

LOAN COMMITTEE

July 21, 1986
LC/M/86/21

Minutes of the Loan Committee Meeting to consider
THE GAMBIA - Proposed Structural Adjustment Program
held on July 17, 1986, in Conference Room E-1208

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WBG ARCHIVES

A. Present

Committee:

Chairman: Mr. Stern
Legal: Mr. Shihata
ERS: Mr. Michalopoulos
OPS: Mr. Köpp
Region: Mr. Thalwitz

Others:

Messrs. Landell-Mills
Goldberg
Choksi
Clements
Husain
Varon
Katz
Armstrong
Cerych
Dube
Calamitsis (IMF)
Martey (IMF)
Mesdames
Bruns
Gentafons
Guerard

DISTRIBUTION

COMMITTEE

Senior Vice President, Operations (Chairman)
Senior Vice President, Finance
Vice President & General Counsel
Vice President, Operations Policy
Regional Vice President concerned*
Vice President, Energy & Industry (for lending
in these sectors and SALs)
Vice President, Economics and Research (for non-
project lending)

OTHERS

Standard (see OMS 9.25 page 7)

*Copy to all other Regional Vice Presidents

B. Issues

1. The meeting was called to discuss the proposals submitted under cover of Mr. Thalwitz's memorandum of July 11, 1986, for a proposed Development Credit and Special Facility for Africa Credit in support of a Structural Adjustment Program in The Gambia. The discussion focussed on the main issues raised in the Country Policy Department's memorandum of July 15, 1986.

C. Discussion

Macroeconomic Framework

2. The meeting discussed the potential for expanding exports above the projected rate of population growth and the sufficiency of concessional resource flows for the medium-term. The Region pointed out that the aggregate growth of exports is slower than population growth due mainly to conservative assumptions used in projecting the growth of re-exports. The program includes measures to stimulate non-traditional exports, the growth of which is projected above the population growth rate, albeit from a very modest base, as well as studies to help define additional policy measures to achieve export diversification and faster growth. With respect to projected concessional aid, the Region noted that strong support among donors for The Gambia's Economic Recovery Program was evidenced at the Donors' Conference in 1985. The Gambia's major bilateral donors have committed significant aid in support of the program and indicated a readiness to continue such support for the foreseeable future. It was agreed that the President's Report would be modified to clarify these issues.

The Agricultural Sector

3. The discussion focussed on the present Government price support policy for groundnuts, for which producer prices have been raised to approximate parity with those in Senegal, causing a substantial drain on the Gambian budget. The IMF representative explained that this policy arose from the need to discourage the loss of Gambian groundnuts to Senegal and to maximize the flow of foreign exchange into official channels in The Gambia, in order to facilitate the provision of commercial bridging finance. The Chairman observed that a preferable mode of capturing foreign exchange earnings would be to use the inter-bank market and requested that the Bank, the IMF and the Gambian Government agree on a more sustainable alternative arrangement for groundnut producer prices for subsequent years as a condition of release of the Second Tranche.

4. The Region confirmed the Government's commitment to streamline GPMB by divesting all operations (except groundnut processing). A firm time-frame has been established for the preparation of a performance contract between GPMB and the Government.

5. With respect to producer prices for paddy rice and cotton, the Region pointed out that rice marketing is, in fact, private and prices are

market-determined; and while cotton marketing is currently being handled by GPMB in the context of a small pilot project financed by CCCE, the Government would like to move towards economic pricing for inputs and private sector marketing. The Chairman said that the Bank, in consultation with CCCE, should assist the Government in this effort.

Investment Code

6. In response to a question about the investment code, the Region stated that the Government was preparing a revised code in order to standardize investor benefits and streamline administration. The Bank would review the draft revised code as a condition for release of the Second Tranche. It was agreed that the Legal Department would assist the Region in this review.

Parastatal Reform

7. Questions were raised regarding FPMS and GCDB and Government plans for these parastatals. The Region informed the meeting that the Government has agreed to update the feasibility studies for FPMC and would proceed with the project only if an acceptable economic and financial rate of return is demonstrated and if a majority private equity contribution can be secured. The Region did not believe that AfDB's cofinancing support for the SAL would be jeopardized by these changes in the design of the FPMC project, which is also being financed by AfDB. As for GCDB, the ultimate objective is privatization, but, as a first step, GCDB has to be rehabilitated by strengthening the financial structure and improving internal management. The Chairman said that the question of privatization should be followed up with the Government and that, in any event, there should be an explicit agreement that there would be no further government funding of GCDB beyond the equity contribution required for the proposed financial restructuring.

Tranching, Disbursements and Retroactive Financing

8. The meeting discussed the proposals for disbursement of IDA funds, including the proposed retroactive financing. The Region stated that, based on present Government estimates, retroactive financing from April 1, 1986 (as proposed) may not be necessary to achieve the initial disbursement target of US\$8 million, but such provision should be included to provide an adequate safety margin. This was accepted.

D. Conclusion

9. Subject to the modifications noted above, the Committee approved the Region's proposal to negotiate a SAL along the lines set out in the draft President's Report.