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The Gambia: Letter of Intent, Memorandum of Economic and
Financial Policies, and Technical Memorandum of Understanding

August 20, 2007

The following item is a Letter of Intent of the government of The Gambia, which describes the policies that The Gambia intends to implement in the context of its request for financial support from the IMF. The document, which is the property of The Gambia, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

Banjul, The Gambia
August 20, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato:

1. The Gambia's three-year Poverty Reduction and Growth Facility (PRGF) arrangement was approved by the IMF's Executive Board in February 2007. The attached Memorandum of Economic and Financial Policies (MEFP) reviews progress in implementing the Government's PRGF-supported program during the first half of 2007, and sets out the policies that the Government will pursue for the remainder of the year. We are committed to continue maintaining macroeconomic stability and fostering reforms conducive to higher growth and poverty reduction.
2. Performance under the program has been quite strong. All but one of the quantitative targets for end-March and end-June were met comfortably, and eight out of ten structural measures we undertook to implement by July 2007 were done on time. We incurred short-term arrears to the World Bank and the African Development Bank, and so did not observe the continuous quantitative performance criterion on the nonaccumulation of new external payments arrears. Furthermore, the two unmet structural measures were performance criteria. One requiring the submission of a special audit report on monetary data was implemented with a delay of about one month due to circumstances beyond the control of the Central Bank of The Gambia (see MEFP paragraph 11). The second measure, on the Central Project Management and Aid Coordination Directorate (CPMACD) was partially implemented. The Directorate has been established and is now expected to become fully operational in October 2007. This measure remains a performance criterion under the program. Since we have cleared the short-term arrears to the World Bank and the African Development Bank, submitted the special audit report on monetary data, and have taken steps to fully implement the CPMACD, we are requesting waivers for the nonobservance of the three performance criteria.
3. In support of our policies described in the MEFP, the Government of The Gambia requests the completion of the first review and second disbursement under the PRGF arrangement in an amount equivalent to SDR 2 million.
4. The Government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program. However, it will stand ready to take any additional measures that may become appropriate to meet these objectives. The Gambia will consult with the IMF on the adoption of these measures and in advance of revisions to

policies contained in the MEFP, in accordance with the Fund's policies on such consultation. The second and third reviews under the PRGF arrangement are expected to be completed by no later than end-January 2008, and end-July 2008, respectively.

5. The government intends to make the contents of this letter and the attached MEFP and Technical Memorandum of Understanding available to the public. Therefore, it authorizes the IMF to arrange for these documents to be posted on the IMF website following Executive Board conclusion of the review.

Sincerely yours,

/s/

Mousa Gibril Bala-Gaye
Secretary of State
Department of State for Finance and Economic Affairs

/s/

Momodou Bamba Saho
Governor
Central Bank of The Gambia

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. INTRODUCTION

1. **This memorandum updates the Government of The Gambia's economic and financial program under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement with the International Monetary Fund (IMF).** The program, which was approved by the Board of Executive Directors of the IMF on February 21, 2007, aims at consolidating macroeconomic stability and fostering the conditions for sustaining high economic growth and reducing poverty.¹ This memorandum provides information on recent economic developments, reviews performance under the PRGF-supported program, and updates the government's strategy for pursuing its financial and economic policies.

II. RECENT ECONOMIC DEVELOPMENTS

2. **The performance of The Gambia's economy in 2006 was strong and the outlook for 2007 remains broadly positive.** Real GDP grew at an annual average rate of 6.4 percent during 2003–06, reflecting strong growth in the construction, telecommunications, and tourism sectors. Preliminary data for the first half of the year suggest that this positive trend is likely to continue in 2007, with GDP growth expected to reach 7 percent. Fueled by sharp increases in the prices of some key imported commodities, the annual rate of inflation measured on a year-on-year basis rose from less than 1 percent in December 2006 to over 6 percent during the second quarter of 2007.² The increases reflected a combination of rising world prices (e.g., rice), disruption in the sources of supply from neighboring countries (the case for some fruits and vegetables and cooking oil), and strong demand outstripping current levels of supply (e.g., cement). We expect an easing of the supply constraints in due course. This and the recent strengthening of the dalasi (associated with sustained foreign exchange inflows) should help lower inflation to the projected level of about 5 percent at end-December 2007.

3. **Fiscal performance in 2006 was broadly in line with program projections.** The overall fiscal deficit was larger than initially anticipated due to larger-than-expected externally-financed capital spending. However, the surplus on the basic fiscal balance (which provides a better measure of the government's fiscal effort) was slightly higher than

¹ The previous memorandum described the strategy for poverty alleviation of the Government of The Gambia (See IMF Country Report No 07/116, p. 29).

² The Gambia Bureau of Statistics reports headline inflation based on a 12-month moving average. According to that measure, annual inflation increased from 1.7 percent in December 2006 to 2.8 percent in June 2007.

programmed. Lower nontax revenues due to delays in payments of telecommunications license fees were offset by lower domestically-financed capital expenditures. The higher basic balance surplus in 2006, combined with a lower level of external amortization than initially projected allowed the government to reduce further the stock of domestic arrears. The level of government arrears has been revised upward by 1.7 percent of GDP, reflecting new verified claims associated with road construction projects.

4. **Fiscal performance in the first half of 2007 was significantly stronger than programmed.** Higher-than-expected revenues were driven by the strong performance of corporate tax revenues, receipts from overdue telecommunication license fees, and strong tax returns from non-oil imports. Current expenditures were in line with the budget and capital expenditures lower than expected due to delays in the implementation of a large donor-funded road project. The introduction of the Integrated Financial Management Information System (IFMIS) in January 2007 improved public expenditure management and also facilitated meeting program targets. In particular, it ensured that wages and other charges stayed in line with budget appropriations and prevented the accumulation of further government arrears.

5. **The Central Bank of The Gambia (CBG) continued to pursue a prudent monetary policy.** A new CPI that the Gambia Bureau of Statistics (GBoS) started publishing in April 2007 suggests that inflation was somewhat higher and more variable than reported by the old index. In light of rising inflation, the CBG increased its rediscount rate in late-June from 14 percent to 15 percent. It will continue to monitor the situation closely and take appropriate action to contain inflation at low single digit levels.

6. **Interest rates declined during 2006, but increased again in the first quarter of 2007.** Between July and November 2006, the average yields on treasury bills declined from 14 percent to 11 percent. However, yields rose again to 13.5 percent by March 2007 due to market under-subscription. There are some indications that private banks (the primary holders of T-bills) did not increase their purchases due to their short dalasi positions. In fact, during April–May 2007 banks began to rediscount some of their treasury bills with the CBG.

7. **The dalasi remained stable in 2006 and strengthened vis-à-vis major currencies in the first half of 2007.** Sustained foreign exchange inflows combined with the CBG's policy of limited intervention in the foreign exchange market led to nominal appreciations of the dalasi of 5.5 percent, 2.1 percent and 1.4 percent vis-à-vis the U.S. dollar, the pound sterling, and the euro, respectively, between end-December 2006 and end-June 2007.

8. **The external current account deficit as a share of GDP narrowed significantly in 2006, thanks to a recovery in exports and strong growth in tourism and private transfers.** Between 2005 and 2006 the deficit fell from 17 percent to 13.5 percent of GDP. Export recovered from the collapse of 2005 and tourist arrivals reached record levels. The current account deficit was mainly financed by foreign direct investment and concessional

loans. The ratio of nominal external debt to GDP fell from 133 percent at the end of 2005 to 131 percent at the end of 2006. In 2007, conditional on reaching HIPC completion point, external debt should fall to around 46 percent of GDP.

III. PERFORMANCE UNDER THE PROGRAM

9. **All but one of the quantitative targets for March 2007 and June 2007 were met (Table 1).** Specifically, the March performance criteria and June indicative targets on net useable international reserves, net domestic assets (NDA) of the Central Bank, and fiscal basic balance were met comfortably. In addition, the government made a particular effort to reduce its stock of domestic arrears, making payments that exceeded substantially the indicative targets under the program. However, the government incurred short-term arrears to the World Bank and the African Development Bank, and so did not observe the continuous quantitative performance criterion on the accumulation of new external payments arrears.

10. **The record of implementation of structural reforms through July 2007 was strong (Table 2).** The schedule to clear the backlog of unaudited government accounts was strictly respected. Moreover, the IFMIS, which was launched according to schedule in January 2007, quickly introduced a comprehensive commitment control system, and facilitated the preparation of comprehensive monthly execution reports by May 2007. As regards Central Bank governance and operational independence, the plan to limit government borrowing from the CBG in accordance with the CBG Act is being implemented, and the segregation of duties in the management of international reserves was completed by March. The CBG also established and staffed the Credit Reference Bureau in March. The GBoS produced a new CPI series ahead of schedule.

11. **Two structural performance criteria were missed.** One—submission of a special audit report on monetary data—was implemented with a month's delay due to circumstances beyond the control of the CBG; there were delays in correspondent banks' responses to the auditors' requests for confirmation of account balances. The second measure related to the establishment and making fully operational a Central Project Management and Aid Coordination Directorate in the Department of State for Finance and Economic Affairs. The directorate has been established and is now expected to become operational by October 2007. We underestimated how much time would be needed to fully staff the office with qualified staff and to make it fully operational.

IV. MEDIUM-TERM OBJECTIVES AND THE PRGF-SUPPORTED PROGRAM

12. **The government will continue to maintain prudent macroeconomic policies, consolidating the gains of recent achievements, and fostering reforms conducive to higher growth and poverty reduction.** Macroeconomic stability has been preserved in the last two years, with low inflation and adequate international reserve levels. Going forward the successful implementation of the PRGF-supported program, which draws on the country's second Poverty Reduction Strategy Paper (PRSP II), will help consolidate recent

macroeconomic achievements and the attainment of the Gambia's economic and social objectives. Under the current baseline scenario for 2007–09, the government aims to:

- Sustain real GDP growth rates of 6–7 percent.
- Contain end-year inflation below 5 percent in 2007, and to 4 percent in 2008, and to 3 percent by 2009.
- Reduce the ratio of domestic debt to GDP from 32 percent at the end of 2006 to about 23 percent by 2009.
- Reduce the external current account deficit (including official transfers) from 13.5 percent of GDP in 2006 to 12 percent of GDP in 2009.
- Maintain a level of international reserves equivalent to about 5 months of imports.

13. **The baseline macroeconomic scenario takes into account the importance of preserving fiscal discipline, containing inflation, and ensuring the sustainability of the external current account.** It seeks to reduce gradually the burden of domestic debt service in order to create much needed fiscal space for PRSP-related expenditures. It also aims at maintaining an external current account position that is sustainable in light of medium-term projections of capital inflows. Projected growth rates are higher than the 4.5 percent average annual growth rate assumed in PRSP II. However, we believe that upward revisions of recent growth performance and indications of strong and sustained growth of some key sectors of the economy (tourism, construction, and transportation and telecommunication services) justify this more ambitious projection.

14. **Preliminary results of an updated debt sustainability analysis (DSA) suggests that The Gambia will remain at high risk of debt distress even after receiving relief under the HIPC and multilateral debt relief initiatives.** The DSA was undertaken by staffs of the IMF and World Bank, in collaboration with government and CBG officials. In order to mitigate the risk, the government intends to rely mainly on grants for funding its development programs. Plans are underway for convening a donor conference in November 2007 to solicit financial assistance to support the full implementation of PRSP II. In view of the large gap that remains between the estimated required resources and the levels of external assistance committed by development partners, it is unlikely that we can rely solely on grants to fill the financing gap.

15. **The government intends to limit the accumulation of new debt, and will ensure that all new borrowing is on highly concessional terms.** As a first step in signaling our commitment to achieving debt sustainability, we have agreed to increase the minimum grant element in new external borrowing under the program from 35 percent to 45 percent. Furthermore, in order to enhance the monitoring of new borrowing, we have agreed to provide information to IMF staff on new loans as soon as they are approved by the lender.

Typically, it takes several months after the loan is approved by the lender for it to become effective; the steps after approval include signing, ratification, and implementation of conditions of effectiveness.

V. POLICIES FOR THE REMAINDER OF 2007

A. Fiscal Policy and Related Structural Reforms

16. **The government recognizes that maintaining fiscal discipline is critical for achieving debt sustainability and lowering domestic interest rates.** The overall fiscal balance is expected to show a marked improvement from a deficit of 6.8 percent of GDP in 2006 to a surplus of 1.6 percent of GDP in 2007. The surplus on the fiscal basic balance is also expected to increase from 1.5 percent of GDP in 2006 to 4.4 percent of GDP in 2007.

17. **Revenue performance is expected to remain strong.** Tax policy will be guided by the principle of revenue neutrality, the need to avoid distortions and the importance of maintaining an attractive business environment for investors. Efforts to improve tax administration will continue, including through increased staffing, training and equipment for The Gambia Revenue Authority. Ongoing measures to broaden the tax base include the issuance of tax identification numbers and taxpayer education campaigns.

18. **Given that rice is an essential commodity in the consumption basket of the poor, and in light of the recent increases in international prices, the Government has decided to lower the sales tax on rice from 15 percent to 5 percent to support low income consumers.** However, mindful of the importance of neutralizing any ensuing revenue loss (estimated at 0.1 percent of GDP), the sales tax on automobile spare parts will increase from 10 percent to 20 percent. These measures are revenue neutral and broadly progressive. The government will consult IMF staff should the need arise for further tax policy changes.

19. **Expenditure policy will be guided by the need to contain the fiscal deficit, better align budget priorities with the PRSP, and improve the efficiency and transparency in the use of public resources.** Total expenditures and net lending will decline slightly from 29.2 percent of GDP in 2006 to 28.7 percent of GDP in 2007. Lower interest payments, falling by 1 percentage point of GDP, will facilitate an increase in primary spending without undermining the overall fiscal policy objectives. In particular, wages and salaries will increase slightly to 4.8 percent of GDP, while capital expenditures increase by about 1.5 percent of GDP, reflecting the implementation of large donor-funded road projects.

20. **The government will strictly enforce the new commitment control system, pursue its efforts to fully identify the stock of existing arrears and avoid the accumulation of new arrears to domestic suppliers.** The successful launch of the IFMIS system in January 2007 goes a long way to avoid the emergence of new arrears. However, strictly enforcing fiscal discipline and the further extension of the IFMIS system to all

government agencies and spending units is essential. The government has requested financial assistance from the World Bank to implement the second phase of the IFMIS project.

21. The Department of State for Finance and Economic Affairs (DOSFEA) and the National Planning Commission will pursue efforts to enhance accountability in the use of public resources and obtain better value-for-money in the implementation of public projects. To this end:

- The Central Project Management and Aid Coordination Directorate will become fully operational and start producing reports by October 2007.
- Efforts to clear the backlog of government accounts and publish more information on the budget and its execution will be pursued. The government submitted the accounts for 2005 to the Auditor-General in July, and expects to submit the 2006 accounts well before December 2007.
- A comprehensive debt management strategy will be prepared by end-July 2008. The strategy will set limits on the amount and terms of new loans, taking into account that The Gambia may remain at high risk of debt distress even after receiving HIPC and MDRI debt relief. It will also define a proper institutional framework for debt management in the country.

22. In order to improve fiscal transparency and track fiscal risks, the reporting framework for public enterprises will be strengthened. By administrative order, the Secretary of State for Finance and Economic Affairs has authorized The Gambia Divestiture Agency (GDA) to formally request timely financial reports from the Social Security and Housing Finance Corporation, the Gambia Port Authority, the Gambia Telecommunications Cellular Company (GAMCEL), and the Gambia Groundnut Corporation (GGC).

23. Special attention will be paid to the operations and financial position of GGC in view of the government's commitment to open up all aspects of the groundnut sector to the private sector (see paragraph 35 below). The government will not provide any transfers or subsidies to GGC, nor will it provide guarantees for borrowing from commercial banks.

B. Monetary Policy, CBG Governance, and Related Structural Reforms

24. The CBG will continue to use a money targeting framework to pursue its price stability objective. It will also use its rediscount rate to signal changes in policy stance. In setting the rediscount rate, the CBG will pay due regard to the evolution of the market determined treasury bill rates and inflation outlook.

25. In order to strengthen the CBG's operational independence, the government and the CBG have undertaken to ensure compliance with two key provisions of the CBG

Act (2005) related to CBG capital and limits on lending to the government. The CBG will be recapitalized to the tune of D100 million (the amount stipulated in the CBG Act) over a five-year period beginning in 2006. The government has already paid the 2006 contribution of D20 million and has appropriated another D20 million in the 2007 budget. The 2005 CBG Act stipulates that the CBG's lending to the government should not exceed 10 percent of government tax revenues in the previous year. The CBG's claims on the government exceeded this limit throughout 2006. Since June 2006, the government has acted to reduce substantially the level of its outstanding borrowing from the CBG. The government and the CBG are implementing an Action Plan to bring government borrowing from the CBG within the statutory limit by the end of 2007.

26. **In order not to undermine the effectiveness of the CBG's monetary operations, the government has agreed not to use the proceeds from treasury bills issued by CBG to mop-up liquidity.** To operationalize this decision, the proceeds from treasury bills issued for such purposes will be put in a blocked "sterilization" account. As required by Article 38 (4) of the Government Budget Management and Accountability Act (2004), the CBG will submit to DoSFEA regular reports on this account. DoSFEA and CBG will adopt a memorandum of understanding by end-September 2007 that will address issues related to this account as well as provide guidance on other areas of fiscal-monetary policy coordination while safeguarding the operational independence of the CBG.

27. **The CBG will continue implementing the Action Plan aimed at strengthening internal controls that was approved by the CBG Board in 2005.** Accordingly, it has already made operational the segregation of duties in foreign reserves management as stipulated in the CBG's Policy Guidelines on Segregation of Duties of Foreign Exchange Market Operations.

28. **The CBG intends to adopt International Financial Reporting Standards (IFRS) as its accounting framework.** To this end, a gap analysis (between current accounting policies and the requirements of IFRS) and an Action Plan for moving to IFRS over a three-year period, will be completed by December 2007. The CBG is also undertaking reforms aimed at strengthening its monetary policy framework and operations, internal audit, and banking supervision. It will also continue work on its research agenda aimed at enhancing the effectiveness of monetary policy.

C. Deepening financial intermediation

29. **The banking system in The Gambia is relatively sound, but financial intermediation remains low.** Profitability has been high and the proportion of nonperforming loans has remained relatively stable at 12–14 percent. However, the loan-to-deposit ratio is very low (38 percent) suggesting scope for increased lending activities. Nevertheless banks are citing high risks and limited bankable projects as the reasons for that low ratio. In order to reduce the risks and promote lending, a Credit Reference Bureau to

share information on potential clients has been established and the CBG is working with the banks and software consultants to operationalize the bureau. It is expected that the bureau will become fully operational by end-March 2008.

D. Capacity Building

30. **Capacity constraints have adversely affected the formulation and implementation of government policies and reform efforts.** As noted in PRSP II, low capacity was a major constraint in the implementation of PRSP I. At the government's request, the World Bank is undertaking a study that will inform a comprehensive civil service reform.

31. **The government has requested IMF technical assistance to support its capacity building efforts, especially in the areas of public financial management (PFM), central bank operations, and economic statistics.** A formal request has been submitted for a PFM diagnostics mission to help improve budget planning, execution and control, and contribute to the government's efforts to enhance the transparency and efficiency in the use of public resources. The CBG has requested assistance in the areas of monetary policy framework and operations, debt management, and banking supervision. In the areas of statistics, the government wishes to request assistance in the areas of national accounts, producer prices, and government finance statistics.

E. Program Monitoring

32. **The program will continue to be monitored based on the agreed quantitative financial targets (Table 1), a set of structural performance criteria and benchmarks (Table 3), and program reviews.** The quantitative financial targets for end-September 2007 and end-March 2008 are performance criteria, and those for end-December 2007 and end-June 2008 are indicative targets. The second and third program reviews are scheduled to be completed by end-January 2008 and end-July 2008, respectively. Definitions of all targeted variables and reporting requirements are contained in the attached technical memorandum of understanding (TMU).

33. **To ensure effective monitoring of program implementation, the PRGF Monitoring Committee, headed by the Secretary of State for Finance and Economic Affairs will continue to meet regularly to review performance under the program.** It will also ensure that data are reported to the IMF as per the schedule agreed in the TMU, and will stand ready to provide any other information requested by IMF staff for monitoring the program. The committee will take remedial actions in case there are gaps or delays in program implementation or the reporting of data to the IMF.

VI. TOWARD HIPC COMPLETION POINT

34. **The Gambia has met all but one of the HIPC completion point triggers.** The government was unable to bring the groundnut processing plants in the public sector to a point of sale; efforts to attract private investors were unsuccessful. Meanwhile, a consensus has emerged among major stakeholders that revitalization of the sector—which is very important for the government’s poverty reduction strategy—needs to go beyond the mere privatization of public assets. The experience of neighboring countries suggests that privatization is not a panacea. The government has adopted a comprehensive Groundnut Sub sector Roadmap Implementation Framework aimed at moving the sector onto a firm recovery path. The road map is based on various recent studies undertaken by or with the support of the World Bank, IMF and the EU. On the basis of the “roadmap” and specific measures we have agreed to implement before the upcoming 2007/08 season, the government wishes to request a waiver of the groundnut sector trigger to allow The Gambia to reach the HIPC completion point before the end of 2007 and benefit from much needed debt relief.

35. **Key elements of the groundnut sector “roadmap” include free entry of private sector actors in all areas of operations, and government withdrawal from licensing and producer price setting roles.** The Agribusiness Service Plan Association (ASPA), which has representatives of all major stakeholders, will now have the responsibility for registering traders, operators, producer organizations and industrialists. ASPA will also determine the producer price (based on a transparent pricing mechanism), and fix the dates for the opening and closing of the groundnut marketing season each year. The government has also decided to put GGC under a performance-based management contract from July 2008.

36. **The government has agreed to take over groundnut sector related loans amounting to D 157 million (1 percent of GDP) guaranteed by the Social Security and Housing Finance Corporation that are in default.** The loans were extended by two banks to the Gambia Agricultural Marketing Company (GAMCO), a joint private-public company in which SSHFC holds minority shares.³ The government approved the guarantee extended by SSHFC. In order to avoid a substantial loss of pensioner’s funds, the government and SSHFC renegotiated the terms of the loans with the banks. Under the new terms, the government will repay the loans over a three year period, beginning in 2008.

37. **Resources freed by debt relief under the HIPC and multilateral debt relief initiatives will be used to increase poverty-reducing expenditures, in line with PRSP II priorities.** The resources—currently estimated at about US\$15 million a year—will be allocated among various uses including: boosting expenditures on the social sectors, reducing domestic debt, and in support of pay and pension reform in the civil service (to address the

³ GAMCO was formed in 2004 and benefited from a change in licensing rules that resulted in it becoming the sole operator during the 2004/05 season. The company did not participate in the 2006/07 buying season.

increasing difficulty the government is having in attracting and retaining highly skilled personnel in core areas). Discussions on further details of the planned use of debt relief will take place in the context of the medium-term framework for the 2008 budget and the second PRGF review, to be held during a mission scheduled for late-October/early-November 2007.

Table 1. The Gambia: Quantitative Targets and Projections, End-December 2005–End-June 2008

| | 2005 | | 2006 | | 2007 | | | | | | 2008 | | |
|---|----------------------------|----------|----------|---------------------------------|------------------|----------|-----------------------|----------|----------|--------|--------|--------|--------|
| | End-Dec. | End-Dec. | End-Dec. | End-Mar. | End-Jun. | End-Sep. | End-Dec. ¹ | End-Mar. | End-Jun. | | | | |
| | Act. | Est. | Act. | Prog. | Act. | Prog. | Rev. | Prog. | Prog. | | | | |
| | (Stock) | | | (Change from End-December 2005) | | | | | | | | | |
| Performance criteria² | (Millions of dalasis) | | | | | | | | | | | | |
| Net domestic assets of the central bank (ceiling) | 174.3 | -1.1 | -140.9 | 41.2 | -121.3 | 9.7 | -334.4 | 12.3 | -87.8 | -313.3 | -277.8 | -261.3 | -263.8 |
| Basic balance (floor) ³ | ... | 189.1 | 207.3 | 292.9 | 446.0 | 419.5 | 686.1 | 487.1 | 537.1 | 671.3 | 771.3 | 969.3 | 1042.1 |
| New external payments arrears of the central government (ceiling) ⁴ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 ⁸ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | (Millions of U.S. dollars) | | | | | | | | | | | | |
| Net usable international reserves (floor) | 71.1 | 6.7 | 23.8 | 9.2 | 13.4 | 10.4 | 20.8 | 9.7 | 16.5 | 26.5 | 36.1 | 39.6 | 39.9 |
| New nonconcessional debt contracted or guaranteed by the government with original maturity of more than one year (ceiling) ⁵ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Outstanding stock of external public debt with original maturity of one year or less (ceiling) ⁶ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Indicative targets | (Millions of dalasis) | | | | | | | | | | | | |
| Domestic budgetary arrears ⁷ | 770.3 | -176.8 | -223.8 | -258.2 | -448.5 | -339.6 | -499.4 | -421.0 | -574.2 | -502.3 | -649.0 | -679.4 | -709.8 |

Source: IMF staff estimates.

Note: the revised targets on the net domestic assets of the central bank for September 2007 and December 2007 are based an exchange rate of 27.5 dalasis/U.S. dollar.

¹MDRI debt relief is assumed to take place in the fourth quarter of 2007.

²September 2007 and March 2008 are performance criteria; December 2007 and June 2008 are indicative targets.

³Defined as domestic revenue minus expenditure and net lending, excluding externally financed capital expenditure.

⁴To be applied on a continuous basis.

⁵External debt contracted or guaranteed other than that with a grant element equivalent to 45 percent or more, calculated using a discount rate based on the Organization for Economic Corporation and Development (OECD) commercial interest reference rates (CIRRs). Excludes borrowing from the IMF.

⁶Excluding normal import-related credits.

⁷The stock of domestic arrears at end-2005 was previously estimated at D524.5 million

⁸The Gambia accumulated temporary arrears to the World Bank and the African Development Bank which have been cleared.

Table 2. The Gambia: Structural Conditionality for December 2006-July 2007¹

| Measure | Target Date | Status |
|--|--------------------|--|
| <i>Public financial management and accountability</i> | | |
| 1. Clear the backlog of unaudited government accounts | | |
| (i) Submit to the Auditor-General the accounts for 2003 (PA) | End-December 2006 | Met |
| (ii) Submit to the Auditor-General the accounts for 2004 (PC) | End-February 2007 | Met |
| (iii) Submit to the Auditor-General the accounts for 2005 (PC) | End-July 2007 | Met |
| 2. Make operational the central project management and aid coordination directorate at DoSFEA (PC) | End-June 2007 | Not met. Established but not yet fully operational |
| 3. Launch IFMIS by mid-January 2007 (B) | Mid-January, 2007 | Met |
| 4. Establish a comprehensive commitment control system (PC) | End-April 2007 | Met |
| 5. Prepare and issue a comprehensive monthly budget execution report, including information on commitments, with a one-month lag, starting with the report for April 2007 (PC) | From May 2007 | Met |
| <i>Central bank governance and operational independence</i> | | |
| 6. Prepare an action plan to bring government borrowing from the CBG in line with the limit under the CBG Act within one year (PA) | January 15, 2007 | Met |
| 7. Implement segregation of duties in the management of international reserves (PC). | End-March 2007 | Met |
| 8. Provide to Fund staff special audit report on monetary program data at program test date of end-March 2007 (PC) | End-June 2007 | Met, with a delay. |
| <i>Financial deepening</i> | | |
| 9. Establish and staff the credit reference bureau (B) | End-May 2007 | Met |
| <i>Statistics</i> | | |
| 10. Start publishing monthly CPI series based on 2003 household survey weights (PC) | End-June 2007 | Met |
| 11. Prepare and publish quarterly balance of payments statistics, with one quarter lag beginning with 2007 Q1 (B) | From end-June 2007 | Met |

¹PA, PC and B denote prior action for approval of the arrangement, performance criterion, and benchmark, respectively.

Table 3. The Gambia: Structural Conditionality for August 2007-July 2008¹

| Measure | Target Date |
|--|--------------------|
| <i>Public financial management and accountability</i> | |
| 1. Clear the backlog of unaudited government accounts | |
| (i) Submit to the national assembly the audited accounts for 2000-04 (B) | End-December 2007 |
| (ii) Submit to the Auditor-General the accounts for 2006 (PC) | End-December 2007 |
| 2. Make operational the central project management and aid coordination directorate at DoSFEA (PC) | October 2007 |
| 3. Issue a comprehensive monthly budget execution report, including information on commitments, with a one-month lag, starting with the report for April 2007 (PC) | Monthly |
| 4. Prepare a national debt strategy after receiving TA (B) | End-July 2008 |
| 5. Provide quarterly financial information on selected public enterprises (B) | |
| <i>Central bank governance and operational independence</i> | |
| 6. Implement the action plan to bring government borrowing from the CBG in line with the limit under the CBG Act within one year (PC) | End-December 2007 |
| 7. Provide to Fund staff special audit report on monetary program data at program test date at end-September 2007 (PC) | End-December 2007 |
| 8. Complete a gap analysis and establish an Action Plan for moving to IFRS (PC). | December 2007 |
| <i>Financial deepening</i> | |
| 9. Make the credit reference bureau operational (PC) | End-March 2008 |
| <i>Statistics</i> | |
| 10. Publish quarterly balance of payments statistics, with one quarter lag beginning with 2007 Q1 (B) | From end-June 2007 |
| 11. Rebase the national accounts to 2003/04 prices and begin estimating GDP by expenditure components (B) | June 2008 |

¹PC and B denote performance criterion and benchmark, respectively.

Attachment II

Technical Memorandum of Understanding

(August 2007–July 2008)

I. INTRODUCTION

1. This memorandum sets out the understandings between the Gambian authorities and staff of the International Monetary Fund (IMF) regarding the definitions of quantitative performance criteria, indicative targets, structural performance criteria, and structural benchmarks that will be used in monitoring the Poverty Reduction and Growth Facility (PRGF)-supported program covering the period of 2007–09. It also sets out the related reporting requirements.

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Net Domestic Assets of the Central Bank

2. **Definition:** The *net domestic assets* of the CBG are defined as the difference between reserve money and the net foreign assets of the CBG. Reserve money is defined as the sum of currency issued by the CBG (i.e., currency in circulation) and the deposits of commercial banks at the CBG. Net foreign assets are defined as foreign assets minus foreign liabilities. Foreign assets and foreign liabilities are defined as claims on nonresidents and liabilities to nonresidents, respectively.

3. For program monitoring purposes, in the calculation of the net domestic assets of the CBG, foreign assets and liabilities will be converted first into U.S. dollars at the prevailing cross-rates and then converted into dalasi using the D/USD program exchange rate of 27.5. This is an accounting exchange rate only and should not be construed as a projection.

4. **Supporting material:** Net domestic assets of the central bank will be transmitted as part of the balance sheet of the CBG (compiled based on the TMU rate) on a monthly basis within four weeks of the end of each month. For analytical purposes, the balance sheet of the CBG compiled on a current-rate basis will also be submitted.

B. Basic Balance of the Central Government

5. **Definition:** The basic balance of the central government is defined as revenue (tax and nontax) minus total expenditure and net lending, excluding externally financed capital expenditure. Central government excludes local and regional governments and public enterprises.

6. **Supporting material:** Reporting on the basic balance will form part of the consolidated budget report described in paragraph 27 below.

C. New External Payments Arrears of the Central Government

7. **Definition:** External payments arrears are defined as the stock of external arrears on loans contracted or guaranteed by the central government, except on debts subject to rescheduling or a stock of debt operation. Debts subject to rescheduling include debts covered traditional mechanisms (bilateral creditors, such as the Paris Club members) or HIPC. External payments arrears occur when undisputed interest and amortization payments on the above-referenced loans are not made within the terms of the debt contract or in conformity with the terms for interim relief provided under the enhanced HIPC Initiative. This performance criterion will be assessed on a continuous basis.

8. **Supporting material:** An accounting of nonreschedulable external arrears (if any) by creditor countries, with detailed explanations, will be transmitted on a monthly basis within four weeks of the end of each month. This accounting would include, separately, arrears owed by the central government and other public sector entities to Paris Club and non-Paris-Club creditors.

D. Net Usable International Reserves of the Central Bank of The Gambia

9. **Definition:** *Net usable international reserves (NIR)* of the CBG are defined as the difference between usable reserve assets and reserve liabilities. *Usable reserve assets* are readily available claims on nonresidents denominated in foreign convertible currencies. They include the CBG holdings of SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the IMF. Excluded are any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals, assets in nonconvertible currencies, and illiquid assets (including capital shares in international organizations). *Reserve liabilities* are all foreign exchange liabilities to residents and nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), and all credit outstanding from the IMF.

10. **Supporting material:** End-month data on net usable international reserves of the CBG will be transmitted within seven days of the end of each month.

E. New Nonconcessional Debt Contracted or Guaranteed by the Central Government with Original Maturity of More Than one Year

11. **Definition:** This target refers to new nonconcessional external debt with original maturity of more than one year contracted or guaranteed by the central government. It applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with

Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 24, 2000 (Decision No. 12274–00/85), but also to commitments contracted or guaranteed for which value has not been received. Excluded from this target are loans or purchases from the IMF and debts with a grant element of at least 45 percent.⁴ Also excluded are two loans from the OPEC Fund for International Development with grant elements of 39.5 percent each, which were approved in the first half of 2007.

12. **Supporting material:** A comprehensive record, including a loan-by-loan accounting of all new concessional and nonconcessional debt contracted or guaranteed by the central government with detailed explanations, will be transmitted on a quarterly basis within four weeks of the end of each quarter. Nonconcessional external debt over one year includes financial leases and other instruments giving rise to external liabilities, contingent or otherwise, on nonconcessional terms.

F. Outstanding Stock of External Public Debt with Original Maturity of One Year or Less

13. **Definition:** This target refers to the stock of outstanding external public sector debt with original maturity of one year or less, owed or guaranteed by the central government.⁵ Public sector consists of the central and regional governments and other public agencies, including the CBG. Excluded from this target are normal import-related credits.

14. **Supporting material:** A comprehensive record of all external debt with original maturity of less than one year owed or contracted by the public sector, with detailed explanations, will be transmitted on a quarterly basis within four weeks of the end of each quarter.

III. QUANTITATIVE INDICATIVE TARGETS

A. Domestic Budgetary Arrears

15. **Definition:** Domestic budgetary arrears are defined as the sum of all bills that have been received by a central government spending unit or line ministry under the recurrent expenditure budget (including rents and utilities) or the development expenditure budget, and

⁴ A loan is concessional if its grant element is at least 35 percent, calculated on the basis of the commercial interest reference rates (CIRR) and following the methodology set out in staff paper on Limits on External Debt or Borrowing in Fund Arrangements – Proposed Change in Implementation of the Revised Guidelines (SM/96/86, 4/8/96) approved by the IMF Executive Board on April 15, 1996.

⁵ The term “debt” has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 24, 2000 (Decision No. 12274–00/85).

for which payment has not been made within 30 days. Arrears can be cleared in cash or through debt swaps.

16. **Supporting material:** A comprehensive record of all domestic budgetary arrears, with detailed explanations, will be transmitted on a quarterly basis within four weeks of the end of each quarter.

IV. STRUCTURAL PERFORMANCE CRITERIA AND BENCHMARKS

A. Central Project Management and Aid Coordination Directorate

17. **Definition:** The directorate is deemed operational when it is staffed and begins establishing a database on external aid received by all departments of government.

18. **Supporting material:** A comprehensive record of external aid received by all departments of government, by donor and project, will be transmitted on a quarterly basis within four weeks of the end of each quarter.

B. Monthly Budget Execution Report

19. **Supporting material:** The report shall contain information on expenditure appropriations, commitments, payment orders, and actual payments by broad category of spending for all government departments and agencies covered by the central government budget. It will be transmitted to IMF staff within four weeks of the end of each month.

C. Financial Information on Selected Public Enterprises

20. **Supporting material:** Quarterly financial data in the format of Annex I will be transmitted to the IMF within four weeks of the end of the quarter for the following four public financial and nonfinancial corporations: (1) Social Security and Housing Finance Corporation; (2) The Gambia Port Authority; (3) The Gambia Telecommunications Cellular Company (GAMCEL); and (4) The Gambia Groundnut Corporation (GGC).

D. Action Plan to Bring Government Borrowing from the CBG in Line with the Law

21. The Action Plan includes quarterly limits on the extent to which the legal limit may be breached in the transition to full compliance by end-2007.

E. Special Audit Report on Monetary Program Data

22. The special audit will be conducted on the basis of the terms of reference agreed between CBG and IMF staffs in March 2007.

F. Credit Reference Bureau

23. The Bureau is deemed operational when it is staffed, begins compiling a database on commercial bank customers, and commercial banks are able to obtain information from the database.

G. Quarterly Balance of Payments Statistics

24. **Supporting material:** Quarterly balance of payments data transmitted to the IMF with a one quarter lag.

H. National accounts

25. **Supporting material:** Gambia Bureau of Statistics publication of national accounts series showing expenditure components (consumption, investment, net exports) as well as sector of origin of GDP, in both current and constant (2003/04) market prices.

V. OTHER DATA REQUIREMENTS AND REPORTING STANDARDS

26. In addition to providing the data needed to monitor program implementation in relation to the program's performance criteria, indicative targets, and benchmarks, as set out above, the authorities will transmit the following data within the time frame specified below:

A. Prices

27. The monthly disaggregated consumer price index, including weights for each major category, based on the 2003 integrated household survey, will be transmitted within four weeks of the end of each month. The old CPI data will continue to be submitted within the same time frame until it ceases to be published.

B. Government Accounts Data

28. The following monthly reports will be transmitted to the IMF within two weeks of the end of the month: (i) revenue flash report; and (ii) expenditure flash report.

29. A monthly consolidated central government budget report (i.e., the analytical table) on budget execution during the month and cumulatively from the beginning of the year, will be transmitted to the IMF within four weeks of the end of the month. The report will comprise: (i) revenue data by major item, including tax (direct tax, taxes on domestic goods and services, and taxes on international trade) and nontax; (ii) external grants by type (e.g., project, program); (iii) details of recurrent expenditure (including data on wages and salaries, interest payments, and other charges); (iv) details of capital expenditure and net lending (including data on externally financed capital expenditure, expenditures from the Gambia Local Fund, and net lending); (v) the overall balance and the basic balance (defined in paragraph 5); and (vi) details of budget financing (including net domestic borrowing and

its gross components, external grants, net external borrowing and its gross components, utilization of privatization proceeds, and arrears).

30. Net domestic borrowing by the central government over a given period is defined as the change in the net domestic debt at the end of the period minus the net domestic debt at the beginning of the period. The central government's net domestic debt is defined as: claims on the central government by the banking system minus deposits of the central government with the banking system plus claims by the nonbanking sector, including public enterprises. Central government excludes local and regional governments and public enterprises. The banking system comprises the CBG and commercial banks.

C. Poverty Reducing Expenditures

31. A monthly report on poverty-reducing expenditures, by functional and economic classifications, will be transmitted within four weeks of the end of each month. Poverty reducing expenditures comprise line items in the budget that have been specifically tagged as PRSP-related. For 2007, they include expenditure on the construction of trunk roads.

D. Monetary Sector Data

32. The balance sheets of the CBG, prepared on the bases of current and program exchange rates, will be transmitted on a monthly basis to the IMF within four weeks of the end of each month. The balance sheet should explicitly identify all claims on, and liabilities to, the government. Claims include overdrafts, holdings of treasury bills, interest and noninterest-bearing government bonds, advances to the government in foreign currency, and other claims. Liabilities include balances in the treasury main, treasury expenditure, sterilization, special projects, foreign projects, and other deposit accounts. The consolidated balance sheet of the commercial banks and a monetary survey (i.e., consolidation of the accounts of the CBG and the commercial banks), including foreign currency deposits held by residents of The Gambia with commercial banks, will be transmitted within four weeks of the end of each month. The CBG will also forward, within four weeks of the end of each month, data on banks' reserves held at the CBG to meet statutory reserve requirements during the last week of each month (broken down by total reserves, and excess reserves or deficits). Data will be provided for each commercial bank as well as for the industry as a whole.

E. Treasury Bills and CBG Bills

33. Weekly data on the amount offered, issued, net issuance, over/under subscription, and yields (interest rates) of the various instruments will be transmitted on a monthly basis within seven days of the end of the month. Data on treasury bills outstanding (including information on the distribution by bank and nonbank holders) will be transmitted on a monthly basis within six weeks of the end of each month. The monthly Liquidity Management Report, reflecting the data as of the last working day of the month, will be transmitted within seven days after the end of each month.

F. External Sector Data

34. The following standards will be adhered to in reporting data on exchange rates: (i) the interbank market exchange rates, defined as the simple average of the weekly weighted average buying and selling rates, will be transmitted on a weekly basis within five business days of the end of the week; and (ii) the CBG's published monthly average and end-month exchange rates, including those for all currencies in which foreign assets and liabilities are denominated, will be transmitted within two weeks of the end of the month.

35. The CBG will also forward monthly data on volume of transactions (purchases, sales, and total) in the foreign exchange market by each major group of participants (CBG, commercial banks, and foreign exchange bureaus) in dalasis within two weeks of the end of the month.

ANNEX I

QUARTERLY REPORTING SYSTEM FOR PUBLIC ENTERPRISES

Name of the Enterprise: _____
 Supervisory Authority: _____
 Regulatory Authority (if any): _____
 Law Establishing the Company: _____
 Government Shares (percent of total capital): _____
 Date of Last Audited Accounts: _____

| Fiscal Year _____ | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|--------------------------------|---------------|----------------|---------------|----------------|
| Revenue | | | | |
| (Cost of sales) | | | | |
| Gross profit | | | | |
| (Administrative expenditures) | | | | |
| (Depreciation) | | | | |
| Net financing income/cost | | | | |
| Net operating profit | | | | |
| | | | | |
| <i>Memorandum items:</i> | | | | |
| Taxes paid | | | | |
| • Sales tax | | | | |
| • Income tax | | | | |
| • International trade | | | | |
| • Other taxes | | | | |
| Dividends to government | | | | |
| Transfers received | | | | |
| • From government | | | | |
| • Other | | | | |
| Stock of debt | | | | |
| • Government | | | | |
| • Banking system | | | | |
| New investment | | | | |
| Available cash | | | | |
| • In banks | | | | |
| • Other | | | | |
| Stock of arrears | | | | |