activities recorded by LDMU at the time of budget preparation are included in the budget, but this information is not comprehensive. Not all external financing is included in the budget submissions of the spending agencies. Self-accounting units of development projects do not regularly submit reports of actual expenditures as required by the law. Reports that are submitted are not properly incorporated into the government accounts.

147. The absence of an effective aid coordination mechanism undermines efforts to improve coverage of externally funded development projects. Coordination of donor funds are spread across different agencies within the government. The Loans and Debt Management Unit (LDMU) at the DOSFEA monitors government external loans and most of external grants. United Nations Development Program (UNDP) funded activities are coordinated by the Office of the President. Some bilateral grants, especially where no domestic counterpart funds are required, are negotiated and coordinated by the Department of State for Foreign Affairs. Most self-accounting units operate separate bank accounts for externally financed projects in order to satisfy donor conditions. Reporting of transactions of these accounts to DOSFEA is not timely and comprehensive. The lack of coverage of externally funded development projects indicates the absence of an effective aid coordination mechanism.

148. Poorly prepared budgets resulted in large differences between budget appropriations and outturns, particularly the development expenditures. Actual total recurrent expenditures were larger than the budget by an average of 14 percent since 1999, while by contrast actual total development expenditures were smaller than the budget by 55 percent since 1998 except for 2001 when actuals were larger than the budget by 16 percent due to the off-budget expenditures.

RECOMMENDATIONS:

149. **Information on the off-budget expenditures of 2001 should be fully incorporated into the government accounts.** Assessments of public expenditures, including the present PER, can only be partial without information on the off-budget expenditures, particularly given their large size. It will be difficult for development partners to assist the country with budget support credits when a large share of public expenditures is unknown. The credibility of the budget is undermined in the absence of further information. Budget execution and monitoring should be improved in order to prevent future occurrences.

150. **The authorities should enforce the rules on expenditure reporting by donor project unit.** Donor project units have not been fulfilling requirements to regularly submit expenditure reports, while those reports that have been submitted have not been fully recorded in the government accounts. Greater enforcement of existing rules will improve the coverage and transparency of the budget. With the passage of the draft budget law, the authorities will also be required to submit the budgets and accounts of the extrabudgetary funds to the National Assembly.

151. **The authorities and donors can work together to improve centralized recording and monitoring of externally funded expenditures.** DOSFEA plans on creating a unit to centralize the coordination of donor activities. This unit needs to coordinate with spending agencies and donor project implementation units which manage and monitor expenditures on development projects. Bilateral donors of grants should commit to submitting expenditure reports to the unit. The unit should closely work with the AGD to ensure that actual expenditure data are comprehensively recorded in the accounts in a timely manner.

152. **The authorities need to improve projections of revenues and externally funded development expenditures in the budget.** They have been consistently and significantly overestimated in the recent past. The overestimation of the revenues encourages overspending of recurrent expenditures.

BUDGET EXECUTION AND REPORTING

Phasing Out Cash Budgeting With Improved Budget Management

153. Cash planning and management is an integral part of public expenditure management which allows governments to keep within budgeted expenditures in cash terms. Cash planning and management will work well only if the overall public financial management works well. This implies that the budget information systems are comprehensive, timely, accurate and reliable, and all the departments involved cooperate closely. Typically, the Treasury, or the AGD in the case of The Gambia, would prepare and update monthly cash management plans. An adequate reporting system is needed for the Treasury to get all the necessary information in a timely

manner from all the departments involved, not only Finance but also the Central Bank and the spending agencies.[21]

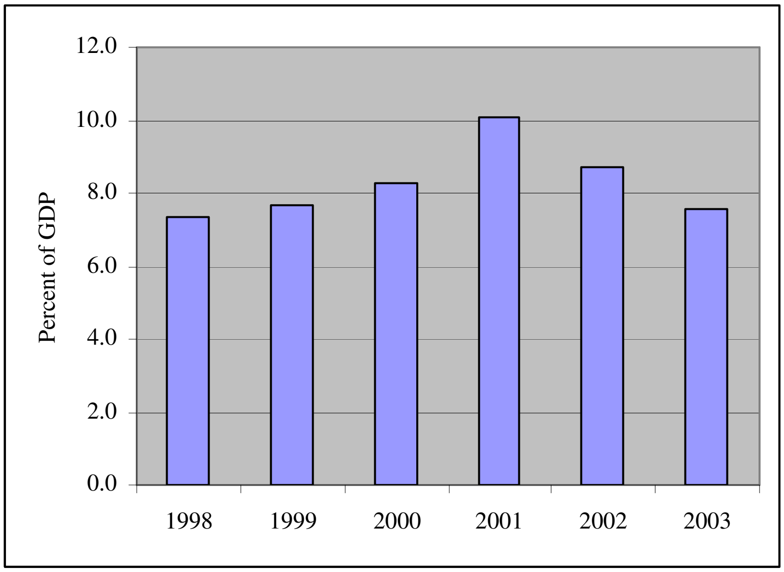
154. Unfortunately, the preconditions for conventional cash planning and management do not exist in The Gambia at this point. With loss of fiscal discipline in 2001 continuing into 2002, DOSFEA started operating an "emergency" cash budgeting system towards the end of 2002 which still exists today. A small team, the National Emergency Fiscal Committee (NEFCOM), was set up within DOSFEA to provide quarterly and monthly cash ceilings to spending agencies for domestically funded expenditures excluding debt service and salaries and wages. Cash ceilings are based on projected cash inflows and constrained by the fiscal deficit and financing targets. Committee members indicated that efforts had been made to account for variations in economic conditions, lumpy expenditure needs, unforeseen contingencies, and PRSP priorities. Essentially, the cash ceilings allocated by a small committee within DOSFEA overrides the budget which had been negotiated with the spending agencies and debated and approved by the National Assembly.

155. The key feature of a cash budgeting system that distinguishes it from a conventional cash planning and management system is the restrictions place on financing which inhibit smoothing of expenditures. An "emergency" cash budget regime would pay out tomorrow only what flowed in today without recourse to the capital market, or borrowing from or maintaining an overdraft with the Central Bank. Thus, cash provisions could be suddenly reduced relative to the budget appropriation depending on cash inflow, affecting planning and timely delivery of public services. Such a strict cash budgeting system does not seem to be operating in The Gambia as evidenced by the large amounts of domestic financing of the fiscal deficit, particularly by the Central Bank. Either the system allows for large amounts of government borrowing, or the implementation of the system is still insufficient to adequately monitor and prevent expenditures above cash inflows.

156. In addition, the extent to which cash budgeting contributed to greater fiscal discipline is not clear, although DOSFEA strongly believes that in its absence the situation could have been worse. As a percentage of GDP, actual expenditures under the control of NEFCOM decreased from a peak of 10.1 percent in 2001 to 8.7 percent in 2002 and 7.6 percent in 2003 (figure 3.1). However, the level of NEFCOM expenditures in the recent years are similar to the level before 2001 when cash budgeting did not exists. It indicates that fiscal constraint can be exercised without cash budgeting. Cash budgeting does not seem to be a necessary condition for maintaining fiscal discipline.

Figure 3.1: NEFCOM Expenditures

[21] Potter and Diamond (1999).



Source: IMF staff reports.

157. A unique feature of the system in The Gambia are that it controls cash outlays at the commitment stage, and that individual expenditure requests have to be cleared by the cash budgeting committee. Spending agencies must clear each expenditure item with NEFCOM before issuing payment orders as opposed to retaining the responsibility for executing their budget within the quarterly and monthly cash limits set by the Committee.

158. It should also be noted that the loss of fiscal discipline in 2001 was accompanied by the largest underperformance of public revenue against projected revenues. It indicates that poor budget planning might have just as much caused the fiscal slippage as poor budget execution.

159. The disadvantages of maintaining cash budgeting are:

(i) *Additional bureaucratic burden.* NEFCOM results in further multiplication and duplication of internal control steps which contribute to increased bureaucratic burden and delays. For example, pre-audit financial control related activities are conducted by the IAU, NEFCOM and AGD.

(ii) *Adverse impact on service delivery.* Spending agencies have difficulty making timely expenditure commitments due to cash rationing. Accordingly, they may not be able to prepare meaningful operational plans for service delivery because they are not able to plan and commit their non-salary expenditures in accordance with their budgets. Moreover, experiences of other countries indicate that cash budgeting adversely impacts public service delivery to the poor, and therefore undermines the implementation of the PRSP.[22] The system often facilitates a substantial redirection of resources away from intended targets, particularly those with long term developmental benefits such as social services.

[22] Dinh et al (2002)

Chapter two already highlighted the decline in expenditures on PRSP priority areas, particularly those in social services. Furthermore, subunits of spending agencies, which are the principal service providers, indicated that access to funds for necessary purchases of goods and services have been significantly reduced since cash budgeting was implemented. Standing obligations such as subventions to schools and tertiary education institutions were at times reduced by 80 percents during periods of cash flow squeeze.

(iii) *Partial and fragmented expenditure adjustments.* Changes in the composition of actual expenditures indicate that current expenditures are underfunded with respect to capital expenditures. The NEFCOM arrangement would encourage such a trend given that it focuses on reducing domestic expenditures which overwhelmingly fund current expenditures. It further encourages a fragmented approach to expenditure adjustment by excluding salaries and wages.

(iv) *Reduced emphasis on improving fiscal planning and execution.* There are indications that the loss of fiscal control resulted from poor budget planning, particularly revenue estimation. Hence, cash budgeting might be creating a false sense of fiscal security when the fundamental problem lies elsewhere. In addition, maintaining cash budgeting undermines incentives to improving the planning process. Expenditures of spending agencies are determined more by cash made available by NEFCOM as opposed to their budgets. Therefore, spending agencies have little incentive to improve their planning process, including through sectoral MTEFs, when the resulting budgets are not likely to be implemented. Centralization of the payment process undermines managerial autonomy of spending agencies and weakens their sense of ownership over their budget allocation, further undermining the credibility of the budgeting process. Essentially, NEFCOM reflects a fundamental distrust by DOSFEA of the capacity of spending agencies to prioritize their spending.

160. However, an argument can be made for maintaining the system at present until preconditions for conventional cash planning and management can be established in the country, despite the disadvantages of the system outlined above. Phasing out the present cash budgeting system requires the reestablishment of budget discipline through improvements of budget management. It would require introducing a transparent cash allocation system more closely tied to the budget and its long term priorities.

RECOMMENDATION:

161. **Cash budgeting should be eventually phased out in line with improvements of budget management, particularly the strengthening of internal controls and internal audits.** In the long term, the current cash rationing system has to be replaced by a more conventional budget system. The authorities should

prepare a plan for phasing out the NEFCOM arrangement, but the plan should contain triggers which would indicate improved budget discipline. Thus, cash budgeting would be phased out in stages as the triggers are satisfied. Key triggers would include indicators of improved internal control and auditing. The phase out plan should be prepared in conjunction with the implementation plan for MTEF as the two are interrelated. A MTEF would increase the predictability of both policy and funding so that spending agencies can plan ahead and long term programs can be sustained.

162. **In the interim, the authorities should seek to minimize the adverse effects of cash budgeting on service delivery.** While the cash budgeting system is maintained, it should be modified to reduce the harmful effects of cash budgeting. The recommended measures are to: (i) discontinue the requirement that each payment be approved by NEFCOM, and instead the Committee would focus on issuing and enforcing broad cash ceilings; (ii) increase the time period covered by each cash release gradually to three and eventually six months; (iii) strengthen the link between the cash releases and the budget, which would mean that the annual cash plan would be the basis for the budget's resource envelope and the cash releases would reflect more closely the budget priorities; and (iv) establish and publish clear criteria for determining cash releases and detailed statistics on quarterly expenditures based initially on the "flash" reports in order to increase transparency.

163. **The authorities should assess the impact of cash budgeting on service delivery.** Expenditure tracking surveys have been successful used in several countries to assess the degree to which public expenditures result in actual service delivery. The surveys indicate that a remarkably low percentage of expenditures fund the actual provision of public services due to administrative overhead costs and leakages. Expenditure tracking surveys would determine cash budgeting further reduced the share of funds reaching the subunits which directly provide public services.

Updating Public Accounts Must be The Top Priority

164. The greatest fiduciary risk associated with budget execution and monitoring is the long delay in closing the accounts and finalizing the general ledger. This significantly weakens expenditure control and legislative oversight. Government accounts have not been prepared since 2000, and they have not been audited since 1991. The delays are due to low capacity of AGD and poor computerization. However, a more fundamental issue is the lack of accountability for closing the accounts, finalizing the general ledger, and producing the financial statements. Delays in producing audited annual accounts of more than a decade should not have happened without due consequences and appropriate countermeasures. Currently there are no targets for bringing the accounts current.

165. No regular reconciliation with government bank accounts takes place in the absence of up-to-date general ledgers. A Treasury main cash book was previously

maintained and reconciled with the Treasury Main Account (TMA). However, the cash book was maintained only up to March 2003. Whether self accounting units conduct regular bank reconciliations is not known. Special accounts managed by the AGD are not regularly reconciled.

166. The authorities have opted to prepare fiscal reports based on preliminary figures in the absence of finalized current figures. Significant delays in maintaining the general ledger means that the monthly fiscal reports cannot be prepared in a standard manner, and therefore there is no reliable in-year fiscal reporting. Ideally, the AGD should produce monthly fiscal reports based on the general ledger. In lieu of standard fiscal reports, a "flash" reporting system was developed which uses cash book data in the AGD to prepare a report of major fiscal aggregates. In a similar manner, the authorities estimated the budget outturn for 2002 and 2003 using the Vote Charge Books of the AGD. The present PER uses these figures.

RECOMMENDATIONS:

167. **Prepare and implement a time bound action plan for updating the annual public accounts.** The 2000 annual account should be immediately prepared and submitted to the Auditor General with no further delays given that the accounts have been closed. Opening balances should be the estimated closing balances from the 1999 accounts. The action plan should provide target dates for producing the account for 2001 to 2003. The AGD has indicated that it will be able to produce the accounts provided that DFID provides support for implementing the interim accounting package, OMICRON. However, the action plan should include contingencies for delays in the DFID support. Even with DFID support, the operationalization of OMICRON could require more time than originally expected. In the event of a delay, the AGD could consider the possibility of manually preparing the accounts, possibly with donor support. This seems to a possible option given that the 1993 to 1999 accounts were manually prepared, and that larger countries such as Ghana and Uganda maintain parallel manual accounts

IFMIS – Attempting To Do Too Much With Too Little

168. The AGD is currently attempting to implement an Integrated Financial Management Information System (IFMIS) with the support of a World Bank project, Capacity Building for Economic Management Project (CBEMP). The objective of the IFMIS project is to provide a reliable computerized financial management system where financial transactions are processed in real time and internal controls are applied online. The system will provide timely and comprehensive fiscal reports, general ledgers and public accounts reconciled with bank accounts within an open environment accessible to multiple users.

169. In principle the IFMIS initiative will solve many of the pervasive problems with budget execution and monitoring, but in practice implementation has been

extremely challenging given the lack of local capacity. The low capacity of AGD is exacerbated by the fact that it is currently struggling with three different computer systems. The existing WANG system is a legacy system that the authorities are phasing out as it can no longer reliably handled the required workload. Resources are no longer adequately provided for system operations and maintenance. At present, expenditure data have been inputted into the system only up to end of 2001. However, the WANG system is currently the only system in operation, and in particular the payroll system has been kept current. With the conclusion that the WANG is no longer a viable option, the AGD has been attempting to simultaneously migrate to an OMICRON system and an IFMIS. With DFID agreeing to provide support, the AGD plans on preparing the account for 2002 and onwards using OMICRON until the IFMIS is operational. At present, the AGD plans on piloting the IFMIS system in 2005 in parallel with the OMICRON. The attempt to simultaneously implement two different accounting systems, particularly when one of the system is a sophisticated IFMIS, will likely cause significant delays given the low capacity of AGD. The work plan for IFMIS has to realistically reflect the fact that AGD's limited resources will be partly devoted to operationalizing IFMIS.

Box 3. 1: IFMIS Key Success Factors

(i) Establish and maintain political commitment and leadership. A review of IFMIS projects indicates that political commitment and leadership were considered the most important factor in determining project success and sustainability (Dorotinsky et al, 2004). Typically, the excitement and enthusiasm generated at the initial stages of the project fade over time as stakeholders realize that implementation is a long process and that benefits will not be instant. Political leaders need to provide sustained support and engage multistakeholders for the institutional and managerial reforms which are the basis for the IFMIS IT reforms.

(ii) Implement change management and capacity building throughout the reform process. Change management and capacity building activities encompass process reengineering, organizational restructuring, sensitization, and human resource capacity building through training and new recruits. The early stages of the reform should include sensitization and consensus building among stakeholders, particularly among managerial positions. Technical and procedural training could occur during the later stages of the reform. Typically, training needs to be augmented by a recruitment program of qualified personnel, particularly IT personnel which governments of SSA countries typically lack. However, team composition should reflect the fact that a IFMIS reform is much more than simply an IT reform. For example, the 40 member IFMIS team in Tanzania was composed of approximately half accountants and financial management specialists and half IT specialists

(iii) Focus on establishing the core financial management information components at the national level. The government should not attempt to integrate every component and all tiers of the government from the onset of the reform. An overly complex project design which attempts to simultaneously address all areas of financial management reform tends to overwhelm the capacity of developing countries. Instead, the government should focus on implementing the core components consisting of accounting (accounts payable and receivable) and cash management. Experience has shown that full implementation often requires at a minimum five years, and therefore it is important to carefully phase the process.

(iv) Choose an affordable technology with a level of complexity appropriate for the country. Countries need to realistically assess the level of complexity that can be implemented and maintained by their public sector. Generally, the software package should be an "off-the-shelf" product which allows for some customization according to user requirements. Hardware requirements will be based on the system architecture that will be developed during the design phase. To ensure sustainability, application support and maintenance should be an important factor in project design and supplier selection., where local support should be preferred. Particularly for smaller projects, turnkey solutions where the government contracts one supplier to deliver the working system (with subcontracts as necessary) should be preferred. It is critical to rigorously ascertain the cost implication of the IFMIS reform. Estimate of the annual recurrent cost for the Ghana system is between US$ 1 and US$ 3 million. The operating cost for the WAN alone is estimated to be US$ 800,000.

170. Implementation of IFMIS has been significantly delayed. It has been over two years since CBEMP which supports IFMIS was activated in January 2002. However, the IFMIS project in still in the process of finalizing the bidding documents for the hardware and software of the system. The experiences of other countries indicate that roughly an average of six months is required to prepare the bidding documents and start the tendering process for an IFMIS. Therefore, the process has been significantly delayed in The Gambia. The main bidding process is expected to start at the earliest in June 2004, and piloting of the system is targeted for mid 2005. However, this is an optimistic view given that other countries experienced the longest delays in installing and operationalizing the system. Given the already significant delays in preparing the bidding documents, it is not unreasonable to expect further delays in the procurement process and in operationalizing the system.

171. There have been several initiatives to build the necessary capacity for implementing an IFMIS, but more needs to be done. A long term resident IFMIS IT technical adviser (TA) has been providing support to the AGD. However, the TA is essentially the only IT member of the IFMIS team which is composed of the top accounting professionals of the AGD, including the AG. It reflects the fact that the public sector lacks IT personnel. In fact, The Gambia ranks 127 out of 133 countries in the United Nations e-Government Index (United Nations, 2002). The authorities have been preparing the establishment of an IT cadre, but experience from the accounting cadre indicates that creating a separate cadre might not be sufficient to attract and retain qualified IT personnel, particularly those that can be expected to operate and maintain an IFMIS. There are currently three certified accountants in the government, and the vacancy and turnover rates are quite high. Team members have not been able to devote themselves to the IFMIS project due to the lack of staffs and resources, and the fact that the AGD is also attempting to install the OMICRON system. The Power supply is unreliable, and the telecommunication infrastructure is weak.

Recommendations:

172. **The authorities should revise the IFMIS work plan.** The IFMIS work plan needs to be revised to reflect the large delays so far. It should also reflect the lack of local capacity, and current plans to implement the OMICRON system. The plan should emphasize change management and capacity building.

173. **Strengthen change management and capacity building activities of the IFMIS.** The sensitisation and training program of the IFMIS project should be increased, both for the managerial and technical staffs. The migration to an IFMIS will require significant changes in operating procedures and individual skills. Staffs will have to be trained in the new procedures and their accounting and computer skills upgraded. As recommended in the Information System Strategy Plan (ISSP), an IT Support Unit in the AGD should be immediately established. If qualified civil service staffs are not available, the authorities should consider forming the IT Support Unit with consultants whose remuneration would be above the civil service pay scale. This obviously has recurrent cost implications for the government, but the cost would be small compared to the overall investment in the system. The unit should be eventually complemented by the provision of an IFMIS Systems Administrator. One of the main responsibilities of the Systems Administrator is to support the suppliers in training the IT Support Unit so that the Unit can eventually assume the responsibility of managing the system.

174. **Process reengineering of the IFMIS and its specifications should be finalized and consensus reached among all stakeholders immediately.** The authorities should ensure that all user groups have been adequately consulted during the process. System specifications should have the flexibility to allow for the eventual incorporation of ongoing reform initiatives such as the Government Budget Management and Accountability Bill, MTEF, the Revenue Authority Bill, and fiscal decentralization. Bidding documents incorporating the system specification should be finalized and the tendering process started immediately. Further delays will significantly increase the risk that the project will not be finalized by the end of the CBEMP project cycle in December 2006.

175. **The initial phase of the IFMIS project implementation should focus on the core treasury modules.** The authorities should not attempt to simultaneously deploy all modules, including the core and subsidiary sub-systems. Instead, they should focus initially on the core modules consisting of accounting (accounts payable and receivable), cash management, and budgeting. The inclusion of payroll and pensions module will mean that the project design will have to be further revised as it was not included in the original project design. A Wide Area Network (WAN) should be delayed to a later phase of implementation.

176. **The recurrent costs of IFMIS should be estimated and properly funded.** The authorities should estimate the operations and maintenance costs for the system, including hardware, software and network maintenance, staffing costs, and the provision of continuous power supply. Staffing costs would include the costs of staffing the IT Support Unit. These estimates should be prepared before the procurement process, and should be negotiated with the potential suppliers.

Internal Controls And Audits Are Not Conducted

177. Internal controla in the spending agencies are extremely weak. Internal controls are procedures and institutional arrangements to ensure compliance with applicable laws and regulations, effectiveness and efficiency of operations, reliability of financial and operational reporting, and safeguarding against unnecessary losses of resources. Continued weaknesses in accounting and reporting, both in the central and spending agencies, are symptoms of poor internal control. In some countries each spending agency has an internal control unit which reports to the head of the agency or a committee appointed by the head of the agency. However, no such arrangement currently exists in The Gambia.

Similarly, internal audits do not exist in the country. The shortcomings of internal auditing were highlighted in the CFAA. The objective of internal audits is not to directly conduct internal control but to review the systems of internal controls for their effectiveness and recommend improvements. However, the central Internal Audit Unit (IAU) in The Gambia limits itself to pre-audits which are verifications of requests for payments against approved budget line items. It therefore performs a variant of internal control rather than internal audits. Moreover, there are duplication of the payment related document pre-auditing work by the IAU, NEFCOM, and the AGD. None of them, however, is performing proper internal audit work. In addition, the operations of the IAU do not comply with Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors. There are no manuals or guidelines to assist the staff in carrying out their work.

Box 3. 2: Internal Controls and Internal Audits at a Glance

Definition of Internal Control
Different organizations have defined Internal Control differently. One commonly accepted definition is: Internal control is a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial and operational reporting;
- Compliance with applicable law and regulations; and
- Safeguarding resources against losses due to waste, abuse, mismanagement, errors, fraud and other irregularities.

The above definition encompasses the following important principles:

- Establishing and maintaining systems of Internal Control for each activity and each location, where such activity takes place, is primarily a management responsibility. Supreme Audit Institutions (SAIs) and Internal Auditors review the systems of Internal Control for their effectiveness and recommend improvements and changes there to; and Internal control is designed to provide reasonable, as against absolute, assurance. In this context, reasonable equates - to an acceptable level of confidence - taking into account the quantitative and qualitative risks inherent in the operation as well as the relative costs versus the benefits of the controls.

Role of Internal Audit
Modern organizations view internal audit as an element of the overall infrastructure of Internal Control.

Internal auditors review the organization's operations, report their findings and recommend improvements. By so doing, they help senior managers discharge their responsibilities more effectively. In most countries, internal audit has evolved into a distinct profession. As defined by the Institute of Internal Auditors (IIA), Internal auditing is an independent, objective, assurance, and controlling activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve effectiveness of risk management, controls, and governance process.

Scope and Effectiveness of Internal Audit

Internal auditors were traditionally concerned with the reliability of accounting and management information systems; compliance with policies, laws, regulations, and procedures; and the safeguarding of the organizational assets and resources. However, they now increasingly cover organizational performance, including the economy in using resources, efficiency of operations and effectiveness in achieving organizational objectives, with extended-scope audits such as 'value-for-money', 'operational', and management audits. In other words, their work extends beyond the financial accountability area. In addition, the evolving practice of internal auditing in governments is gradually adopting the best practices from the private sector.

Organization of Internal Audit

In some countries there may be a central audit service under the Ministry of Finance or other such entities. The central service personnel may be posted to individual ministries and be directly responsible to the chief manager of the entity concerned. On the other hand, individual ministries may also be authorized hire their own internal auditors, with the central entity retaining responsibility for setting internal audit policies as part of the internal control structure and for coordinating all internal auditors. Regardless of how the internal audit function is organized and given that internal audit units typically tend to be small, a degree of central coordination enhances opportunities for consistency in applying policies, sharing experiences and training personnel.

Source: Country Assessment in Accountability and Transparency, UNDP, 1999, pp. 6-1 to 6-9.

Recommendation:

178. **The authorities should restructure internal auditing such that the focus is on actual audits as opposed to pre-audits.** Implementation could be gradual and phased given the need to build capacity and restructure government organizations. However, the current duplication of pre-audits across several agencies should be immediately discontinued. Pre-audits should be conducted only by the AGD, or the Treasury Directorate after the proposed organizational restructuring. Instead of pre-audits, the central IAU should be responsible for setting internal audit standards and policies as part of the internal control structure and for coordinating all internal auditors. Major spending agencies should have their own internal auditors. Departmental IAUs will likely be small, and therefore the central IAU will provide a degree of central coordination which enhances consistency in applying auditing policies and standards, sharing of experiences and training of personnel.

179. Note that it is not recommended that the central IAU directly carry out internal audits on behalf of the spending agencies. Instead, the central IAU would set standards and policies for internal control and audits, and provide support to the internal auditors of the spending agencies. Although in some countries a central internal audit unit performs this task for spending agencies, normally the quality of the work is low and the impact on improving internal controls not significant. In fact,

the central internal audit unit could be phased out once internal controls and internal audits are properly established in spending agencies.

180. **The authorities should build the capacity for internal auditing in accordance with the CFAA's recommendations.** In summary, capacity building should focus on: (i) enhancing the quality and number of staff by recruiting qualified personnel to meet the requirements of the task; (ii) developing internal audit manuals and guidelines that will be used by spending agencies when carrying out their internal audit tasks; and (iii) developing a comprehensive training and capacity building program that will include specific training on internal auditing standards, internal controls, and risk assessment techniques.

Maintain Momentum In Public Procurement Reforms

181. The new public procurement law enacted in 2001 and implemented in 2003 substantially reforms public procurement. Instead of the previous system based on centralized tender boards, the reforms decentralized public procurement to the level of the spending agencies. Now tendering committees for each of the major spending agencies procure goods and services through an open, competitive process. The Gambia Public Procurement Agency (GPPA) was established with the responsibility for supervising and facilitating the new procurement procedures. In addition, GPPA carries out a final review of procurements over a pre-set threshold. Procurement and disposal by all central government agencies, local government units, and public enterprises are covered by the new law.

182. Implementation of the new system has so far been relatively smooth. A program of sensitization and training was undertaken prior to the implementation of the new procedures to facilitate effective implementation of the new system. However, the comprehensive nature of the reform means that it will require some time for the procuring organizations to fully understand and implement the new procedures.

RECOMMENDATION:

183. **The authorities should recruit and train a professional procurement workforce.** The authorities are in the process of creating a procurement cadre, and plan on initially filling the positions mostly through transfers from within the civil service. However, so far no procurement officers have been recruited. The authorities should identify procurement officers for the major spending agencies by the end of the year.

184. **The authorities should conduct an assessment of the new procedures.** The new procurement procedures were implemented in July 2003. The authorities should assess the efficiency and effectiveness of the new procurement procedures one year after the start of implementation in July 2004. The assessment would include how

well the new procurement rules have been followed, and the impact of the new procedures on actual public service delivery.

EXTERNAL ACCOUNTABILITY

No Meaningful Legislative Scrutiny Without Audited Accounts

185. Proper legislative scrutiny has not been possible with the substantial delays in preparing audited public accounts. In the absence of audited government accounts and financial statements, the National Assembly has not been able to play its constitutional oversight role on government finances. Audited public accounts have not been presented to the National Assembly since 1990. Financial statements for 1991 to 1999 were finalized and submitted for external auditing in 2001, but were initially rejected by the National Audit Office (NAO) which cited several shortcomings of the accounts and statements. They were resubmitted in 2002 with amendments and explanations by the AGD. However, external auditing has not been completed at the present time. DFID assessed the situation in August 2003 and determined that the NAO needed technical assistance.23 DFID has agreed to provide technical advisers for six months to assist the NAO in auditing the backlogged accounts. External auditing beyond 1999 has not been possible due to the delays in preparation of the public accounts.

186. Similarly, legislative scrutiny of the annual budget remains weak. The budget is submitted to the National Assembly less than 30 days before the end of the year, which does not allow enough time. Meaningful debate on the budget is difficult because actual revenue and expenditure figures are not available. In addition, the National Assembly, including the Public Accounts Committee (PAC), lacks the resources to properly assess the budget.

187. Information on government fiscal operations is also not readily available to the public due to the long delays in preparing and auditing the annual accounts. This effectively prevents participation by private sector and civil society groups in the dialogue on public sector activities, thus reducing the transparency and accountability of government fiscal operations. However, since 2002 DOSFEA has been conducting multiskakeholder workshops as part of its budget preparation process. Representatives from the public sector, private sector, and civil society participated in forums to discuss the budget, including the economic goals and sectoral policies. However, the impact of the workshops depends on the extent to which the budget incorporates the discussions from the workshops.

188. At present, there are no laws which specifically guarantee access to public information. The National Media Commission Act of 2002 was criticized for

[23] The Gambia Public Finance Reform Program: Assistance to The Gambian National Audit Office, DFID, August 2003.

containing provisions that may limit information that the media can publish, particularly regarding the government. Recently the building of one of the main opposition newspaper was attacked and its printers destroyed.

RECOMMENDATION:

189. **The NAO should commit to a time bound work plan on auditing the backlogged public accounts.** The technical support to be provided by DFID should allow the NAO to audit the accounts. However, the work plan should also contain contingency plans for cases where DFID's support is delayed.

190. **The National Assembly, and in particular the Public Accounts Committee (PAC), should seek capacity building and technical support.** Legislative scrutiny needs to be strengthened. The PAC does not have adequate resources to properly carry out its responsibilities. Research personnel should be assigned to the PAC who can provide analytical support.

CIVIL SERVICE CAPACITY AND PERFORMANCE

Acknowledged Problem But Not Enough Action

191. The success of public financial management reforms requires that the relevant institutions are adequately staffed with appropriately qualified and motivated personnel. The consensus is that there are significant recruitment problems and a high turnover rate, resulting in a large number of unfilled posts, particularly in middle management and professional levels. There are currently three certified accountants in the government, consisting of the Accountant General, Deputy Accountant General, and the Auditor General.[24] Vacancy rates are particularly high for the upper grades of the accountancy cadre, while the turnover rates are high for the lower cadre.[25] In 2002, 26 accountancy staff left the civil service, approximately 15 percent of the accountancy cadre. IT specialists are similarly lacking in the public sector. In response, the authorities are developing a new scheme of services for IT specialist which allows for slightly higher salaries. It reflects the fact that the country overall has a deficient level of IT capacity, as indicated by its UN E-Government index rating of 0.64 which is far below the global average of 1.62 and below the African average of 0.84. In fact, The Gambia ranks 127 out of 133 countries.[26]

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[24] Recognized professional qualifications include FCCA/ACCA – Fellow/Member of the Association of Certified Chartered Accountants, CA – Chartered Accountant, CPA – Certified Public Accountant, ICMA – Institute for Cost and Management Accountants, CIMA – Chartered Institute of Marketing Accounts, and ICSA – Institute of Chartered Secretarial Accounts.

[25] See CFAA.

[26] United Nations Division for Public Economics and Public Administration, "Benchmarking E-Government: A Global Perspective," 2002.

192. The suspected causes of the low civil service capacity include low pay relative to the private sector, poor working conditions, and low morale in the civil service, include a perception that appointments and promotions are not necessarily linked to performance. Moreover, there is a lack of culture of accountability and a low rate of enforcement of the rules and regulations across civil service.

193. A civil service reform was implemented in the 1980s with mixed results. A 1994 assessment of the civil service found that earlier reductions in public sector employment were later reversed due to an increase in the hiring of teachers. Moreover, the quality of public servants and incentives for performance had not improved markedly. The study concluded that the reduction and merger of spending agencies were not adequately followed by rationalization of systems and procedures, the key public management and information systems were fragmented, and accountability in the public sector had not been effectuated. A proposal for a civil service reform project was prepared in 1994, but its implementation was derailed as a result of the 1994 coup. Civil service reform is a PRSP priority.

194. Human resource management is weak. Personnel data maintained by the Personal Management Office (PMO) are incomplete and internally inconsistent. In response, PMO is in the process of recruiting qualified personnel to maintain the database. Payroll is prepared using the WANG system. Accounting units send monthly payroll data to the payroll section in AGD which performs rudimentary verifications. However, the system does not prepare user friendly variance reports for verifying the payroll information. The PMO does not conduct regular staff audits. Problems of “ghost” workers could occur without regular staff audits and payroll verification.

RECOMMENDATION:

195. **The authorities should conduct a comprehensive civil service assessment and reform study.** The PMO is in the process of conducting a study of civil service hiring and attrition rates. This study could be the basis for a more comprehensive assessment of the civil service and a proposal for civil service reform. The 1994 civil service reform proposal could be one of the inputs. The study should focus on analyzing whether the civil service has the proper capacity and structure.

196. **The PMO should regularly conduct manpower audits.** Manpower audits should be a regular part of the activities of the PMO.

Education and Health

EDUCATION

197. The country achieved significant improvement in the education sector as school enrolment increased. In particular, girls enrolment in primary education has significantly increased and it is on track to achieving the MDG. An ongoing construction program has substantially increased the number of schools, in particular the upper basic and senior secondary schools. However, recurrent expenditures as a share of total expenditures have steadily decline over the recent years, raising concerns that current spending is inadequate in the face of increasing capital spending. Other challenges include poor quality of teaching and high attrition of teachers.

KEY SECTOR DEVELOPMENTS

Large Increase in Number of Schools

198. The formal education system is mostly organized as lower basic (first six years), upper basic (years seven to nine) and senior secondary (years ten to twelve), with an increasing proportion of rural schools developed as basic schools offering nine years of education. Pre-school education is provided privately, with 265 centers recorded on the latest Education Management Information System (EMIS).[27] The past five years has seen strong growth in the supply of schools at all levels, from both government and private providers, especially at upper basic and senior secondary levels (figure 4.1).

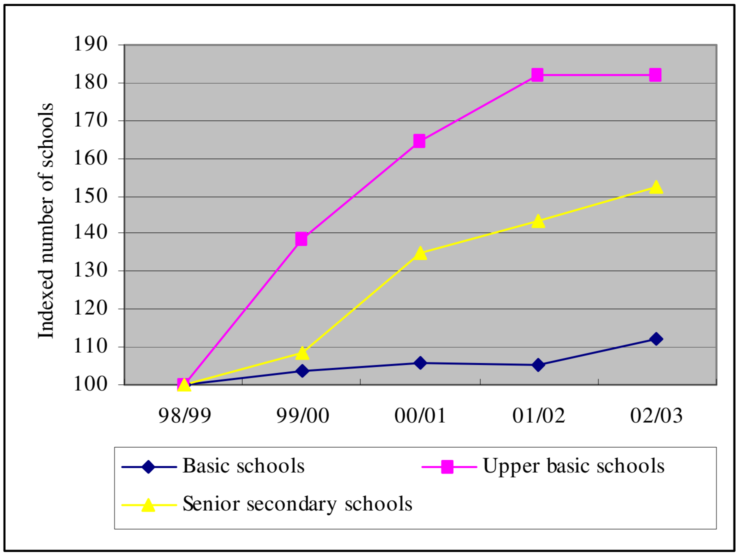
199. Formal school education is delivered both through public and private providers. The largest provider of basic formal education is the Gambian government through DoSE. Nearly nine out of ten lower basic students are enrolled in a government school, with eight out of ten in upper basic schools also enrolled in government schools. There has been strong growth in upper basic schooling in the past ten years. No fees are charged in government lower basic schools, while there are fees in upper basic. The fee income is retained under the control of the principal, with the budget approved by DoSE. There are also a small number of schools operated by local agreement and by local administration.[28] The majority of basic

[27] The EMIS was developed as a multi segment database in 2000 to provide management reports for senior managers. It includes school statistics, personnel information, financial information and geographic information.
[28] These schools are defined in the 1990 Education Act. Local agreement is a primary school in Banjul which is maintained entirely by the Government but which is administered in accordance with the conditions agreed between the Government and the Heads of Missions. Local administration a school established and wholly or in part maintained by and under the control of a local administration

students that are not enrolled in government schools are in grant aided schools which are mainly mission schools that charge fees but also receive public grants. They are managed by Boards of Governors appointed by the Secretary of State for Education and are supervised by DoSE and teach the same curriculum. Fully private schools receive no public funding but must be registered. They have greater flexibility in determining their curriculum, although they must comply with the minimum curriculum mandated by the Government. Fees and other income in these schools are largely unregulated, though they need to provide business plans to obtain registration. In addition, Islamic formal schools (Madrassas) provide both religious and secular education. They vary greatly in size and quality and the most provide subjects based on the formal government curriculum in addition to religious teaching. Significant numbers of children in some districts are enrolled in these schools.

Figure 4.1: Number of Schools

(index 1998/99 = 100)



200. The situation is quite different at the senior secondary level. Only eight of the 36 schools at this level are government owned, including one local agreement school. All but two of these have been opened in the last few years.[29] The remaining schools are either private (17 schools), grant aided (9 schools) or Madrassas (2 schools). Hence the majority of students at this level are in non-government schools, although the operating costs of grant aided schools are mostly provided by the Government and hence could be considered public education facilities. Government, local agreement and grant-in-aid schools are run by Boards of Governors appointed by the Secretary of State for Education, while regulations for private schools are the same as those for private basic schools.

[29] Government policy is to transfer government secondary schools to local agreement or grant aided schools once they are well established.

201. There are nearly sixty institutions offering post-school education and training in the Gambia, of which six are government owned and controlled. Post-secondary academic education is provided by the University of The Gambia, established in 1999, and Gambia College which has operated for many years offering courses in teaching, nursing and agriculture. The University of The Gambia has four faculties (Science and Agriculture, Humanities and Social Science, Economics and Management Science, Medicine and Allied Sciences).

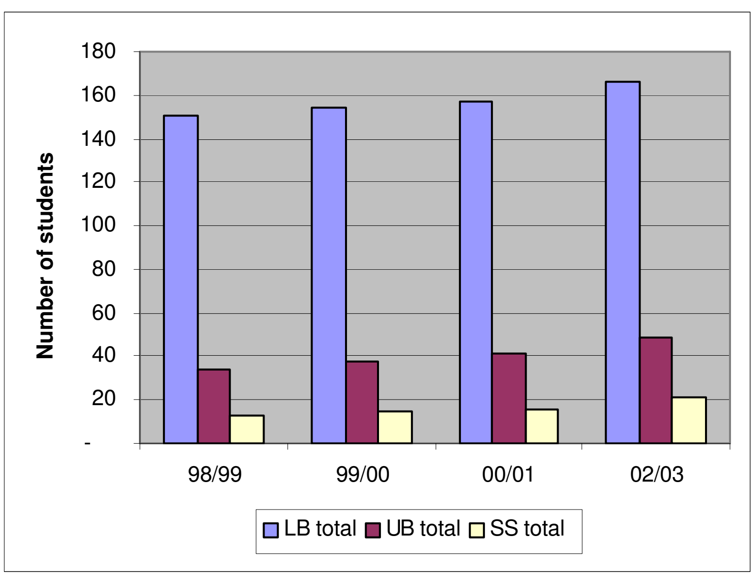
202. Technical and business education programs, generally of between two to three years duration, are available at the GTTI. The Management Development Institute and the Telecommunications and Multi-Media Institute offer training courses mainly for public servants. A rural development institute trains rural development workers and community nurses. The Government has set up a National Training Authority (NTA) through a public-private partnership. The NTA will be responsible for the validation of the qualifications obtained on completion of technical programs. Skills training, provided mainly by private institutions, are available to students leaving school at Grade six and Grade nine in the urban and peri-urban areas.

Increasing Enrolment, Particularly Girls, But Recent Slowdown

203. Increased public expenditure on education has led to significant progress in expanding access and enrolment at all levels of the formal system. Throughout the 1990s, there was strong growth in access to primary education. Enrolment grew at an average annual growth rate of eight percent between 1990/91 and 1996/97, exceeding the target of five percent. During the period 1996/97 to 2002/03, however, the rate of growth of enrolment declined to four percent per annum compared to the targeted seven percent.

Figure 4.2: Number of Students

(Thousands of students)

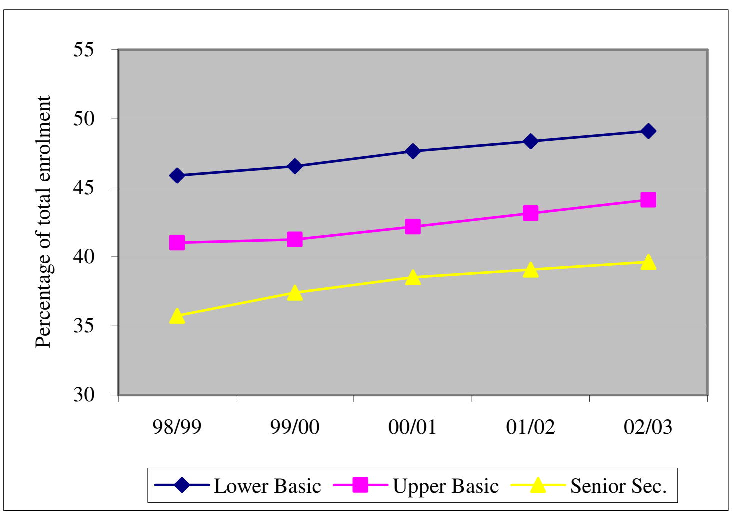


Source: The Gambian authorities
Note: Figures for 2001/02 are not available

204. Gross and net enrolment rates (GER and NER[30]) depend on the population estimates against which enrolments are measured. During the preparation of the last PER, it was discovered that Central Statistics Department had used straight line estimates in publishing the projected population bands for the intercensal period 1993-2002.[31] Using corrected estimates, it appeared that enrolment growth was tapering off and falling below targets set in the Policy. Enrolment rates should be reestimated once the revised population figures from the latest Census become available. Madrassa enrolment adds about 10 per cent of the age group to the enrolment ratios.

205. The increase in enrolment has been particularly striking for girls. Girls enrolment rate grew at an annual rate of six percent while that of boys grew by only two percent. As a result, girls GER increased from 61 percent to 71 percent in 2000 based on the corrected population estimates. By contrast, the GER for boys increased from 79 per cent in 1996 to reach 82 per cent in 1998, but then declined to 77 per cent in 2000. In formal lower basic schools, girls now are just less than 50 percent of enrolment. However, the PRSP and the EFA initiative recommend a GER of 91.1 percent in Lower Basic and 54.6 percent in Upper Basic by 2005. These targets will be difficult to achieve, although the probability of achieving the target increases with the inclusion of the Madrassa enrollment. In Madrassa in 2000/01, boys were 54 percent of total enrolment. The ratio of girls to boys in upper basic and senior secondary levels is still growing at a faster rate than in lower basic schools.

Figure 4.3: Female Enrolment



[30] NER is defined as number of pupils in the official age category enrolled, divided by the population of the official age category, GER is defined as total enrollment (including those outside the official age category) divided by population of the official age category.
[31] CSD applied a uniform growth rate based on the average growth of the past ten years, while ignoring fertility rates and the proportion of the females in fertile age groups. Also, its assumption that inter-country movements will not change is risky given that over ten percent of the population is foreign.

Source: The Gambian authorities
Note: Figures for 2001/02 are the average of 2000/01 and 2002/03.

Poor Quality Of Education

206. Although the quality of education can also be inferred from input measurement such as the availability and use of teaching and learning materials, the best quality measures are output based and include measures such as successful completion of stages in the system and measures of subject mastery and competence. Data on these is very limited, although anecdotal evidence on the abilities and employability of graduates from different stages of the system suggests that quality in The Gambian education system is not high.

207. At present, the only available comparative measurement of teaching outcomes is the Junior Secondary School Certificate (JSSC). The extremely high rates of failure indicate that the quality of education is poor (table 4.1). Female achievement in these examinations is noticeably lower than male. A study in 2000 (The Gambia MLA Study 2000) which sampled a quarter of the Grade Four students found that only ten percent of children met the learning achievements set for English and less than seven percent met those for Mathematics.

Table 4.1: Results of 2001 JSSC Examinations
(percentage)

		Passing levels 1-3	Passing levels 4-6	Passing levels 7-8	Fail
English	All	7	19	12	62
	Female	8	15	10	67
Mathematics	All	1	2	14	84
	Female	1	1	11	86
Science	All	3	13	23	62
	Female	2	9	19	71
Social Studies	All	10	14	36	40
	Female	6	10	30	54
Islamic Studies	All	10	12	7	71
	Female	6	7	5	82
Agriculture	All	11	25	12	52
	Female	8	19	10	63
Art	All	11	43	25	21
	Female	8	49	27	17

208. The low quality of education is a common problem in Sub-Saharan Africa. The unsatisfactory levels of literacy, the high proportion of failure in subjects at the Grade nine and twelve examinations, and the low proportion of students passing subjects with credit or good mentions, together with the relatively high drop-out rates at many levels, are all indications that the school system is not efficienct. The quality of education is well below the world standard. One explanation for this low quality is that per pupil expenditure on educational inputs is very low by world standards; however, in countries even with low education expenditure, better results can be

achieved by paying attention to factors that research has shown to be linked with good schools.

Declining Administrative Capacity

209. In the past DoSE has been innovative in its approach to organizational issues and management. It promoted corporate responsibility by Directors, broad regional involvement in management through monthly rotating regional meetings, focused its organization on functional policy based units, and promoted deconcentration of service delivery to regional management. The new Education Sector Policy continues many of these themes, including the re-alignment of the organizational structure.

210. Nonetheless there are serious capacity problems which may impede attainment of the broad goals of the Policy. Some of these problems are external to DoSE. It is increasingly difficult to retain trained managers in the system, due in no small measure to the increasing differential between civil service and private salaries. Although the latest budget provided for a ten percent salary increase, this will do little to maintain parity when the dalasi has been severely devalued and private salaries have risen far more to compensate.

211. Several key senior staff have left in the last few months, including two Directors of Planning. Nearly every staff member trained in the operation of the EMIS between 2000 and 2002 has either left or been reassigned. The PMO appears to have a policy of frequently rotating Permanent Secretaries of Education, partly because the size and previous organizational success of DoSE is an important training factor for staff at this level. However, it also means that the Department has to constantly brief new Permanent Secretaries on important issues and continuity of policy leadership then falls heavily on the Secretary of State.

212. Some management issues are internal. Morale has suffered because of some reassignments which were not perceived as benefiting the individual or the organization. The budget continues to operate without allocating funds to functional units; all central management funds are kept in one program so that individual managers do not know their level of operational funding.[32] Regional offices as well have no independent status and have no budget allocations and no accounting staff posted to them. The constant changing of Permanent Secretaries also precludes them from clear control of the funds although the PS is the Accounting Officer.

High Attrition Rates of Personnel

213. The question of staff attrition is a particularly difficult one for any individual Department of State to address as it is affected by pull and push factors which are largely outside of its control. The limited supply of graduates means that there is

[32] Some Directorates and even some sub-units appear in the budget but the funds allocated are usually linked to externally funded programs.

much competition for trained staff outside of DoSE. Many of these central staff in DoSE have moved into parallel positions in funding agencies and NGOs working in the sector. The major push factor has been the increasing wage differential as non-government formal wage rates have risen much faster than government rates.

214. A further factor in the case of the teachers who form the bulk of the DoSE workforce has been the expansion of private provision of education. While there do not appear to be large wage differentials, most private provision is located in what is seen as the more socially desirable coastal areas. Faced with a choice between difficult up-country conditions with little real income difference, often inadequate housing, and the likelihood of a split family, it is not unusual that teachers seek employment in the private formal sector.

Adverse Impact Of High Population Growth

215. The high fertility rates, ranging from 5.2 to 6.0 in recent estimates, mean that increasing numbers of school age children will be present, especially in rural areas. This is true even after accounting for relatively high infant and child mortality rates. Urban and peri-urban areas already have lower fertility rates and higher enrolment rates, so the consequences of high population growth will be felt more in rural areas, where the majority of poor households are also located. There has been strong growth in the past ten years in school enrolment in the more isolated rural areas even though they currently lag well behind the populous coastal zones. Schools in these areas tend to find it more difficult to attract and retain qualified teachers. Salary and allowance incentives to promote the attraction and retention of staff have in the past not been great enough to make sufficient difference in income and welfare for teachers to stay in isolated schools.

216. However, it is difficult to be precise about demographic and other population trends in The Gambia without results from the 2003 Census. Survey data indicate a very high total fertility rates for The Gambia. In addition there has been a high rate of migration from neighboring countries affected by civil unrest. While some of this has now probably been reversed, for example Sierra Leone, there are continuing refugees from the Casamance region of Senegal and other countries. How these inward flows actually affect school enrolment and attendance is not known.

Cost Of Education Burdensome For The Poor

217. Poverty surveys in The Gambia consistently show that farm households with no other sources of income are among the poorest, with recent rural emigrants to urban areas also experiencing high levels of poverty. Urban households with employment in the formal sector are usually in the least poor segment of society. School enrolment reflects income. Subsistence households have the lowest enrolment, especially as the level of education increases, and formal fees represent substantial investments of poor families' limited cash incomes. In addition cultural

attitudes associated with marriage, which view it as the transfer of female children to the husband's family, mean that family investment in girls' education is likely to be limited as little or no return may be expected. These attitudes are stronger in rural areas. Taken together, these two factors mean that total enrolment of children approaches one hundred percent for both girls and boys in urban areas through the basic cycle, while it is lower overall in rural areas and more gender differentiated.

218. Therefore, the PRSP stresses the importance of increasing the enrolment rates of girls by reducing the financial burden of the family. There is a functioning girls' scholarship scheme which is being expanded. The PRSP in pursuing its major objectives to reduce disparities in access and to improve the quality of education emphasizes the same range of inputs and outcomes as the overall Education Sector Policy.

Poor Education Statistics

219. The state of the EMIS, including the school statistics, is fairly critical. All the staff of the Information Technology and Human Resources Directorate (ITHRD) and Planning, Policy Analysis, Research and Budget Directorate (PPARBD) who were trained in the operation and management of the EMIS between 2000 and 2002 have either left or are due to leave. The database of the recent release of version 5 of EMIS has been poorly maintained. Non-reporting schools in 2002/3 are set zero rather than the last available actual return, and therefore the system no longer provides a population estimate but simply a report of the responding schools. Non-reporting for both of the last two school years (2001/2 and 2002/3) are very high. These non-returns in 2002/3 account for nearly a third of the Lower Basic schools and are not evenly distributed around the country, with Region 1 being particularly poorly represented although it has a large number of the students. The PPARBD is no longer entering school returns into the EMIS but has gone back to using spreadsheets.

220. The latest EMIS has data from only ten percent of schools for the school year 2001/2, making population estimates very unreliable, and from 61 per cent in 2002/3. Estimates based on the last reported data from schools which is the practice for non-reporting schools will show more conservative growth or declining rates because such estimates assume no growth or a decline in non-reporting schools.

EXPENDITURE TRENDS

Losing Its Priority Status

221. Total Government expenditures on education increased during the late 1990s and early 2000s. Between 1998 and 2004, the total Government budget for education grew from D136 to D230 million in current prices, an increase in current prices of 69

per cent. The recurrent budget grew even more strongly with an increase over the period of 86 per cent.

Comparing expenditures on education to other sectors gives a different picture. Budgeted education expenditure has been falling from the late 1990s from a high of 17.1 percent of government budget in 1999 to less than ten percent planned for 2004. Expenditures on education relative to GDP also declined from a high of 4.3 percent of GDP to less than 3 percent. Education's share of total Government planned expenditure (excluding debt service) rose from 24 per cent in 1998 to 25 per cent in 2000 and 2001. It has now fallen substantially and is budgeted for less than twenty per cent of recurrent expenditure excluding debt service. Because of rising debt commitments, the share of the budget for education as a percentage of total recurrent funds has fallen even more. From a high of nearly 17 percent it has now declined to just over ten percent.

Table 4.2: Total Education Expenditure

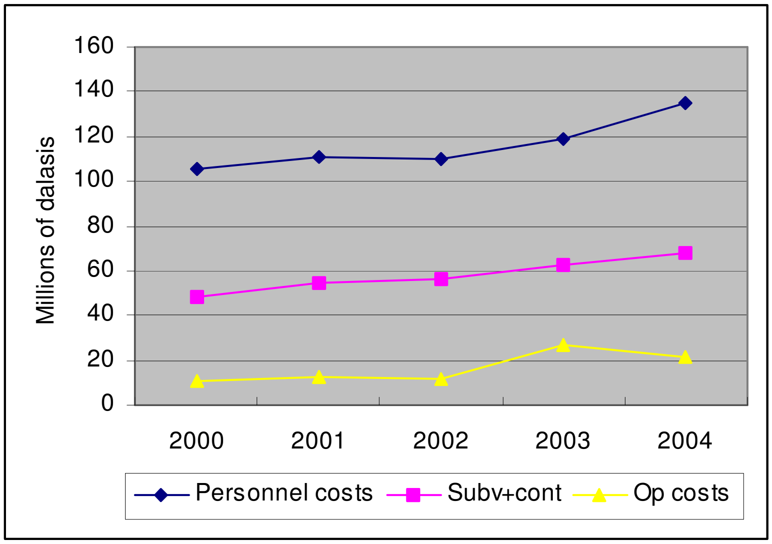
(millions of dalasis)

	1998	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*
Development Spending	123.5	19.8	106.6	119.5	111.8	128.3	88.5
Of which external sources	107.9	17.1	97.7	112.4	104.8	121.3	
GLF	15.5	2.7	8.9	7.1	7.0	7.0	
Recurrent spending	120.8	149.5	165.5	178.3	177.6	208.3	224.3
Total Education Spending	**244.3**	**169.3**	**272.1**	**297.8**	**289.4**	**336.5**	**312.8**
Total Education Spending by Government	136.3	152.2	174.4	185.4	184.6	215.3	224.3
Government educ spending as % of GDP	3.6%	3.8%	4.1%	4.3%	3.0%	2.8%	2.6%
As % of Government spending	16.0%	17.1%	14.4%	15.8%	12.0%	12.2%	9.7%
Total education expenditure as % of GDP	6.4%	4.2%	6.3%	6.8%	4.7%	4.4%	3.6%

222. Education has fallen as a government priority, meaning that the ambitious policy priorities set out in the new national Policy for Education are going to be much more difficult to achieve unless there is either growth in government revenues or a change in the relative allocation to the sector. The PRSP objectives to improve the quality of education, increase the transition rate from Upper Basic to Secondary school to 50 percent, and increase the supply of teaching and learning materials are not likely to be fulfilled with falling allocation of resources.

223. The three largest categories of the recurrent budget are Basic Education, Senior and Tertiary Education, and Administration. These three programs account for over 95 per cent of the total recurrent budget. Budgeted resources for all three have been very stable over the past five years with little more than a one percent variation year to year. Basic education has more than three fifths of the resources, Senior and Tertiary Education approximately one fifth and Administration about seven percent. The emphasis on primary education is in line with the PRSP priorities.

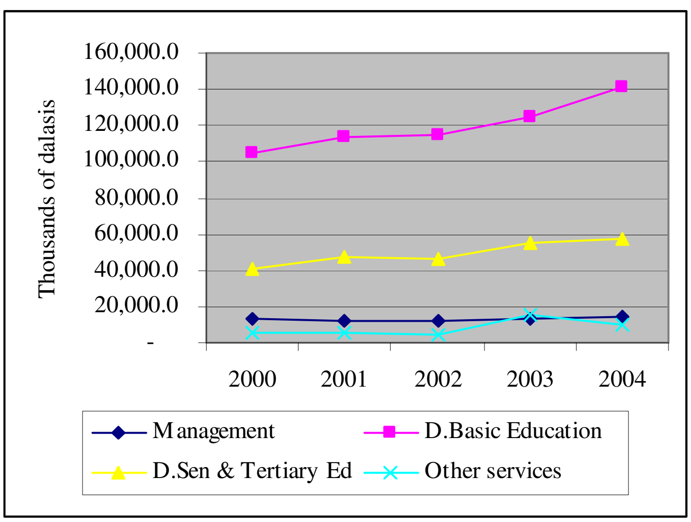
Figure 4.4: Education Expenditures by Major Economic Components



Source: The Gambian authorities.

224. Overall salaries, wages and allowances are a relatively low proportion of budgets for DoSE and are falling as a percentage of total recurrent budget, from 64 percent in 2000 to 60 percent in 2004. However, salaries and allowances for grant aided schools, Gambia College and the University make up the bulk of subventions and contributions. Given that subventions are 30 percent of the recurrent budget, close to 90 percent of the domestic expenditures in education is for salaries and wages. Other operating costs for DoSE make up about one tenth of the total resources.

Figure 4.5: Education Expenditures by Major Functions



Source: The Gambian authorities.

225. In current cost terms, budget allocations for basic education increased over the past three years, although it lagged the increase in overall expenditures. The increase

was mainly for salaries, wages and allowances. Basic Education has grown at a much faster rate than the other major programs. The driving force for the Senior Secondary and Tertiary program is the rise in budgets for subventions and scholarships for the post secondary institutions, particularly the University of The Gambia.

226. Overall accountability in financial management in The Gambia is a concern. DoSFEA has been very slow in producing final accounts for the budget, so analyses tend to reflect the intentions of the budgets of Departments rather than their actual expenditures. DoSE itself has very limited records of its own expenditures and were unable to provide for the PER analysis a complete record of the Vote Charge Book for any recent year. Provisional figures from 2002 were available and show that expenditure on wages exceeded the budgeted figure, while those for Goods and Services and for Transfers (Contributions and Subventions) were well below the budget. Expenditures on Goods and Services provide many of the quality inputs to educational services, and therefore it is a concern that they suffered when wage costs were not contained. The figures are not sufficiently detailed to see whether subventions were reduced at basic, senior secondary or post secondary level.

POLICY PRIORITIES

227. **Improve the quality of education through training and performance monitoring of teachers.** The quality of teaching and learning should be improved by:

- Focusing more on supervision and provision of professional support to and advisory service for teachers at the regional, cluster and school levels;
- Increasing time on task for both learners and teachers;
- Improving teachers' professional and academic standards through a regular in-service training program;
- Implement a Staff Performance Appraisal System;
- Setting performance standards linked to learning outcomes;
- Conducting standard tests on teachers to evaluate their knowledge and skills in their subject areas;
- Conducting competency tests for all pre-service teachers;
- Combining a mix of distance learning and the conventional mode for ongoing training and upgrading of skills.

The outcome indicator of quality of education is the proportion of students with grades above a minimum standard. The authorities need to determine the target level for the outcome indicator of the quality of education, and how and when students will be tested.

228. **Higher allowances and strategic training programs for teachers are needed to reduce the impact of teacher attrition.** The authorities should consider increasing the financial and non-financial benefits for teaching in rural areas, including housing and higher allowances. Given that there is high likelihood of

attrition for senior and well trained staff, it is important that attention is given to the overall training program to ensure that staff are being trained to take over in key areas. Training plans should endeavor to identify the most critical areas, and continued attention should be given to distance education so that staffs can be trained without being away from post for lengthy periods.

229. **The costs of achieving PRSP education objectives need to be rigorously estimated.** The Department of State has set PRSP priorities ranging from pre-school to university education. It would mean providing more facilities at upper basic and senior secondary level and beyond, as well as teacher housing and increased allowances which are specifically mentioned as a part of the strategy for recruiting and keeping qualified staff in Regions Three to Six. Extra staff would need to be trained, more instructional materials provided and operational costs raised to cover the replacement of fees in upper basic and grant aided schools. Implementation of the PRSP priorities depend to a large extent on state intervention. There are a number of off-setting savings proposed arising mainly from greater efficiency. However there is little evidence in the recent past that these savings can be achieved as indicators such as repetition and pupil-teacher and pupil-class ratios have not improved significantly. The recent EFA Fast Track submission estimated that over 300 million GMD would be needed on an annual basis for the first three years to meet the costs of that initiative. This would cover the Policy proposals for Early Childhood, Basic Education and Adult Literacy. The EFA Plan estimated that the government could cover half of these recurrent costs.

230. **Policies for expanding vocational and technical education need to be further developed.** Vocational and technical education is particularly costly in the areas proposed for expansion, for example engineering and IT, and there are no targets for levels and numbers of courses and places, nor a specific strategy for funding except that external aid private sector participation will be sought. However, no rationale for private investment in the training of rural youth is given.

231. **Education sector policies and the PRSP need to be made consistent with regards to tertiary education.** Health sector policies emphasizes improving access and quality of tertiary education, two further faculties are to be added to the university, and there has been pressure from the University for the provision of a new, unified campus. By contrast, the PRSP emphasizes primary education. Therefore, the two need to be reconciled.

232. **The budget structure should be revised.** One serious limitation in the management of the sector is the budget layout for the Department of State. It provides very little information and guidance on the planned allocation of resources to major policy priorities. Most of the organizational structure of DoSE is not present in the budget and hence managers and policy makers cannot see the relative allocation of resources in the medium term nor do actual budget expenditure reports relate closely to management. It would be far better to set the budget out to mirror the functional organization and/or the policy priorities. If this were done the Directors would see the resources allocated to them to manage and could be held accountable for the

performance in their areas. This should apply to both the central and the regional directorates. Budget preparation is based on submissions from Directors according to their priorities and work planning, so it should not entail great changes in the work within DoSE. The proposed changes would need to be negotiated with the Department of Finance and Economic Affairs, but the ongoing restructuring of the budget, including the adaptation of functional classification, presents an ideal opportunity to implement the changes.

HEALTH SECTOR

233. The Gambia health care system is comprised of a modern health care system coexisting with a traditional medicine network. The primary mechanism of service delivery is through the public sector. Services are provided through hospitals as well as 39 health centers, 221 health “outreach” MCH clinics and 27 village outpatient clinics. Community-based Primary Health Care (PHC) supplement these secondary level facilities. At the tertiary level, The Gambia has altogether 10 hospitals, of which 3 fully functioning hospitals are in the public sector. A fourth Government hospital recently opened, and a fifth is under construction. The private for-profit sector and some NGOs also contribute to primary and secondary care in urban areas.

234. The country has achieved substantial progress in health during the past 10 to 15 years. Performance in the sector is relatively good when compared with Sub-Saharan Africa (SSA). However, it appears that the Government is experiencing increasing difficulties in meeting its health sector goals. The health system suffers from three main problems, lack of funding, a severe shortage of health personnel, and problems of access to services. The emergence of the HIV/AIDS epidemic further complicates the situation as it requires additional resources and attention.

235. A major concern is that there is currently a disconnection between the accurate diagnosis of health issues and the sound formulation of health policies, on one hand, and the lack of proactive and consistent implementation of such policy recommendations, on the other. Several recent assessments provide an analytical basis for a health sector strategy. A 2001 Health Public Expenditure Review (PER) and the World Bank’s Country Status Report (CSR) on health, nutrition and population are complemented by a number of policies prepared for the health sector by the Government of The Gambia, particularly the National Health Policy Framework adopted in 2001, the National Drug Policy and National Nutrition Policy. However, implementation has been less than successful, and it has become clear that major strategic changes are needed in the health sector if the previous progress is to be sustained.

236. Poor quality of available health services is often cited in explaining the lack of impact of services, particularly reproductive health care. Maternal mortality indicators remain high despite the high rate of use of prenatal care. Risk factors, such as hypertension, are often not detected early enough and therefore remain untreated. Although family planning services are present in Government health facilities, several

lack contraceptive supplies and services, such as surgical procedures. The referral system for emergency obstetrical care is also deficient in providing timely transport as well as quality emergency obstetrical services. Too often, the health care system fails to identify the risk cases and provide timely and appropriate care, due to lack of technical skills of the personnel attending the patients, and lack of access of the population to the appropriate health care services. The unwillingness of the patient or her family to consult the health facility also contributes to the late arrival of emergency patients at the facilities.

KEY SECTOR DEVELOPMENTS

Children and Mothers At Risk

237. The deficiencies of the health system have had a particularly harsh impact on women and children. As a result, reducing child mortality and improving reproductive health will be difficult. Achieving these targets is complicated by the facts that:

- the fertility transition has been initiated but the population will still grow rapidly over the next decades (in this respect, the National Population Policy is weak and poorly implemented);
- household spending for health affects the poor disproportionately;
- household health behavior is evolving but needs further changes to respond to current causes of high mortality among children and women (community based approaches have shown that it is possible to improve household behavior and practices);
- geographical access to services is good but access to community-based services and emergency obstetric care needs to be expanded in the rural areas;
- health personnel are lacking;
- despite significant levels of funding, shortages of drugs and medical supplies continue to occur, undermining the functioning of peripheral services;
- referral system is inefficient due to over-reliance on hospitals for outpatient services;
- recurrent problems in ensuring the quality and continuity of services contribute to their lack of impact;
- availability of health services greatly differ across regions, highlighting the need to improve physical access (including transport to referral care) and availability of community nurses in the poorest regions; and
- public sector financing of health has grown over the years but has mainly favored investment in tertiary care leaving critical recurrent salary and non salary costs of primary and secondary care not fully covered.

Low Public Spending and Costly Services for the Poor

238. The Gambia's total health expenditure, which includes both public and private health spending, is quite low at about 3.4 percent of GDP for 1998/99. On a per capita basis, total health expenditure is nearly USD 11.80 (or PPP USD 51.00). Although the Government's contribution to health resources has increased in the past decade and especially since 1998, the overall government budget allocation is still low in comparison to other countries of similar income. However, public spending is in line with the average of SSA countries at about USD 8.70 (74 percent of total health expenditures) and slightly over what most governments spend on health in West and Central Africa. The public sector of The Gambia allocates an average of 11 percent of the government budget share, or about 2.5 percent of GDP in 1998/99. Budget share for health has increased in recent years to 16.4 percent in 2003 and 18.4 percent in 2004. The per capita public spending on health has increased in recent years, but much of the increase was in externally funded development investment expenditures in hospitals. Consequently, the quality and availability of primary and secondary health care remain poor.

239. In addition, major imbalances persist in the health sector with respect to the affordability of health care, particularly the poor households. Household spending for health accounts for about 5 percent of total household expenditures. This is on average quite comparable to other developing countries, but significant geographical variations can be found. Furthermore, limited information is available to examine the pockets of vulnerability, the characteristics of the households facing high health expenditures, and the means (formal and informal) through which these households cover their health expenditures. Finally, no information is available on the segments of the population that cannot afford health services and may fall further into poverty when experiencing catastrophic illnesses.

Lack of Health Personnel in Rural Areas

240. With one physician per 5,000 people and one nurse per 1,300 people, The Gambia fares less well than countries with comparable income in other regions of the world which average one physician per 2,000 people. In addition, there are great geographical disparities. The overall situation of The Gambia is nonetheless enviable compared to most sub-Saharan Africa countries, where an average of one physician per 10,000 people is generally observed.

241. With no training facilities within The Gambia until recently, 91 percent of all the physicians working in the country are expatriates supported by both donors and The Gambian government. On average, 250 foreign physicians, mostly Cubans, work in the country and their salaries are paid by a bilateral donor. This approach is not sustainable as larger numbers of physicians and graduate nurses are leaving the country every year. The recent development of a Gambian medical college is likely to represent a progress in the effort to increase the production of qualified Gambian doctors. Yet time will be needed to get a steady flow of physicians trained and the

government will have to rely on transient solutions in the short term. Foreign trained Gambian doctors are another possible source, but the supply is limited and poorly coordinated. In general, the working and earning environments need to be improved in order to attract and retain enough to Gambian doctors.

242. By comparison, the situation of the nurses and midwives is better as the country trains its own. However, the retention of this staff has been poor due to the attraction of the international market, and the total annual output of both the State Registered Nurses and State Enrolled Nurses Schools cannot meet the needs of Royal Victoria Teaching Hospital alone. The number of nurses in the public sector declined from 784 in 1998 to 655 in 2001. In addition, staff crowd urban areas and hospitals, leading to large disparities among geographical divisions.

243. The overall salary levels of Gambians in the public sector remain very low, and little increment has taken place since the mid-1990's. This is a critical area of concern, as this affects the morale of the workers, and reduces their standard of living over time. Salaries at 40 percent of the recurrent budget are a rather moderate proportion.

244. In an attempt to address issues of health staff shortage and understaffing in rural areas, the Gambian health system has introduced training programs for auxiliary workers, trained at a somewhat lower level than nurses and midwives, but capable of offering some key services to children and women, at primary and community services level. In addition, traditional birth attendants and community health workers have been trained as part of the community-based Primary Health Care (PHC) programs.

245. DOSH has developed a draft human resources policy and a strategic plan of action covering the period 2004 to 2008. The HR policy encompasses staff retention, training, supervision, and distribution and utilization. Staff morale and motivation remain low, as inadequate hardship or travel allowances are given to those serving in rural areas or to those providing out-reach services.

Relatively Good Access to Services But Not Enough Health Centers

Primary health care – health centers

246. The access of the population to basic health services is generally good, with the exception of some pockets, mainly in the Upper River Division (URD) and the North Bank Division (NBD). Most of the rural population have relatively good access to health services. Most households (85 percent) live within a one hour travel time, or within 7.5 kilometers, to a facility. However, there are still regional disparities in access to basic health facilities. For example, in 2002, while 70 percent of the inhabitants of the North Bank Division (East) had access to a basic health facility, the corresponding percentage for URD was 43 percent. In addition, an Italian bilateral project has provided a health facility and community based PHC in 10

villages in the NBD. Disparities in access to health between males and females are not well documented.

247. The number of health centers is insufficient, even relative to the small and dense population of The Gambia. Disparities are found among geographical divisions in terms of the population to health center ratios, even when taking into account the private health care providers. Community-based health programs, which have proven to be effective, do not cover the entire country. However, to correct this imbalance, the public sector infrastructure investments for health centers have been made over the past few years in the poorer divisions. Therefore, the public sector investments for basic health facilities have been in line with the distribution of poverty and health needs.

248. There seems to be a strong link between physical access and performance of services, suggesting that access could be further improved in those regions where it is still insufficient. Since the ratio of services to population is still on the lower side, there is a margin for action in terms of conducting new investments in creating new health centers and Village Health Services (VHS), although potential for aggravating staffing problems would be a concern. Technical capacity needs to be strengthened at the major health centers, which are the initial referral point for immediate care and for obstetrical emergencies.

Tertiary health centre – hospitals

249. The Gambia is also well covered in terms of hospital beds with 1.21 beds per 1,000 population, slightly above the regional average of the SSA region (1.1 beds per 1,000 population), yet below the average of other countries with similar income (1.3 beds per 1,000 population). But problems lie essentially in the very skewed distribution of these beds throughout the country, with an insufficient number of beds outside of the main cities. Hence, access to emergency services such as obstetrical care is insufficient with the bulk of hospital services being concentrated in the major cities. Hospital bed capacity needs to be redistributed closer to the population, including decentralization to the major health centers with special attention given to obstetrics.

250. Another inefficiency of the Gambian health system is the heavy use of tertiary level facilities to offer primary health care services. The existing four hospitals provide primary and secondary health care services because they are the only the only public health facility in their respective locations, Banjul, Bwiam, Farafenni and Bansang. The practice of providing primary and secondary health care services through hospitals is highly inefficient and a major drain on scare resources. This appears to be rooted more in behavioral and cultural features than in the geographical distribution of the facilities.

Shortage of Drugs and Medical Supplies

251. The drug distribution system needs to be improved. The storage facilities are not adequate, particularly at the central level. In response, the DOSH is currently exploring the possibility of acquiring a larger facility for the Central Medical Store. The Health Management Information System (HMIS) does not yet keep track of the inventory of drugs distributed to the regional stores or to the health facilities, although the DOSH plans on incorporating the drug supply system in the HMIS. The drug distribution system of the central pharmaceutical services should be thoroughly assessed in order to prepare and implement a plan to build capacity and improve efficiency. The procurement of drugs should be done in a more open, transparent and competitive process. Weak inventory control has resulted in frequent shortages of drugs in the public sector health facilities in The Gambia. The authorities have taken steps to improve the situation by installing an inventory control system at the Central Medical Store, Divisional Medical Stores and hospital pharmacies, but the system is not yet fully operational.

252. There are large variations in drug disbursement per region, although the allocation does appear to be relatively pro-poor. For example, the North Bank West and the Western divisions received the lowest per capita at USD 0.25, compared to USD 0.37 allocated for the URD and CRD regions. The latter regions also have the highest proportions of the poor (over 40 percent are extremely poor). The data therefore suggest that the DoSH provides some equity consideration in its drug disbursement policies, although the overall amount remains low.

253. Public spending on drugs represents on average US$ 0.4 per capita which can be considered an acceptable level for the financing of essential drugs at primary and secondary care level, but not including tertiary level. Yet drug shortages are persistent in the country, despite a remarkable effort at providing drugs to the poorer regions. Several factors explain this situation. First, a large proportion of the funding for essential drugs flows to the large urban hospitals, and there is little effort to prioritize “most” essential drugs among an extensive list of more than 200 essential drugs. Second, the national procurement and distribution system is still weak, including stock management and financial accounting. This translates into difficulties for peripheral facilities to acquire drugs even when they have cash (“cash and carry system”). Finally the overall cost recovery system which represents less than 15 percent of the total expenditures on drugs is highly centralized, and hence it does not allow the peripheral units to use it to introduce the demand side drive that would better link needs to quantities purchased at the central level.

Maintaining Low HIV/AIDS Prevalence

254. The Gambia still has relatively low levels of HIV-1 prevalence. In 2003, it was estimated that between 2 and 3 percent of adults aged 15 to 49 were infected. Such low levels of HIV-1 prevalence might be explained both by specific sexual behavior and limited migration of Gambian workers. Similar reason could explain the low levels of HIV infection experienced in neighboring Senegal. The HIV/AIDS

epidemic appears to be progressing slowly in the Northern part of The Gambia but is rather dynamic South of the Gambia river, where several critical areas have been identified. Current prevalence data are generated from a system of six sentinel surveillance centers. However, the Government is considering a nationwide HIV/AIDS survey to better assess HIV prevalence.

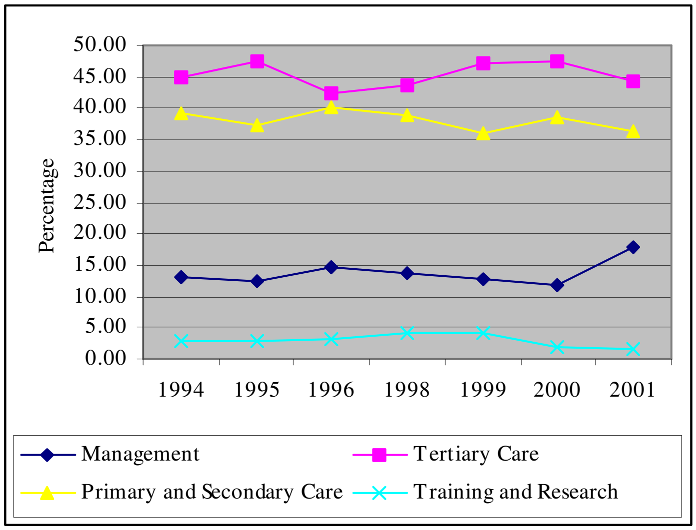
255. The authorities are taking very seriously the threat of a generalization of the epidemic as the risk for such spreading of HIV is not negligible and might be fueled by factors specific to The Gambia, such as large streams of transit migrants, the presence of sexual tourism activities, and possibly high levels of prostitution. If not contained, HIV and associated tuberculosis (TB) could threaten past health gains, although malaria remains the most prevalent communicable disease. In response, the authorities have embarked on a series of vigorous measures to try to stem HIV/AIDS while it is still at an incipient stage. The Government launched in 2001 the HIV/AIDS Rapid Response Project (HARRP). The project has helped to strengthen the National AIDS Secretariat (NAS), which has been instrumental in the preparation of a National HIV/AIDS Strategy. The NAS has also launched an Acceleration Results Implementation (ARI) process for the HARRP project. Finally, the Global Fund for AIDS, Tuberculosis, and Malaria (ATM) pledged US$ 28 million over 5 years for HIV/AIDS and malaria.

EXPENDITURE TRENDS

256. In 2001, estimates of the Government showed that 36.2 percent of recurrent health expenditures were used for primary and secondary care, while 44.2 percent were used for tertiary care, 17.9 percent for management and 1.7 percent for training and research (figures 4.6). Tertiary care is defined as hospitals. Hence, nearly half of recurrent expenditures were used for tertiary services. However, these figures should be interpreted with care as hospitals in The Gambia provide primary and secondary care in addition to tertiary services. In fact, the referral system is inefficient due to the over-reliance on hospitals for outpatient services. Hence, these figures indicate the share of central government expenditures in health allocated to hospitals, but not necessarily to only tertiary health care.

257. The distribution of expenditures across the three levels of health care have been fairly constant over time. However, the share of expenditures for management sharply increased in 2001, while the shares for primary, secondary and tertiary care all decreased.

Figure 4.6: Health Recurrent Expenditures 1994 - 2001
(percentage of total recurrent expenditures in Health)

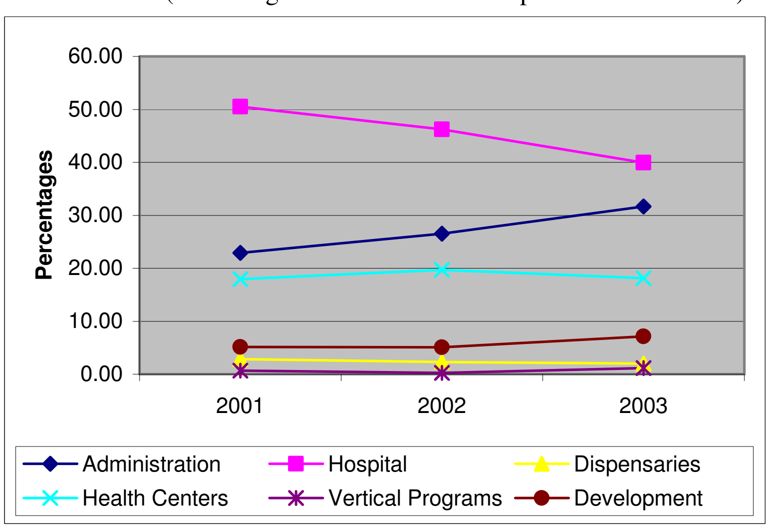


Source: Gambian authorities

258. In fact, preliminary figures indicate that this trend of increasing expenditures in management and administration and decreasing expenditures in direct health care provision seems to have continued in the more recent years (figure 4.7). Note that these figures are indicative, and figure 4.5 and 4.6 are not strictly comparable. Figures 4.5 illustrates the composition of recurrent expenditures, while figure 4.6 illustrates the composition of functional expenditures in health which would include recurrent expenditures as well as domestically financed development expenditures. Nevertheless, the pattern observed in 2001 seems to have continued up to 2003.

Figure 4.7: Health Domestic Functional Expenditures 2001 - 2003

(Percentage of total functional expenditures in Health)



Source: Gambian authorities

259. This is a surprising result that bears further investigation. There are several reasons that indicate the analysis is based on partial information. The actual expenditure data for the recent years graphed in figure 4.6 are preliminary numbers from trial balances and Vote Charge Books. Also, the figure does not include externally financed expenditures. Finally, the figures do not included resources outside of the central government budget which are sizable for in the health sector. Self raised revenues such as health care fees are not included, and these could be sizeable particularly for hospitals. Expenditures financed out the drug revolving fund are not included.

260. In 2001, 40 percent of recurrent expenditures were for salaries and allowance, a rather moderate proportion of the recurrent budget for the public sector in health. Another 40 percent were allocated to operations and maintenance, including medicines, operations, maintenance, and overseas treatment. Drugs and dressings comprised approximately 57 percent of operations and maintenance or 22 percent of recurrent expenditures, and the rest were for transportation, maintenance, and miscellaneous. Within the PHC system, some essential recurrent costs such as costs for transportation appear severely under-funded and the allocation to human resources has stalled over the last 10 years. The public sector health budgets for operations have also declined both in real terms and in terms of budget share over the years. Although public sector health care resources have been re-allocated for drugs in recent years, little attention was given to resource needs for outreach services, such as fuel, maintenance of vehicles, and incentives (per diems) for health staff.

POLICY PRIORITIES

261. **Capacity development will be required to translate policy into plans, execute those plans, and monitor and evaluate health programs with a readiness to make changes.** The overarching health issue in The Gambia appears to be the fact that the health system is currently unable to manage the provision of health care services country-wide. This problem is compounded by the very weak planning capacity at the Department of State for Health and Social Welfare (DoSH), as its Directorate of Planning is not yet fully staffed and functioning. Central managers have yet to appreciate the benefits of proper planning. Special attention will need to be given to decentralized units. The Divisional Health Teams (DHTs) will need to be able to manage more of their resources if they are going to be more effective. There is currently limited data analysis and feedback provided to service providers and program implementers. The health sector also lacks coordination of the various inputs from donors and stakeholders (public, private, and NGOs).

262. **The authorities should implement a Sector Wide Approach (SWAp).** A sector-wide approach will be an ideal instrument to scale-up country-wide interventions. The Government has in principle agreed to such a sector-wide approach. This effort will require broad-based and far-reaching reforms, in particular in the following areas: funding of the sector, including cost-recovery; health manpower, which is related to public sector personnel policies; allocation of

resources between the various levels of the health pyramid; and priorities redirected toward the poor and the communities. Such reforms will require additional research as well as careful preparation. Their implementation will necessitate the operational translation of recommendations that are, slowly but gradually, being internalized and agreed upon by all actors in the health sector, including the Government of The Gambia, the Gambian citizens, and the donor community.

263. **Addressing the issue of training and retention of staff, including absenteeism, particularly in rural areas, will require a strong and intensive program financed at an appropriate level.** There is a clear need for actions along three main strategic lines. First, the difficulty in training and retaining highly qualified staff should lead to further development and maximization of the use of intermediary qualified staff such as auxiliary midwives and assistant nurses, particularly favoring the production of Community Health Nurses (CHN). The opposition to increased use of intermediary qualified staff by the professional nursing cadre and their representatives within the public health system need to be addressed. Second, financial and non-financial incentives schemes will have to be revisited as to motivate health staff to join postings outside the main cities in larger numbers. The disincentive to serve in rural areas with poor infrastructure, including roads, communications, services and schools, need to be comprehensively addressed. Finally, innovative ways of financing staff should be developed including performance based contracting and part time work in public sector to allow highly qualified staff to optimize their remuneration. The Gambia may want to revisit the work that was done on staff retention and motivation in the mid-1990s, when technical advice was provided with respect to adapting a transparent meritocracy in promotions, training, assignments, and staff housing. Finally, any health manpower planning has to take a systemic approach to the health systems taking into account the need of trained health manpower both in public and private sectors. Currently, there are no clear-cut policies on private sector provision of health services.

264. **Regional disparities should be reduced by further developing and expanding community based services.** Evidences of geographical and income disparities reinforce the argument for developing community based services. The Baby Friendly and Bamako Initiative experiences provide platforms to build upon. Impact on outcomes will require the strengthening and expanding these approaches both geographically and in scope. Enriching these experiences with broader programs of direct support to income protection and generation and literacy enhancement is likely to indirectly benefit the poor and improve health for women and children. The "Bamako Initiative" program also demonstrated good results in terms of building partnerships with communities in order to develop community based health care, reinforcing accountability of the health services towards users. However the local management capacity has been undermined by drug supply problems that will need to be solved at national level.

265. **The distribution system for drugs should be revamped.** The reform of the system could include focusing subsidies on a more limited number of essential drugs for the health centers, and expanding the possibility for health facilities to fully retain

the proceeds of user fees and use a cash and carry system to acquire essential drugs. Revision of user fees could be considered. The inventory control system at the Central Medical Store and other stores and hospital pharmacies need to be fully operationalized. Stock management at divisional stores and health facilities should be improved through training and tighter supervision.

266. **Data quality, availability, comprehensive and usage need to be improved.** Regarding the sources of data on health indicators, current estimates are not always reliable and time series are not readily available. However, new population figures became available recently through the 2003 Census of Population and Housing. Nevertheless, the country still needs to conduct a comprehensive nation-wide demographic survey such as the ongoing Demographic and Health Survey. Several small scale surveys are available, however, including a Multiple Indicator Cluster Survey (MICS) for the year 2000.

267. **The government needs to assess health care spending for the country, through private and public contributions, and to assess which segments of the population require public subsidies.** However, critical data for decision-making are still lacking such as National Health Accounts (NHA) which would include private sector expenditures and unit cost information for facilities. There is insufficient knowledge of financing sources, flows and use of funds to make relevant decisions with regard to future financing strategies. Furthermore, little is known about household (private sector) contributions toward health, or about risk pooling institutions. Development of more systematic data analysis will be necessary. Fortunately, significant progress has been noted regarding the establishment of a Health Management Information System (HMIS).

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APPENDIX 1: FISCAL SOLVENCY AND SUSTAINABILITY[33]

Fiscal Solvency

The concept of public sector's solvency can be derived from the definition that, as an entity, it has to satisfy the inter-temporal budget constraint:

$$\int_{-\infty}^{+\infty} s^* \exp.(g - r) \; dt = B/Y \tag{1}$$

where, s* is primary balance in period t expressed in proportion of output, r is the discount rate, Y is output (GDP), g is the output growth, and B is the initial level of public debt. Solving for s* yields:

$$s^* = B/Y(r - g) \tag{2}$$

Equation (2) states that for a net debtor country, i.e. $B/Y>0$, a primary budget surplus is required to attain fiscal solvency since the real rate of interest exceeds output growth, i.e., $(r - g) > 0$. In addition, the higher the level of indebtedness the higher the level of primary surplus to be generated assuming constant r and g.

The difference between s* and the actual primary deficit measures how far additional fiscal efforts need to be undertaken to restore solvency to the public sector and is referred to as fiscal solvency adjustment. A positive number indicates that fiscal adjustment to restore solvency is needed while a negative number implies that no adjustment is needed.

In a dynamic context, what matters however, is not whether the public sector is insolvent, but whether the current fiscal stance would move the country away from or closer to solvency: fiscal sustainability.

Fiscal Sustainability

The notion of fiscal solvency requires knowledge of long run variables: real interest and real GDP growth rates. Both are not directly observable and have to approximated. Alternatively, one could observe fiscal sustainability, a one-period budget constraint, to infer about solvency condition in the future. Defined as one-period condition such that solvency can be assured in the future, fiscal sustainability can be derived from the instantaneous view of the budget constraint. In other terms, the sustainability of the public sector's fiscal stance can be evaluated by comparing the present value of the contractual debt service on its outstanding debt to the present value of its anticipated future revenues, net of expenditures. If the discounted net revenues exceed the discounted contractual debt service flow, the government's fiscal stance is said to be sustainable.

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[33] Sources: Agenor, P-R, " The Economics of Adjustment and Growth" Academic Press, 2000; Easterly, W., Rogriguez C.A, and Schmidt-Hebbel, K. " Public Sector Deficits and Macroeconomic Performance", 1994, The World Bank.

Consider the government's budget constraint

$$G - T + iEB + i^*E(1-\mu)B^* = \Delta B + E\Delta B^*(1-\mu) + \Delta M \qquad (3)$$

Where,

G	= total government expenditures, net of interest payments,
T	= total government tax revenues
i, i*	= domestic and external (concessional) interest rate
B, B*	= domestic and external debt (both are indexed to US Dollar)
E	= nominal exchange rate (F CFA/USD)
M	= the monetary base
μ	= proportion foreign grants in the budget.

It states that the fiscal deficit, which consists of the primary deficit (D = G - T), plus interest payments on the public debt (domestic and external), is equal to the sum of changes in the public debt (domestic and external) and in the monetary base, which constitute the three sources of deficit finance.

Expressing equation (3) in real terms by dividing by P, defining $d=(G-T)/P$, $m=M/P$, $b=B/P$, $b^*=EB/P$, $\Delta B/P=\Delta b + b\pi$, $E\Delta B^*/P = \Delta b^* - b^*(\hat{e} - \pi)$, assuming that m grows at a constant rate of the output growth, g, and rearranging yields

$$d + ib - b\pi + (i^* - \pi^* + \hat{e})(1-\mu)b^* = \Delta b + (1-\mu)\Delta b^* + m(\pi + g) \qquad (4)$$

Using the quantity theory of money formula MV=PY, it follows that $m/Y=1/v$ and expressing all the variables in terms of output gives:

$$d/y + rb/y + (r^* + \hat{e})(1-\mu)b^*/y = \Delta b/y + (1-\mu)\Delta b^*/y + 1/v(\pi + g) \qquad (5)$$

where $r^* = i^* - \pi^*$

Defining $b/y = ß$, $b^*/z = ß^*$ implies that $\Delta b/y = \Delta ß + ßg$ and $\Delta b^*/z = \Delta ß^* + \dot{z}$; where g and $\dot{z}$ are the growth rates of y and z respectively.

Expressing foreign debt in terms of output, $\Delta b^*/y = z/y(\Delta ß^* + ß^*\dot{z})$ and substituting in equation (5) yields

$$d/y = \Delta ß + ß(g - r) + (1-\mu)z/y\,\Delta ß^* + (1-\mu)z/y\,ß^*(\dot{z} - r^* - \hat{e}) + 1/v(\pi + g) \qquad (6)$$

Equation (6) is a snapshot of the government budget constraint highlighting its major determinants: the existing stock of domestic and foreign debt ß and ß*; real interest and growth rates, r and g; the proportion of exports in national output z/y; export growth $\dot{z}$; real international interest rate r*; real exchange rate change $\hat{e}$; the inverse of the velocity of money demand m/y and inflation rate π.

Setting the condition for public sector sustainability as one with $\Delta ß = \Delta ß^* = 0$, or

$$d/y = ß\ (g - r) + (1-\mu)\ z/y\ ß^*(\dot{z} - r^* - \hat{e}) + 1/v\ (\pi + g) \qquad (7)$$

The condition shows that there are three possible sources of financing the primary fiscal deficit in a sustainable way. First, the government can rely on domestic borrowing if output growth is greater than the interest rate on domestic debt. Second, external borrowing can be envisaged when export growth is higher than international interest rates, plus currency depreciation. Finally, the government can finance its deficit by money creation if it is consistent with seignorage. Because equation (7) relates to a one-period budget constraint, it also shows the liquidity constraint of the public sector.

Defining $s^{**} = -d/y$ as the primary surplus (in percent of output) needed to achieve debt sustainability for the public sector,

$$\mathbf{s^{**} = ß\ (r - g) + (1-\mu)\ z/y\ ß^*(r^* + \hat{e} - \dot{z}) - 1/v\ (\pi + g)} \qquad (8)$$

Equation (8) represents the necessary and sufficient condition for debt sustainability of the public sector.

To assess fiscal policy performance, the above formulation of the sustainable level of primary surplus, s**, needs to be compared to the actual fiscal deficit. The difference between the sustainable primary balance and the actual primary balance represents <u>fiscal sustainability adjustment</u>. A positive number indicates the need for fiscal adjustment and a negative number indicates no adjustment is required as far as fiscal sustainability is concerned. The evolution of this number is important from a policy standpoint because its indicates whether the existing fiscal stance would drive the country away or towards sustainability.

In the case of African countries, both the solvency and sustainability analysis may be conducted only on the central government because of data limitation on other parts of the public sector (states-owned enterprises, parastatals, government agencies...).

In conclusion, Equation (8) shows clearly that, for net debtor country, domestic debt would not be a sustainable option if real domestic interest rates are higher than real growth rate. In most of the cases, foreign debt appears to be an efficient way of financing the deficit since the real export growth can exceed real (concessional) interest rates at which the debtor country contracts its debts provided that the level of the outstanding external debt is not too high. Note that a country's eligibility for assistance under the enhanced HIPC initiative improves debt sustainability over the medium and long-term as the stock of debt is reduced the relief mechanism. The third source of financing, money creation, may be costly given the risks of inflation that it could generate. Consequently, Government of a debtor country's best options would be to mobilize sufficient internal resources or if it is not possible, it should contain the level of its non-productive expenditures (wages, administration, security) to its available revenues.

APPENDIX II: REVENUE MANAGEMENT REFORMS

Revenue Authority

A Revenue Authority is a semi-autonomous government body that has overall authority over the tax administration operations.[34] In The Gambia, this would include the CRD and CED. The overall objective of establishing a Revenue Authority is to create credible government commitment to taxpayers that tax administration will be more competent, effective, and fair. This legitimizes the tax system, increases tax compliance, and therefore results in greater tax collections. The credibility of the commitment depends to a great deal on the perceived level of autonomy of the Revenue Authority. The benefits from establishing a Revenue Authority are the opportunities to offer higher salaries and to provide greater funding.

Developing countries experience difficulty in attracting, training and retaining qualified inspectors and collectors because the civil service pay scales are general not competitive to the private sector. Tax administration requires well trained and technically competent professionals to deal with traders, bookkeepers and accountants from the private sector. A semi-autonomous Revenue Authority permits the tax departments to set higher recruitment standards, pay and rewards systems and schedules separate from the civil service.

Another major constraint is the lack of funds to support tax administration departments. Typically tax administration departments in development countries do not receive budgets necessary to maintaining basic services associated with a modern tax organization, including improving working conditions, office space, equipment and computer hardware and software. The establishment of a Revenue Authority could permit the tax departments to have sufficient budgets to build and maintain a modern tax administration, including through separate funding provisions.

Key Next Steps

Change management will be a critical factor in successfully implementing the Revenue Authority reforms. When the Revenue Authority is established, it is necessary to establish staff standards for the new organization. New, higher standards will be needed to match greater expectations with regards to job performance and salaries. With the higher standards, it becomes necessary to determine which of the current employees will qualify for the new organization.

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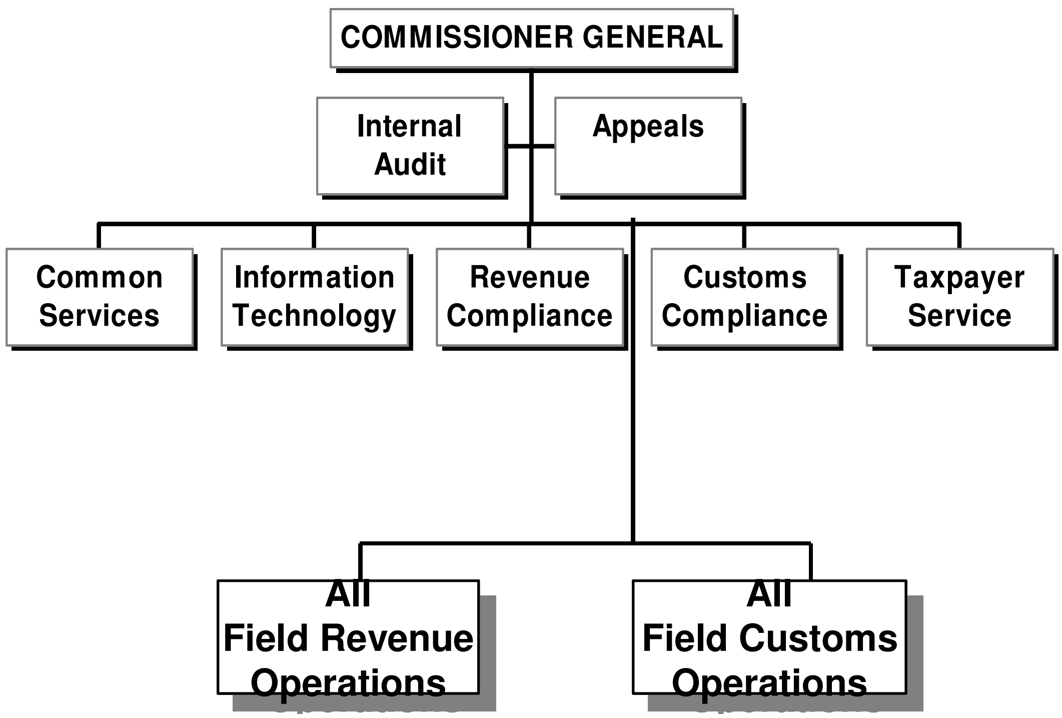
[34] The Minister of Finance should retain the authority and responsibility for all tax policy issues. However, when tax policy issues are being debated one should always consider the impact the changes will have on the tax administration.

Tax administration organizations needs continuity. Therefore, the government should transfer all current employees to the new organization. Employees could be put under contracts for a specified period up to a maximum of one year. Enough time should be allowed to hire and train new employees that meet the new entrance standards, and to develop an evaluation system to select those employees at the end of their contracts who meet the new standards.

As the authorities finalize the Revenue Authority Bill and prepare for its enactment, the following key next steps need to be considered in order to establish and operationalize the agency:

- Review, modify as necessary, and redraft a high-level organization structure
- Prepare draft functional statements for all the major organizational components
- Prepare draft position descriptions for the major headquarters positions
- Get tentative approval of the organization structure from Revenue Reform Committee and the SOS of Finance (final approval should be the responsibility of the Commissioner General and the Board)
- Establish a target date when the Revenue Authority will be effective, working with the Revenue Reform Committee and approved by the SOS of Finance
- Ensure the space requirements in the new Revenue Authority building is consistent with the proposed organizational structure
- Develop a paper on the Board members responsibility and get approval (this paper will be provided to prospective Board Members.)
- Prepare documents for the SOS of Finance to appoint Board members (except for the appointment of the Commissioner General, for which the SOS must consult with the Board according to the Revenue Authority Bill)
- Write a position description for the Commissioner General
- Develop a strategy for identifying and appointing a Commissioner General
- Develop a work plan to implement the Revenue Authority
- Develop publicity pamphlets, papers and notices and a strategy to inform the public of the change
- Develop a preliminary budget for the Revenue Authority, working with the Revenue Reform Committee
- Establish a pay and incentive scheme
- Develop an employee evaluation system
- Establish a standard of entrance to the new organization.
- Establish a system to select the employees that will be transferred to the new organization and what action is taken with the remaining employees.
- Select a new name for tax administration
- Appoint the Commissioner General
- Appoint members of the Board of Directors

Box 2: Proposed Organization for Revenue Authority



The next two subsections describe in greater detail options for funding mechanisms and issues to consider in establishing the Board of Directors.

Funding Mechanism

Revenue Authorities are funded in a variety of ways: (i) budgetary provision or subvention; (ii) percentage retention of revenue collection; and (iii) combination of previous two methods. The first option in The Gambia has not been effective in providing adequate funding for the tax administration. Typically, it requires 1.5 to 2.0 percent of revenue collected in order to properly fund the operation of a maturing tax administration organization.[35] In The Gambia, the combined budget for CRD and CED amounted to 0.5 percent of the domestic revenue in 2001. Given the past failures of traditional budgeting to provide adequate funding, it is recommended that the authorities consider funding options two or three.

There are many examples of countries taking the third option. Typically, the Revenue Authority secures its operating budget through the national budget. In

[35] Hall, Jeffrey M. and Jenkins, Glenn P., "The Transition to a Revenue Authority, unpublished paper, International Tax Program, Harvard University, April 27, 1995.

addition to this budget, the Authority is permitted to retain a specific percentage of revenue collections that exceeds the revenue targets. Some countries go a step further and put a total cap on the operating budget not to exceed a certain percentage of revenue collections. Kenya's Revenue Authority Act earmarks 1.5 percent of the tax revenue for the Revenue Authority. In addition, 3.0 percent of the excess of the revenue over the projections is provided as a bonus. However, the total amount available to the Authority may not exceed 2 percent of the revenue collected. In Argentina, the law provides for the Authority to obtain their budget the traditional way and then contributes 0.6 percent of tax revenue to a compensation fund for the revenue agents and inspectors. Uganda's Revenue Authority relies on an annual contract negotiated between the government and the Revenue Authority for a fixed percentage of total tax receipts.[36]

Board of Directors

Number of members. The number of Board members should not be a large number. The recommendation is to have approximately five Board members. It should be an odd number. The large Board means that it is more difficult to fill the positions, to schedule meetings, and to hold each member accountable.

Selection and appointment of Board members. Board member can be all employees of the government, all members of the private sector, or a combination of the two. Many countries have a combination of public and private sector members serving on the Board. It will be necessary for the Bill to specifically outline the selection process. A selection criteria or standard should be established. Once this is established, one selection method is for the DOSFEA to provide three names for each vacancy to the President who would decide on the final appointment. Another method is for a committee within the government prepare the list, and then DOSFEA would make the final selection and appointment.

The Commissioner General should not be a full member of the Board since the Board will be making decisions directly pertaining to the position. The Commissioner General should be permitted to attend Board meetings and provide inputs into the discussions unless there is a particular reason for the person not to participate. The Commissioner General should not be permitted to vote.

Selection of the Chairman of the Board. The law should outline how the Chairman of the Board will be selected. Either the Board members could select or elect the Chairman, or the process used to select and appoint the Board members could be used to select the Chairman.

Compensation for Board Members. The law should specify if compensation will be paid to Board members. If compensation is to be paid, the law should specify the amount. The amount of payment should not be decided by individuals or groups associated with the government in order to ensure independence.

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[36] Ibid

Criteria for Board membership. The Board member should have no conflict of interest; should be willing to attend Board meetings and devote time and energy to improving the tax administration system; have no criminal history; and have a reputation for high integrity in the community.

Term limits for Board membership. If all members of the Board are selected from within the government, it is not necessary to establish specific term limits. If some members are from the private sector, then the terms should be staggered in order to minimize the number of vacancies at any one time. Generally, three to five years would be the length of time a private sector individual should serve on the Board.

Restriction on Board members. The law should outline restrictions that will apply to all Board members. These restrictions are partly meant to prevent undue interference of the Board on managerial issues. The restrictions would include:

- Prohibit any member from having access to tax information on any taxpayer
- Prohibit any member from involving themselves into any active tax case
- Prohibit members from allowing staff personnel to attend Board meetings with or without the member (if a Board member cannot attend a meeting, the law should prohibit the member from sending a proxy)
- Any member who is convicted of a felony offense should be expelled from the Board

Authority of the Board. The law needs to specify the authority of the Board. It should specify whether the Board will have the authority to invest funds, borrow funds, request donor assistance, and purchase of lease property.

Responsibilities of the Board. The law should outline the major responsibilities of the Board. These responsibilities would include:

- Require the tax departments to produce a three year strategic plan outlining the steps they will take to improve compliance with the tax laws and monitor the execution of the plan;
- Ensure that the tax laws are administered and enforced with the highest degree of integrity;
- Oversee and require that customs and internal revenue departments coordinate and share information when where there is a need;
- Ensure that resources are allocated properly between customs and internal revenue and between the headquarters and field units;
- Recommend to DOSFEA the salary of the Commissioner General;
- Require the tax administration to establish a pay scheme for all employees, which the Board would have the final approval;
- Provide final approval for the personnel management system;
- Review all audits of the tax organization and establish a plan to make changes or improvements as required;

- Recommend to DOSFEA legislative changes needed to improve the tax administration laws;
- Publicly support the tax administration system and the changes required to modernize;
- Determine if the tax administration budget is sufficient and that the funds are spent appropriately.

General Revenue Administration Reforms

Addition to and supporting the Revenue Authority reforms, there are several critical measures for the future success of the tax administration reforms. The core issues are outlined below, and a more detailed description at the end of this appendix.

- **Information Technology (IT)**. CRD and CED have never had employees that were fully trained in IT. Also, they typically did not have the funds to contract with outside organizations when there was an immediate need to make major repairs or modifications to their computer system. Therefore, the tendency has been to abandon the computer system and revert to some form of a manual system when the system did not perform properly. This happened in CED when one of the servers malfunctioned and the other one became overloaded. It also happened in CRD when there was a Y2K problem.

  Recommendation. A minimum of two employees from CRD and two from CED should be fully trained to understand their respective computerized system so they can perform routine maintenance, and make minor repairs and modifications to the system. They would perform what is commonly called "Help Desk" duties which would require them to respond to questions from users of the system. These employees should be transferred to the centralized IT Department when the Revenue Authority is formed.

- **Information Technology Contract.** CRD and CED have never had any major continuous service contract with an IT firm to provide major maintenance, repairs and modifications to their computer systems. The Departments will have to procure repair services each time a need arise if they do not have a service contract, where typically it would be difficult to quickly identify funds and go through the tender process. They should be able to receive immediate service when a computer system malfunctions, or otherwise there is a significant impact on efficiency and effectiveness of operations.

  Recommendation. The government should contract with an outside organization to be on call to perform major maintenance, repairs or modifications to the computer system. A contractor should be selected and contractually required to be onsite within 24 hours to make the major repairs. It should be a no cost contract until work is performed.

- **Management.** A major emphasis must be made on improving the management in CRD and CED. Currently, the revenue targets drives the system in both departments, but not enough attention is focused on maximizing the use of the manpower, utilizing management data, and determining areas of noncompliance and developing compliance programs. In another words, there is an emphasis on what has been collected, but not enough on what has not been collected.

  Recommendation. Managers should be fully trained and required to collect and utilize management data in order to: determine how to maximize the use of their human resources; determine areas of noncompliance; and develop compliance programs to increase compliance and revenue.

- **Operating Budget.** Implementation of the recommendations above will depend on the availability of funding. CRD and CED should have additional operating funds if they are to be effective. Furthermore, there will be a need for additional operating funds when the Revenue Authority is created and implemented.

  Recommendation. The government provides additional funding to the CRD, CED and the future Revenue Authority.

Appendix Table 2.1: Key Revenue Administration Reform Initiatives

Reform Initiative	DESCRIPTION	Weakness Resolved	Status	Likely Impact On Revenue
I. CENTRAL REVENUE				
1. Implement a computerized tax system for the CRD	The new system will contain a computerized taxpayer master file of all registered taxpayers in The Gambia. Technical employees will have a personal computer with profiles assigned based on responsibility and authority.	Eliminates the current manual system that is labor intensive and is susceptible to lost and misplaced files. Improved controls, case assignment and follow up. New system will provide a significant amount of management data that is not currently available.	User requirements have been developed. Tenders have been issued for a consultant to develop technical requirements, write software and install all hardware, test and implement the system. Review of the technical and financial proposals are currently being performed to select a contractor.	Significant increase in revenue if the new system is fully utilized. However, management must ensure the system is fully utilized and management information is used to develop, implement and follow through with compliance programs.
2. Provide new office equipment to CRD	The new equipment includes desk, chairs, fax machines, photo copiers, file cabinets, etc.	Eliminates old, worn out furniture and equipment. Provides a modern equipped office for all employees.	The majority, if not all, equipment has been purchased and is in use.	Provides more conducive office environment and facilitates the workflow and exchange of data.
3. Provide additional transport for employees.	The purchase of three vehicles. They are for the Bakau, Basse and Large Taxpayer branch offices	The Large Taxpayer office was recently established. The technical employees had no transport to use to canvass businesses for non-compliance or to perform audits or collection duties.	All vehicles have been purchased and are currently in use.	If utilized properly the transport will permit employees to make more field contacts, improved audits and collection resulting in additional revenue.
4. Develop and implement a new functional organizational structure including a taxpayer service, a large taxpayer and appeals component. Separate the operations from headquarters policy function.	Combine and group like activities, functions and duties. Establish new organizational components responsible for providing taxpayer service and educational outreach programs, large taxpayer unit and new appeals procedure. Physically and organizationally separate headquarters and operational units.	Provides better and more management control and efficiency. Employees can more effectively concentrate on specific assigned duties and become more technical competent. Establishes for the first time units responsible for maintaining control of the largest taxpayers and taxpayer service. There is no distinction or separation of the headquarters policy and management from operations.	A consultant has reviewed the organization and made recommendations in written and oral presentations. New space has been acquired and refurbished. The large taxpayer organization and the separation of the headquarters and field operations were scheduled for implementation January 2004.	The short-term impact should be significant if the large taxpayer unit is managed effectively. Providing taxpayer service, educational outreach programs and pamphlets should increase compliance and revenue in the long-term.

5. Implement a self-assessment system.	A self-assessment system requires taxpayers to file their returns declaring all their taxable income, deductible expenses, exemptions, calculating their tax liability and lodging their return with payment to the tax office.	The burden currently is on the Inspectors to determine the taxpayer's income, expenses and deductions, make the assessment and notify the taxpayer of tax due. Inspectors in the tax office do not know the income or expenses or deductions of taxpayers and therefore the current system is generally based on best judgment.	The IMF has taken the position legislation is required before the government can implement a self-assessment system. The new tax law has been drafted and is before Cabinet. Consultants are being asked to develop new instructions and guidelines for taxpayers.	Self-assessment combined with a good audit program and follow up program will significantly increase revenue. Inspectors can devote their time to audits and collection work in lieu of making assessments.
Reform Initiative	**Description**	**Weakness Resolved**	STATUS	**Likely Impact On Revenue**
6. Establish a Large Taxpayer organization.	Establishing criteria to define a large taxpayer and organizing a unit that is responsible for the control of the large taxpayers in The Gambia.	There is currently no definition of a large taxpayer and no concentrated effort to ensure that the largest taxpayers, who account for the major portion of the revenue, are controlled on a priority basis.	The government has acquired new space and the new large taxpayer unit was scheduled to occupy the space in January 2004.	Historically, a well-managed large taxpayer unit will result in more timely and accurate returns of the large taxpayers and increase compliance and revenue.
7. Transfer the domestic sales tax from C&E to CRD.	Transfer of all the domestic sales tax files and records to CRD along with the total responsibility and authority to collect and enforce the sales tax laws.	Domestic sales tax is never a priority for a customs organization. Custom resources are first assigned to borders, airports and ports to control inbound and outbound goods. Therefore enforcement of the domestic sales tax lags.	Accomplished.	Revenue from domestic sales tax has significantly increased, as new emphasis has been place on the compliance by CRD.
8. Develop operational manuals, instructions and new tax forms and instructions.	Establishes a set of standard operating instructions for audit, collection and taxpayer service inspectors. New internal and tax forms with instructions.	Current instructions are outdated and with the new computerized system new internal manuals will be required. The new income tax law requires new tax forms, guidelines and procedures. Current instructions need to be updated and simplified.	A tender has been issued to select a consultant to perform the work. Reviews of the technical and financial proposal are on going to identify the consultant. Notification to the selected consultant should be within thirty days.	The major impact will be more uniform taxpayer treatment and application of the law. Simplified forms and instructions will make it easier for the taxpayer to comply. Therefore, less errors to be corrected by the tax office.
9. Training employees	Training of all employees on the use of the new computer system, new income and sales tax law. Training will be required for audit, collection and taxpayer service inspectors and use of management data.	Training has been lacking in the tax law, audit and collection methods and procedures including the use of management data to develop compliance programs.	Recently hired sales tax inspectors have been trained in the classroom and on-the-job. Other training will be conducted when the new law is enacted and the computer system is implemented.	Fully trained inspectors are more productive and there is more uniform treatment to taxpayers and application of the law.
10. Upgrade the Serrekunda Branch	Provide more and better space for the largest and fastest growing	The current space is unacceptable. No place for taxpayers to wait until they are assisted,	Space has been acquired to build a new building and combine the	This area has grown tremendously with more and more business locating

Office	Branch Office in The Gambia.	no privacy for the taxpayer when discussing issues with inspectors, no running water, etc. Due to the very limited space taxpayers usually have to wait outside the building.	Serrekunda and Bakau Office. However, the government has allocated no funds. The only funds available are those provided under the CBEMP Project.	here rather than in Banjul. It has long ago outgrown the staffing and space. Better space and more staffing used efficiently and effectively could definitely increase compliance and revenue.
II. CUSTOMS AND EXCISE				
1. Develop Valuation & Tariff Expert 's Position and Related Support.	A consultant will gather materials and do all things to establish a trained valuation & tariff expert in the department.	The department has minimum expertise in this area and little or no data to use as reference material to value and classify items.	Tenders have been issued for a consultant to develop a database, write position description and train inspectors.	Improved valuation of goods with backup data will increase revenue and reduce the number of appeals.
Reform Initiative	**DESCRIPTION**	**Weakness Resolved**	**Status**	**Likely Impact On Revenue**
2. Streamline Procedures and Stabilize the ASYCUDA System to Support Procedures.	Consultant will review all customs procedures, evaluate the ASYCUDA system and make necessary repairs and changes to support customs.	Need for more modern and efficient procedures; ASYCUDA system not operating efficiently; computers need repair; very little use of management data.	Tenders issued for consultant to perform the necessary repairs and maintenance on ASYCUDA and develop and recommend new procedures for clearing goods.	Better controls on goods flowing in and out of the country. Increased management data and more efficient procedures will result in savings and increased revenue.
3. Construction and Development of a Training Center	A classroom-training center will be constructed and fully equipped with all needed training equipment and computer workstations.	Currently the department has no place to train inspectors or training equipment.	Training room has been constructed within the custom department compound and was scheduled to be in operation by end of 2003	Fully trained inspectors in the law, inspection methods, and investigation techniques should result in increased revenue and improve the flow of the majority of goods.
4. Vehicles	Purchase of two 4-wheel drive vehicles for inspectors use.	Lack of transport for inspectors moving from port, airport and various borders.	Vehicles have been purchased and are in use by inspectors.	Minimum increase in revenue is expected. Vehicles will permit more flexibility, coordination, communication and oversight between offices and inspectors.
5. Communications and Related Equipment.	Purchase of a variety of communication equipment such as radio systems, batteries, etc.	There is a need to have rapid communication between certain offices and inspectors to get assistance, questions answered and in the use of seizure of goods, etc.	Tenders have been issued to purchase the equipment however; the price was considerable higher than expected and over budget. Negotiations on going.	Minimum impact on revenue.
6. Training	Technical training for inspectors including in ASYCUDA and	Significant undeveloped human capacity.	Limited number of out of country classroom training. Some long-term	Minimum direct impact on revenue. Major impact is on overall productivity

	UNIX. Also, on the job training by consultants.		and some short on going.	and efficiency through better training.
III. REVENUE AUTHORITY				
1. Establish a Revenue Authority (RA)	Establish a semi-autonomous government agency that includes CRD and C&E departments under one leadership. It should combine common functions such as common services, information technology, etc.	The current organizations have been under funded for a number of years. This new RA provides an opportunity to increase the funding for CRD and C&E. With all the activities reporting to one head the sharing of information and cooperation will improve. Provides the opportunity to increase the overall efficiency and effectiveness.	This requires a new law. The RA law has been drafted, cleared by Justice and is before Cabinet for approval.	Should improve overall management and increase efficiency and effectiveness. Consolidating some of the functions that now exist in both departments will provide better coordination and service to the operating functions.

ANNEX III: MEDIUM TERM EXPENDITURE FRAMEWORK

The precise nature of a MTEF in each country depends on relative budget reform priorities. However, there are a number of key common features which should be the ultimate objectives for implementing the framework in The Gambia:

(i) **Multi-year planning horizon.** Typically, the planning horizon would cover three years. The first year would be the detailed annual budget, and the second and third years would be broad categories of expenditure allocations. The multi-year horizon would highlight the need to consider recurrent cost implications of current spending decisions. The MTEF is a rolling program where the detailed annual budget for the first year would be based on the broader categories of expenditure allocations for that year from the previous year's exercise. The National Assembly would approve the annual budget for the first year together with the annual estimates for the two subsequent years. This is not a guarantee that the approved funds will be available in the future years, as economic circumstances can change. However, it is reasonable to expect that budget ceilings would be reduced in the same proportion in the event of revenue shortfalls.

(ii) **Medium term resource estimates**. The framework depends on having a comprehensive macroeconomic framework that would outline a consistent and reliable resource envelop over the medium term. The current approach is to estimate revenues for the forthcoming year based on submissions received from the revenue departments. The projections lack sophistication and tend to be overly optimistic. The authorities need to strengthen their revenue forecasting and macroeconomic planning capacity. In particular, the capacity to project and manage donor resources is weak.

(iii) **Budget Ceilings**. Departments need to know what funds will be available for the budget year and the medium term in order to be able to plan their activities and projects. Separate ceilings should be defined for Government and donor funds, while recognizing the interrelationship.

(iv) **Donor Funds**. Donor activities and resource envelopes over the medium term will be negotiated with individual donors. The 2004 estimates indicate that amount of government counterpart funding will decrease in the medium term.

(v) **Sectoral strategic priorities**. The sectoral priorities should focus on outputs and outcomes, and they should be based on estimates of available resources and costs. This implies that the priorities need to be based on sectoral expenditure and institutional analyses. The PRSP and the sectoral PERs have identified broad sectoral goals, but these need to be further developed. The sectoral priorities need to be updated with full costing.

(vi) **Restructured sectoral expenditures**. Sectoral expenditures need to be restructured towards sectoral priorities. In essence, the restructuring of sectoral priorities is the crucial final step in implementing government priorities, without which the entire planning process would be meaningless. Unfortunately, this final step has often been poorly implemented in many countries.

The ultimate objectives of the PRSP in The Gambia can in many ways be met through the implementation of a multi-year planning framework focused on outputs and outcomes of public expenditures. These objectives include macroeconomic stability, sustainable and fully costed sectoral expenditure programs oriented towards poverty reduction, and identification and mobilization of donor resources in a more predictable and stable manner. The benefits are improved macroeconomic performance, consistency between long-term strategies and the annual budget process, effective and efficient allocation of resources, and improved quality and efficiency of service delivery by linking expenditures to outcomes and outputs. For the spending agencies, the additional benefit is the greater certainty of future resources.

However, many of the benefits will be achieved only when the MTEF is at an advanced stage. The attainment of the benefits will also depend on the degree to which spending agencies can depend on the future planned allocation of resources. In The Gambia, the authorities have had plans to adopt a MTEF. A long term resident MTEF technical adviser has prepared a medium term work program for implementing the MTEF (see table 1).

Table 1: Current MTEF Work Program

	2003				2004				2005			
1. Macroeconomic framework												
Revenue forecasting, resource envelope												
Multi-year planning framework												
2. Expenditure analysis												
Sectoral pilot MTEFs/PERs												
Whole government MTEF												
3. Budget systems												
Interim budget presentation system												
Revised budget structure/classification												
Integrate recurrent/development												
Program based budgeting												
Budget system and processes												
Budget reporting												
4. Capacity building												
HR gap analysis												
Training plan												
Deliver training												
Sustainability plan												

It has become clear that the work program was overly ambitious. There has been some progress in improving the budget framework, particularly with respect to budget classification, integration of recurrent and development budgets, but targets for updating the sectoral PERs and implementing pilot MTEFs in 2004 have not been met, and the target for implementing a MTEF for the whole government in 2005 does not seem feasible. The public sector at present has limited capacity to implement the framework despite the technical assistance. The delays in the MTEF work program reflects the fact that the country lacks the basic building blocks for implementing the framework. As a result, the activities of the resident technical adviser have so far focused on strengthening the basic foundation for the eventual adaptation of the framework.

In light of the limited capacity, the work program for 2004 should continue to focus on core activities for building the basic foundation, while MTEFs in selected pilot spending agencies should be considered for the 2006 budget, which would be prepared in 2005 (table 2). Experience in implementing pilot MTEFs should be consolidated and the number of participating spending agnecies expanded in 2006, but the adaptation of the framework for the entire budget will not likely be feasible until 2008. Existing sectoral PERs should be updated to implement the pilot MTEFs. For the education and health sectors for which donors have shown interest, Sector Wide Approaches (SWAps) would be ideal instruments for preparing the pilot MTEFs.

Table 2: Revised MTEF Work Program

	2004				2005				2006			
1. Macroeconomic framework												
Expenditure figures for 2001 to 2003												
Rev. forecasting, incl. donor financing												
Indicative multiyear budget ceilings												
2. Expenditure analysis												
Pilot MTEF/PER in two sectors												
Pilot MTEFs in three more sectors												
3. Budget system												
Integrated recur./dev. Budgets prep.												
Program. classification in pilot sectors												
Program based budgeting in pilot sectors												
4. Human resources												
HR gap analysis												
Training plan												
Deliver training												
Sustainability plan												

Key activities in the work program are:

(i) **Prepare macroeconomic framework.** The macroeconomic framework provides the projected resource envelope for the annual budget. A framework will be needed to improve resource projections and macroeconomic management regardless of whether a MTEF is implemented. In developing the macroeconomic framework, the authorities need to improve donor coordination regarding projections of external resources.

(ii) **Continue ongoing improvements of budget structure, systems and processes.** The general ledger and public accounts need to be updated. Lack of information on current and past expenditure greatly hampers the preparation of sectoral medium term expenditure projections. Although the MTEF is a planning framework, its effectiveness is clearly undermined if actual spending does not match planned allocation due to poor monitoring. The newly introduced functional classification should be further refined, and a programmatic classification developed and implemented.

(iii) **Refine sectoral strategies.** Although the revised work program proposes that the pilot MTEFs should be delayed to 2005, the authorities should immediately select the spending agencies for the pilot MTEFs, preferably from the three that have already carried out public expenditure reviews, and start preparing the updates of these reviews in order to finalize the updates in time for the budget cycle in 2005. An immediate start of the process will be crucial given the delays experienced so far in updating the existing PERs. The selected spending agencies need to make a firm commitment to updating their PERs. Donors have indicated that they could provide the necessary support.

(iv) **Develop human resource capacity.** The lack of human resource capacity raises concerns that a MTEF will not be sustainable. In particular, the high turnover of key planning staffs in DOSFEA resulted in the essential dissipation of the experience accumulated in past PER exercises. More frequent updates of the PER would have allowed for a smoother transfer of knowledge to the newer staffs. The authorities should conduct a human resource gap analysis, then prepare and implement a training plan. The most effective training will be on-the-job training augmented by technical assistance.

Note that the immediate challenges listed above are activities that are entirely consistent with improving the quality and sustainability of government service provision within a framework of annual budgets, regardless of any plans for adapting a MTEF. The basic strategy is to first focus on building the basic capacity for public financial management so that the annual budget is properly prepared and implemented, then to develop the pilot MTEFs on a gradual basis.

Finally, the political and institutional dimensions of MTEF reform must be explicitly addressed. Bureaucratic incentives to support the reform must be taken into account. The fact that political and bureaucratic players have real incentives to either support or resist the reform should be acknowledged up front. In an environment in which a cash rationing system allocates funds on a monthly basis, players have little incentive to invest their scarce time and resources on developing a framework that depends on predictable medium term resource allocations. Incentives for sectoral participation are diminished by excessive central control. The authorities will need to make a decision on the sequencing of activities such that the disincentives present in the current system do not undermine efforts to adapt a medium term planning framework. A consensus should be reached through a broad consultative process so that the results are regarded as legitimate and desirable. The MTEF process must be credible so that spending agencies would have incentives not to opt out of the exercise. As in the PRSP exercise, involvement of the President and Cabinet could play an important in legitimizing the exercise.

ANNEX IV: INTEGRATED FINANCIAL MANAGEMENT INFORMATION SYSTEM (IFMIS)

The public financial management system in The Gambia suffers from several deficiencies. There are long delays in producing the general ledger and reconciling bank data with cash books, incomplete coverage of the general ledger, proliferation of below the line accounts and lack of information on these accounts, and absence of audited public accounts since the early 1990s. As a result of the lack of a reliable computerized financial management system, comprehensive and timely fiscal reports are not available to policymakers to plan, implement and monitor the annual budget

Main Objectives and Benefits

The Integrated Financial Management Information System (IFMIS) initiative in The Gambia is a core part of the reform agenda which aims to strengthen public financial management. The overall objective of the IFMIS is to enhance the efficiency, accountability, and transparency of the public financial management by providing timely and reliable information throughout the budget cycle. It provides public sector managers with tools to support: (i) aggregate fiscal discipline; (ii) strategic allocation of resources in accordance with policy priorities, eventually through an MTEF; and (iii) effective and efficient use of resources according to strategic performance measures (outcomes, outputs), including for poverty alleviation. Traditionally, financial control has been the main reason for developing an IFMIS. Although control is an important factor in developing an IFMIS in The Gambia, the system needs to support results orientation at the strategic and operational levels in order to deliver on the three levels of performance.

An IFMIS consists of an interrelated set of subsystems that plan, process and report upon resources, quantifying them in financial terms. The basic subsystems are normally accounting, budgeting, payroll and pensions, cash management, debt management, revenue, and related internal control. "Integration" of public financial management means that the various subsystems work as one entity even though they consist of multiple organizations dispersed across different locations. In addition to functional integration, vertical integration entails linkages across central Departments, line Departments, and central and regional spending units. Under the integrated system, all components share their databases, where information outflow from one component is an inflow to other components. Validation, classification and recording of data in the accounting system produces timely reports of classified data. Multiple users would have access to accounts reconciled on a monthly basis and annual public accounts produced in a timely manner.

The benefit of an integrated system is an increase of the overall efficiency and transparency of public financial management. The increased flow of information improves accuracy by strengthening the checks and balances within the system. Combined with an on-line government information portal where citizen have access to the information on how government spends their tax money, integrated financial management system can serve as an effective anti-corruption tool.

Key Success Factors

Experience from other countries indicates that project success or failure depends to a great deal on political commitment, change management (institutional arrangements, and project management and coordination), and relevant human capacity building rather than on technical issues related to the hardware, software, and the network. The key success factors are:

(i) Establish and maintain political commitment and leadership.

A review of Implementation Completion Reports (ICRs) of World Bank IFMIS projects indicates that political commitment and leadership were considered the most important factor in determining project success and sustainability.[37] Typically, the excitement and enthusiasm generated at the initial stages of the project fade over time as stakeholders realize that implementation is a long process and that benefits will not be instant. Political leaders need to provide sustained support for the institutional and managerial changes which are the basis for the IFMIS IT reforms. Political leadership should also engage multistakeholders in the reform process in recognition of their differing interests and incentives. Interest in the reform should be built and sustained through the public media in order encourage political commitment.

(ii) Implement change management and capacity building throughout the reform process.

Underlying the entire reform process are change management and capacity building activities encompassing process reengineering, sensitization, and human resource capacity building through training and new recruits, particularly recruits of IT personnel. Strengthening financial management capacity is a crucial for an IFMIS project given that business processes determine technology and human capacity needs. The overall objective of change management and capacity building is to ensure that each department develops adequate capacity to implement IFMIS.

Process reengineering is the basis for the IT solution. It is the broader procedural and institutional change in business processes which defines the IT agenda. During the pre-implementation design phase, the IFMIS team needs to engage all relevant stakeholders in assessing the current procedures and workflow. This assessment forms the basis for determining organizational and procedural improvements and the subsequent IT system design and user requirements. During implementation and the pilot phase, the improvements in the processing features and procedures are actualized in the IFMIS such that the system meets the requirements of the government in a live environment. It would entail preparing the final design and proof of procedures such as data flow to be followed during live processing, establishing the physical networking environment or the

[37] Dorotinsky, Cho (2004).

infrastructure, and assisting in defining the organizational structure and skills in departments.

The government needs to develop the capacity to manage and maintain the system, and to consider the organizational changes that the new system requires. Restructuring is often necessary to reflect changes in roles and responsibilities. The early stages of the reform should include sensitization and consensus building among stakeholders, particularly among managerial positions. Technical and procedural training could occur during the later stages of the reform.

Typically, training needs to be augmented by a recruitment program of qualified personnel. In particular, strengthening the project implementation unit through new recruits is often a key to effective management of the change process. The unit needs to have sufficient technical capacity and political support. Team composition should reflect the fact that a IFMIS reform is much more than simply an IT reform. For example, the 40 member IFMIS team in Tanzania was composed of approximately half accountants and financial management specialists and half IT specialists.[38] Tanzania, along with South Africa and Uganda, are considered to have one of the best performing IFMIS's in Africa.

(iii) Focus on establishing the core financial management information components at the national level.

The government should not attempt to integrate every component and all tiers of the government from the onset of the reform. An overly complex project design which attempts to simultaneously address all areas of financial management reform tends to overwhelm the capacity of developing countries. Instead, the government should focus on implementing the core components consisting of accounting (accounts payable and receivable) and cash management. Experience has shown that full implementation often requires a long time (table 1), and therefore it is important to carefully phase the process. Typically, the first phase consists of preparation of the Information System Strategy Plan (ISSP), and the second phase the design and implementation of the IFMIS. The second phase should be carried out in a phased manner with milestones established for system architecture design, human capacity building, institutional reorganization and strengthening, hardware and software acquisition and installation, testing and validation, pilot phase, and roll out for full implementation.

(iv) Choose an affordable technology with a level of complexity appropriate for the country.

Countries need to realistically assess the level of complexity that can be implemented and maintained by their public sector. The technology should be based on an open architecture which allows for seamless connectivity and scalability. Generally, the software package should be an "off-the-shelf" product which allows for some customization according to user requirements. Hardware requirements will be based on

[38] Dorotinsky, Cho (2004).

the system architecture that will be developed during the design phase. To ensure sustainability, application support and maintenance should be an important factor in project design and supplier selection, where local support should be preferred. Particularly for smaller projects, turnkey solutions where the government contracts one supplier to deliver the working system (with subcontracts as necessary) should be preferred.

It is critical to rigorously ascertain the cost implication of the IFMIS reform. Determination of affordability should include operating costs, including hardware, software and network maintenance, staffing costs, and the provision of continuous power supply. The cost of introducing the system varies widely across countries. In the selected five African countries, the approximate cost estimates range from US$ 30 million for Ghana, US$ 16 million for Uganda, US$15 million for Malawi, US$6 million for Burkina Faso, and US$5 million for Tanzania. Estimate of the recurrent cost for the Ghana system is between US$ 1 and US$ 3 million. The operating cost for the WAN alone is estimated to be US$800,000.[39]

Table 1 IFMIS Reforms in Selected African Countries

	Technical Solution	Sequencing	IT System Design	Project Assignment	Time	Impact
Ghana	Complex package (Oracle Financials), complex WAN/LAN	3 steps (pilot ministries, remaining ministries, local govt)	Centralized	Different assignments	5 years (for pilot phase)	MTEF budgeting introduced in 1999, payroll system, revenue agencies and proc. reform ongoing
Tanzania	Medium sized package (Platinum), complex WAN/LAN	2 steps (AGD and 10 pilot ministries, rest of central and local govt)	Combination centralized and decentralized	Turnkey	5 years	Significantly improved PFM
Burkina Faso	Medium sized package (Oracle server and Windows 98/NT), moderate LAN	1 step (central government)	Centralized	Different assignments	7 years	Significantly improved PFM
Malawi	Medium sized package (CODA Financials), moderate WAN/LAN	3 steps (MTEF, 4 pilot ministries, rest of central government)	Combination centralized and decentralized	Different assignments	2 years design, 1 year pilot, 4 years further rollout	Pilot phase ongoing, MTEF introduced in 1995 but modest impact
Uganda	Complex package (Oracle Financials), complex WAN/LAN	2 steps (pilot 5 ministries and 3 districts, rest of central government and more districts)	Centralized	Turnkey	6 months design phase, 6 months planning and capacity building, 1 year pilot phase	Pilot phase successfully completed, roll-out started in March 04

Source: Heidenhof, et al (2002) and updated by Daryoush Kianpour (Senior Information Officer, World Bank)

[39] Heidenhof et al (2002) and updated by Daryoush Kianpour (Senior Information Officer, World Bank). The estimated costs are only for the amount contributed through the World Bank projects.

Experience in The Gambia

The government's Information System Strategy Plan (ISSP) prepared in April 2002 provides the overall framework for the implementation strategy. The ISSP outlines a structured development approach consisting of: (i) development of business functions and performance requirements; (ii) development of technical specifications and procurement; (iii) systems development and customisation; and (iv) implementation. An IFMIS Project Implementation Team composed of nine members and headed by the Accountant General will manage the reform process. Team members include the Principal Accountants, an IT Coordinator, an Accounting Coordinator, and a Network and IT Training Specialist. The Steering Committee will provide guidance to the project team. An Application/Infrastructure Development Team and a Site User Team (User Group) will be established. The User Group consists of representatives of all major users of the system and forms the key forum for providing input from a users' perspective into the design and development of the system. The system will be deployed in a phased manner, with an initial pilot phase followed by full roll out. All modules, core and subsidiary, will be implemented as a whole.[40] The proposed technological configuration is a client/server architecture connected through a local area network within the Quadrangle (the main government complex) and through radio links, internet or telephone dial-ups outside the Quadrangle.

The ISSP emphasizes that capacity building is a critical factor for the success of the IFMIS project. The objective is to ensure that users can best utilize the new system by equipping them with suitable computer literacy and accounting skills, job descriptions fit the IT needs and expectations, and users are aware of the potential benefits and limitations of the system. The ISSP recommends the immediate establishment of an IT support unit with two technical staffs and two application staffs. The accounting cadre, including the external auditors, need to be trained in the use of a computerized accounting system. Senior management need to be trained in the effective use of the system.

The ISSP has generally been implemented so far, but an IT Support Unit for the IFMIS project team has not been formed. Capacity building activities, including for financial management, accounting, and information technology, have been minimal. The IFMIS team is currently finalizing the first phase and parts of the second phase of the strategy, the development of business functions, performance (end user) requirements and technical specifications. These specifications are the basis for the bidding documents for the tendering process of the system hardware and software. In lieu of the User Group, the government has held a series of workshops of different user groups through which financial management organizations and procedures were analysed and changes proposed for the specifications. However, the recommendation in the ISSP to immediately

[40] The system implementation strategy has changed since the ISSP. The ISSP envisioned that a pilot phase would be required during which the system would be implemented in a select few Departments, and that all the modules would be implemented at the same time. However, now the IFMIS team plans on phasing the implementation of the modules but all the Departments will have access to the system from the beginning of the implementation given that the system will be centralized.

establish an IT Support Unit was not fulfilled, and also the IFMIS project team currently does not have the recommended full complement of members.

Table 2: Major Milestones for IFMIS

	Original Targets (Feb 2003 mission)	Revised Targets (July 2003 mission)	Proposed Targets (Oct 2003 mission)
Systems analysis and design 1/	3 Jun 02 – 15 Jan 03	3 June 02 – 21 Oct 03	3 Jun 02 – 15 Dec 03
Accounting and interface modules	13 Dec 02 – 18 Feb 03	3 Jan 02 – 29 Sept 03	3 Jan 02 – 15 Dec 03
Hardware and network specification	3 Jun 02 – 22 Jan 03	3 Jun 02 – 14 Oct 03	3 Jun 02 – 15 Dec 03
Systems architecture	14 Jan 03 – 31 Mar 03	15 Oct 03 – 15 Dec 03	1 Oct 03 – 15 Jan 04
Preparation of tender document	5 Mar 03 – 31 Mar 03	16 Dec 03 – 25 Feb 04	15 Jan 04 – 15 Feb 04
Tender	1 Apr 03 – 17 Sept 03	25 Feb 04 – 14 Jul 04	15 Feb 04 – 15 Jun 04
Pre-qualification			15 Oct 03 – 15 Feb 04
Systems development 2/	3 Jan 02 – 1 Jan 04	7 July 03 – 14 Dec 04	7 July 03 – 15 Feb 05
Pilot deployment			
Data conversion	3 Sept 02 – 31 Dec 03	4 Aug 04 – 30 Dec 04	1 July 04 – 30 Dec 04
System piloting 3/	2 Feb 04 – 12 Mar 04	3 Jan 05 – 14 Jun 05	1 Jan 05 – 15 Jun 05

1/ Review, revision, and documentation of procedures, including procedures for accounting, budget preparation, revenue, Central Bank, personnel management, and debt management
2/ Revision of accounting system, pre-installation training, hardware and software customization and acceptance testing, and training program development
3/ System piloting should start at the beginning of the year due to ease of data conversion

Implementation progress so far has been slower than expected. Typically, it takes six months to prepare the bidding documents and start the main tendering process for the system hardware and software. In The Gambia, the bidding documents have still not been finalized as of March 2004 although it has been over two years since the start of the project (table 2).[41] The original target for the finalization of the bidding documents and start of the tendering process was April 2003, while the revised target was February 2004. The long delays in preparing the system specification for the bidding documents is disconcerting given that normally other countries have experienced far greater delays for the procurement and implementation phases of the IFMIS reform.

Change Management and capacity building continue to be a critical determinant of the success of the IFMIS initiative. They are critical given that the public sector continues to lack key human resource capacity for implementing and maintaining an IFMIS. There are currently three certified accountants in the government, consisting of the Accountant General, Deputy Accountant General, and the Auditor General.[42] Vacancy rates are particularly high for the upper grades of the accountancy cadre, while the turnover rates

[41] The Capacity Building for Economic Management Project (CBEMP), the World Bank project which supports the implementation of the IFMIS, was approved in September 2001 and activated in January 2002.
[42] Recognized professional qualifications include FCCA/ACCA – Fellow/Member of the Association of Certified Chartered Accountants, CA – Chartered Accountant, CPA – Certified Public Accountant, ICMA – Institute for Cost and Management Accountants, CIMA – Chartered Institute of Marketing Accounts, and ICSA – Institute of Chartered Secretarial Accounts.

are high for the lower cadre.[43] In 2002, 26 accountancy staff left the civil service, approximately 15 percent of the accountancy cadre. IT specialists are similarly lacking in the public sector. It reflects the fact that the country overall has a deficient level of IT capacity, as indicated by its UN E-Government index rating of 0.64 which is fare below the global average of 1.62 and below the African average of 0.84. In fact, The Gambia ranks 127 out of 133 countries.[44]

Recommendations

The authorities need to strengthen change management and capacity building activities. The sensitisation and training program should be increased, both for the managerial and technical staffs. The migration from a manually based, separate subsystems to an integrated and automated system where users have access to a shared database will require significant changes in operating procedures and individual skills. Staffs will have to be trained in the new procedures and their accounting and computer skills upgraded. As recommended in the ISSP, the IT Support Unit should be immediately established. The IT Support Unit will be eventually complemented by the provision of a IFMIS Systems Administrator by the World Bank's CBEMP. One of the main responsibilities of the Systems Administrator is to support the suppliers in training the IT Support Unit so that the Unit can eventually assume the responsibility of managing the system. The authorities have been preparing the establishment of an IT cadre, but experience from the accounting cadre indicates that creating a separate cadre might not be sufficient to attract and retain qualified IT personnel, particularly those that can be expected to operate and maintain an IFMIS. Therefore, the authorities should consider forming the IT Support Unit with local consultants whose remuneration would be above the civil service pay scale. This obviously has recurrent cost implications for the government, but the cost would be a small amount compared to the overall investment in the system. An alternative option is to outsource the data center activities to a private vendor. Attempts to procure a financial management (accounting) technical adviser was greatly delayed..

Process reengineering and system specifications should be finalized and consensus reached among all stakeholders immediately. The authorities should ensure that all user groups have been adequately consulted during the process. System specifications should have the flexibility to eventual incorporation ongoing reform initiatives such as the Government Budget Management and Accountability Bill, MTEF, the Revenue Authority Bill, and fiscal decentralization. Bidding documents incorporating the system specification should be finalized and the tendering process started immediately. Further delays will significantly increase the risk that the project will not be finalized by the end of the CBEMP project cycle in December 2006. The implementation and training plan should be aligned with the new processes and system specifications. In preparation of data migration, the authorities need to rationalize treasury accounts and any outstanding bills

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[43] See CFAA.

[44] United Nations Division for Public Economics and Public Administration, "Benchmarking E-Government: A Global Perspective," 2002.

The initial phase of implementation should focus on the core Treasury modules. Although recommended in the ISSP, the authorities should not attempt to simultaneously deploy all modules, core and subsidiary. Instead, they should focus initially on the core modules consisting of accounting (accounts payable and receivable) and cash management. The budgeting module should be considered for implementation during the initial phase in order to properly link the planning and execution aspects of the budget cycle. Payroll and pensions would also normally be implemented during the initial phase. If the payroll system is not implemented during the initial phase, the authorities need to consider options for improving the management of payroll given that the present system is outdated and potentially unreliable.

Determine the recurrent cost implications for the project. The authorities should estimate the operating costs for the system including for hardware, software and network maintenance, staffing costs, and the provision of continuous power supply. Staffing costs would include the costs of staffing the IT Support Unit. These estimates should be prepared before the procurement process, and will be negotiated with the potential suppliers. Preliminary estimates of the recurrent costs were prepared when CBEMP was prepared, but they need to be updated and more fully developed.