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

June 9, 2017

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

Letter of Intent

Banjul, The Gambia
June 9, 2017

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde:

1. The Gambia is at a historical turning point, with the transition to a democratically elected government committed to the rule of law, freedom of speech and socio-economic development ending the 22-year reign of the autocratic regime of former President Jammeh. However, the new government has inherited a country and an economy that are broken. We are uncovering massive theft and embezzlement of funds, mainly from state-owned enterprises (SOEs) by the previous regime, and state coffers are empty. On top of our difficult starting position, the economy has been hit by a bad agricultural season which reduced our main cash crop by about half, the political turmoil following the elections in December 2016 which cut tourism receipts in the first quarter of 2017 by about one third, and higher fuel and commodity prices that put additional strain on the balance of payments. The economic situation is dire and the country is faced with an urgent balance of payments need and a precariously low level of usable international reserves. Accordingly, we would like to request support under the Rapid Credit Facility (RCF).

2. Our government has only been in office since February 2017, and our immediate priority has been to prevent the situation escalating into crisis. The parliamentary elections on April 6, 2017, resulted in an absolute majority in support of the government and a strong mandate for reform. We will now work expeditiously to restore macroeconomic stability and debt sustainability, and put policy implementation on a sound and sustainable footing. Our international development partners have been quick to reengage and have indicated that substantial financial support could be forthcoming which is necessary to cope with the acute impact of the shock and the legacies of the past. Domestically, we are committed to implementing strong upfront fiscal measures and mitigate fiscal shocks, including drastically reducing net domestic borrowing, taking steps to put the public utility and telecom companies on a sound financial footing, and ensuring the sustainability of the public debt. To assist us in fulfilling the pressing priorities and to shore up our low international reserves, we are asking the IMF to provide immediate support in the form of a disbursement under the RCF in an amount equivalent to 18.75 percent of quota, or SDR 11,662,500 that would be disbursed to the Central Bank of The Gambia (CBG).

3. We are interested in a future ECF arrangement to help maintain economic stability and make progress towards inclusive growth and poverty reduction over the medium term, in line with the national development plan. We will need close engagement with the IMF staff to guide policy implementation and articulate medium-term adjustment measures over the coming year, and recognize the need to establish a track record of strong policy implementation. Therefore, we request that IMF staff monitors the implementation of our economic program covering the period April 2017 to March 2018.

4. The attached Memorandum of Economic and Financial Policies (MEFP) describes the policies that we plan to implement over that period. It emphasizes policies—particularly fiscal policy, public enterprise reforms, and measures to make the debt sustainable—that will enable us to obtain rapid results to address our chronic fiscal problems and restore confidence in economic policies. In turn, this will also help stabilize our balance of payments position. The Government will revive a high level economic committee comprised of the Vice-President, the Secretary General, the Minister of Finance and the Governor of the CBG to provide the political leadership required to ensure that the program remains on track. We believe that the policies and measures included in this MEFP are adequate to achieve the immediate objectives of our program to avert crisis and restore macroeconomic stability, but we will take any further measures that may become appropriate for this purpose. We will need more time to fully assess the economic and financial situation, and to formulate a comprehensive medium-term economic program that will support growth, poverty reduction and broader socio-economic development.

5. We will consult with the IMF staff prior to any revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultations. We will continue to provide to the IMF staff on a timely basis the information required to monitor accurately the staff-monitored program. We will fully cooperate with the IMF to achieve our policy objectives, and furthermore undertake not to introduce measures to compound the current balance of payments difficulties in The Gambia, including but not limited to an introduction or intensification of exchange and trade restrictions. The CBG will undergo a safeguards assessment before a successor IMF arrangement is in place. We will authorize the external auditors of the CBG to share relevant documents and hold discussions with the IMF staff.

6. The Gambian authorities agree to the publication of this Letter of Intent (LOI) and the attached MEFP and Technical Memorandum of Understanding (TMU), as well as the IMF staff report related to the request for a disbursement under the RCF and the proposed staff-monitored program. We hereby authorize their publication and posting on the IMF website after approval by the Executive Board of the IMF.

Sincerely yours,

/s/	/s/
Amadou Sanneh Minister of Finance and Economic Affairs	Bakary Jammeh Governor, Central Bank of The Gambia

Attachments:

I. Memorandum of Economic and Financial Policies (MEFP)
II. Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies

INTRODUCTION

1. Context. We are facing an urgent balance of payments need and a precariously low level of usable international reserves due to shocks to agriculture and tourism, and the adverse impact of higher fuel and commodity prices. These shocks come at a time when—following the historical transition to a democratically elected government—we are uncovering massive theft and embezzlement of funds by the previous regime which have depleted state coffers. We request the IMF's support under the RCF to cope with the acute impact of the external shocks. In addition, we are also requesting that IMF staff monitors the implementation of our economic program covering the period April 2017 to March 2018 to help us undertake the needed policy corrections.

2. This memorandum lays out the Gambian authorities' economic program and reform agenda for the period ahead.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

3. Macroeconomic developments in 2016 have been impacted considerably by the economic mismanagement of the previous regime and external shocks. Economic growth in 2016 is now estimated to have reached 2.2 percent, markedly lower than the 4.3 percent growth in 2015, due to limited availability of foreign exchange, weak agricultural output and the effect of the political impasse on tourism during high season. With erratic rainfall during the summer, about half of the groundnut cash crop will be lost according to the pre-harvest report. Headline annual inflation stood at 8.7 percent in March 2017, well above the CBG's target of 5 percent, driven by high food prices and the depreciation of the dalasi against the U.S. dollar by about 5 percent since November 2016. Net international reserves have fallen to a precariously level of only US$21.5 million in March 2017, less than one month of prospective imports. Even this low level is predicated on foreign exchange swap arrangements with two commercial banks totaling US$33.2 million.

4. High deficits in recent years, financed by issuing expensive domestic securities, have led to rising debt levels and interest payments. Net domestic borrowing reached 11.4 percent of GDP in 2016. The total public debt stock reached 120.3 percent of GDP at the end of 2016, rising from 105.3 percent in 2015. The related high debt service on debt absorbed almost half of government revenue in 2016 and, together with weak revenue collection due to the economic slowdown and import compression, and unbudgeted support for SOEs, is exerting severe fiscal pressures. As we are now uncovering, the previous regime was systematically siphoning off or stealing funds from SOEs, with more than $100 million (10.4 percent of 2016 GDP) diverted over the regime's last 2½ years alone. This greatly contributed to their financial difficulties and the need for fiscal bailouts, as well as exchange rate pressures. Our findings so far indicate that this affected mainly the National Water and Electricity Company (NAWEC) and the Gambia Telecom and Cellular Companies (GAMTEL/GAMCEL).

5. Monetary policy was largely ineffective in the face of fiscal dominance. While the CBG kept its policy rate unchanged at 23 percent, it was unable to absorb the large excess liquidity in the banking system. With the slowdown of economic activity, T-bill rates have declined from their peak in mid-2016, with the 12-month rate falling from 22 percent to around 13 percent and the 3-month rate from 17.8 percent to just around 10 percent by March 2017. However, lending rates have remained high and banks' risk aversion increased in light of the political developments which, together with the massive government borrowing, has continued to crowd out private sector credit.

6. Growth for 2017 is expected to pick up marginally to 3 percent, but in the medium term we expect a return to a substantially higher growth trajectory around 5 percent. The recovery in 2017 is mainly predicated on the assumption of a normal agricultural season, following the bad 2016/17 harvest, and a gradual recovery in trade and re-exports. Tourism is also expected to recover, but unlikely to make up for the losses related to the political turmoil. Beyond 2017 we are optimistic that economic growth will return to a substantially higher trajectory of about 5 percent. The return to the rule of law and policy predictability, lower interest rates and a resumption of private sector credit growth, we expect investment as well as FDI to rise strongly, in particular the tourism sector and in commercial agriculture. Greatly improved relations with Senegal will support re-exports and trade with the subregion and, more generally, regional integration. And greater and cheaper energy supply will support all economic activities, including in light manufacturing.

MACROECONOMIC POLICIES AND STRUCTURAL REFORMS FOR 2017 AND THE MEDIUM TERM

A. Main Macroeconomic Objectives

7. We are committed to breaking with the economic mismanagement of the past regime and to pursuing prudent macroeconomic policies to restore macroeconomic stability and fiscal sustainability, and boost growth. Fiscal and monetary policies will be targeted to keeping inflation under control in line with the CBG's target of 5 percent or less, and the CBG will steadily rebuild international reserves toward the optimal level of 5 months of import coverage in the medium term. Prudent macroeconomic policies and structural reforms should help establish a firm basis for higher real GDP growth, including a strong rebound of private sector activity. We expect to finalize over the next few months the formulation of our national development plan *Program for Accelerated Growth and Employment II* (PAGE II) which will help guide our concerted efforts to boost growth and support poverty reduction and socio-economic development. Infrastructure projects and structural reforms in the telecommunications and energy sectors should further contribute to the expected upswing. Overall, we expect the recovery in tourism, agriculture and trade to push up real GDP growth to 4.5 percent during 2018–20 and longer term growth rates to about 4.8 percent. Restraint on the Government's NDB in 2017 is expected to help safeguard exchange rate stability and facilitate a continued decline in interest rates, thus creating space for *PAGE*-related spending to promote growth and social objectives, as well as for private sector credit growth.

8. We are firmly committed to take measures to make debt sustainable, including with the help of our development partners. The high debt burden that we have inherited is placing a very severe burden on The Gambia and could hold back development for years to come. To reduce this burden and make the debt sustainable, we are committed to take a number of measures. With help from the World Bank and the Fund we will develop a debt strategy to deal with domestic debt that would include extending its maturity and possibly lower interest cost, and will implement it in the course of the SMP. We are already engaging with creditors on the restructuring of NAWEC's debt and are committed to conclude discussions in the next few months. We have also approached our official creditors for concessional financial support sufficient to alleviate the burden of debt service due to them over the next four years. We are conscious that these steps, while they will restore The Gambia's debt sustainability, will leave very elevated debt vulnerabilities. Accordingly, we are seeking to raise substantial additional official financing on highly concessional terms at a donor conference later this year. Additional resources could be used in part to retire expensive domestic debt, in part to support growth enhancing and poverty reducing investment.

B. Policy Objectives

Fiscal policies

9. Returning to fiscal sustainability will require strong fiscal action to bring expenditures in line with resource availability while securing donor assistance to drastically reduce domestic borrowing and interest cost. Policies will be anchored at an NDB target of 1 percent of GDP which would help to slow monetary expansion and ultimately support the rebuilding of reserves. There are strong indications of donor support which could total about 7.2 percent of GDP, but the timing of actual disbursements is still uncertain and it is important to take measures now that deliver quick results, including to bolster donor support. However, it is equally important to take measures that may take longer to yield results and lay the basis for sustained and inclusive growth. In this context, it is also critical to resolve the difficulties of SOEs to protect fiscal outcomes, resolve NAWEC's external and domestic debt service arrears, and work toward resolution of cross arrears between government and the SOEs.

10. Our development partners have given indications that substantial financial support will be forthcoming. Indications of external budget support received so far amount to about $75 million for 2017, including from the World Bank ($41 million), the EU ($27 million) and the AfDB ($7 million). We also intend to use the RCF proceeds of $15.6 million for budget support, and will update the Memorandum of Understanding between MOFEA and the CBG concerning the onlending and repayment accordingly.

11. Nonetheless, the fiscal outlook for 2017 points to a substantial remaining financing gap which we plan to close with measures. Tax revenue is expected to decline by 1.5 percent of GDP to 15.2 percent of GDP due to the hit on tourism and the slowdown of business, as well as substantial business closings over the last two years. Expenditures are expected to decline by 1.8 percent of GDP to 29.8 percent of GDP reflecting spending cuts and savings on interest payments, roughly offsetting the decline in revenue. Budget support will help to greatly reduce the remaining deficit, however, a financing gap of 0.3 percent of GDP will remain which we intend to close through additional measures.

12. Measures that we have already taken or are underway to achieve the reduction in total spending include:

- We have regularly adapted fuel prices to avoid any implicit subsidies from the budget and will continue doing so.
- We have liberalized the fuel supply to NAWEC with the help of the World Bank. Fuel importation will now be done through competitive tender which so far has reduced the cost to NAWEC by 15 percent, thus reducing its operational losses and the need for budget resources.
- We have consolidated all outstanding CBG lending to the budget through various facilities into a 30-year bond at an interest rate of 5 percent with a view to not add further borrowing. We estimate that this will lead to budgetary savings in interest payments of about 0.7 percent of GDP in 2017. While we are cognizant that this will ultimately lead to the need to recapitalize the CBG at a later stage, this will provide some short-term relief to public finances.
- We have made every effort to keep NDB in recent months low through careful prioritization of spending. Along with the decline in T-bill rates this is expected to reduce domestic interest payments in 2017 by about 0.8 percent of GDP.
- We are in the process of revising the 2017 budget to reduce expenditures by about 1 percent of GDP, including through substantial cuts in the budget of the President's Office which is rather large, reflecting the previous regime's priorities.
- To eliminate ghost workers, we have launched staff audits of the civil service and, for the first time, of the uniformed services which have expanded strongly over recent years. These could deliver substantial savings and would provide a sound basis for a more comprehensive civil service reform in the future that would also include subvented agencies.
- We plan to conduct special audits of all SOEs to uncover all fraud and embezzlement of funds in the past, stop leakages and strengthen SOE oversight going forward. With assistance from the World Bank we expect soon to start these audits for five SOEs that have been most affected by the previous regime's embezzlement (NAWEC, GNPC, GAMTEL/GAMCEL, GPA, SSHFC). Audits of the CBG and of other SOEs will follow.
- We have issued a circular to the effect that government will not issue any more guaranties for borrowing by SOEs or other state entities unless consistent with the Public Finance Act. This will help to contain unbudgeted spending in the future.

13. Further measures are needed to fill the remaining financing gap for 2017 and beyond. To that end we plan to implement the following measures, in addition to the spending cuts already foreseen in the revised 2017 budget, later in 2017.

- The elimination of ghost workers as a result of the staff audits is likely to generate savings, but it is not possible to estimate these before we have the audit results. Elimination of ghost workers among the uniformed services may also need to be drawn out for security and social reasons. A political decision on the appropriate size of these services at a later stage may necessitate programs to facilitate transition into other, preferably private employment. In the interim, we will consider stepping up our participation in peacekeeping missions of the UN and other international organizations to reduce cost.
- Reform policies to reduce the bloated vehicle fleet, strengthen accountability, reducing fuel and maintenance cost and generating receipts from the sale of excess cars. This would generate estimated savings of 2 percent of GDP over the next three years.
- Sell the presidential plane and two others that are defunct. This could yield about 0.5 percent of GDP.
- Sell land, including in prime tourist areas. This could yield about 0.5 percent of GDP and could trigger tourism related investment.
- Ensure all fees and revenue sources previously diverted are now channeled to the budget, including from the international voice gateway, heavy metal and sand mining, and fees for the use of the container scanner in the port. We estimate that this could yield up to 1.2 percent of GDP in non-tax revenue in 2017.
- Recover assets stolen by the previous regime that are still held in The Gambia. We plan to vigorously pursue recovery of all stolen assets with support by the UN/World Bank StAR Initiative, but realize that recovering assets held outside of the Gambia will be a much lengthier process. Recovered assets would preferably be used to retire domestic debt.
- As part of the debt strategy, explore options for lengthening the maturity structure of domestic debt by issuing securities with longer maturities and retiring commensurate amounts of T-bills. This would help reduce rollover risk and could potentially lead to further interest savings. We are already receiving technical assistance support from the World Bank and would much appreciate IMF support in this undertaking, too.

Over the medium term we will also consider streamlining ministries and subvented agencies, downsizing and rationalizing of embassies, and streamlining of memberships in non-financial international organizations which could yield up to 1 percent of GDP.

14. The Government will also take strong measures to improve financial management:

- We will set up a Cash Management Committee (CMC) to oversee determination of the NDB requirement, and approve and monitor implementation of the consolidated government cash plan.
- In line with earlier IMF technical assistance recommendations, we will issue a clear definition of payment arrears, and clearly defined procedures for their monitoring and validation. In a next step, we will compile an inventory of existing payment arrears, and cross-arrears between government and SOEs; define and approve a strategy for reducing the existing

stock, and start implementing it from 2018 at an appropriate pace (total of the expenditure arrears/3 years).

- The CBG should develop a policy for opening and closing accounts to align it with the Public Finance Act of 2014.
- Start publishing detailed monthly budget execution data, including all extra-budgetary spending, on the MoFEA's website no later than 6-weeks after execution to foster greater fiscal transparency and monitoring. Prepare a report identifying all extra-budgetary spending.
- Establish additional procedures adopted by MoFEA to ensure all government expenditures and revenues are entered through IFMIS.
- Prepare a complete inventory of all government and other public sector bank accounts at the CGB and commercial banks, and prepare an action plan to restore the Treasury single account.

15. To oversee program implementation under the SMP, we will revive the *High-level Economic Council (HILEC)*. The HILEC, comprised of the Vice President, the Minister of Finance and Economic Affairs, the Governor of the CBG, and the Secretary General of the Office of the President, will be revived in order to take on a more active role in strengthening the monitoring of policy implementation. Its procedures and protocols were established at end-2013

Debt management

16. We are cognizant of the elevated risks related to the high public debt, but are already taking measures to contain them. While we appreciate the IMF/World Bank methodology in preparing debt sustainability analyses, we have some misgivings that the lowering of the debt threshold values reflects the decline in the CPIA index during the previous regime, thus holding the country hostage to legacies of the past that we have just overcome politically.

17. We are in the process of ringfencing contingent liabilities from SOEs, in particular NAWEC. Negotiations with commercial banks on a restructuring of NAWEC's domestic debt, including its 5-year bond, are advancing and we are confident that an agreement will be reached soon that will be commensurate with NAWEC's ability to repay its debt over the medium term. We are equally confident that any potential future rescheduling needs on domestic debt can be agreed with creditors, taking into account the financial implications for them, given the friendly relations with commercial banks and the mutual interest in viable and consensual solutions.

18. Prudent debt management is needed to manage the risks associated with the large public debt while accommodating financing needed for development. We have facilitated clearance of the NAWEC's and GAMTEL's external debt service arrears. We will set up a debt management advisory committee to improve coordination and information exchange between the relevant departments of MoFEA and the CBG, and relevant SOEs, on both domestic and external debt to better forecast debt service payments. The Government will continue to seek external grants and highly concessional loans. We will not incur any new external payments arrears and will not contract or guarantee any new non-concessional external debt or any external debt with original maturity of one year or less. Given The Gambia's elevated debt level and the importance of tight controls on new borrowing, the government agrees to consult with IMF staff before contracting or guaranteeing new concessional external loans, and guaranteeing any new domestic loans to SOEs.

SOE reforms

19. We are developing a comprehensive strategy to address the operational and financial difficulties of NAWEC and GAMTEL/GAMCEL, with support from the World Bank. NAWEC and, to a lesser degree, GAMTEL/GAMCEL have been incurring financial losses, which has required repeated unbudgeted fiscal bailouts and/or debt restructuring to avoid defaults, thus contributing to the expansion of NDB. There exist substantial cross arrears between SOEs and government.

20. NAWEC. **Over many years NAWEC suffered from presidential directives that set electricity tariffs well below cost recovery and imposed economically unviable projects in rural areas, while fuel supply cost was inflated from rent seeking by a monopoly supplier as part of a scheme to siphon off funds. No real investment occurred and generators became obsolete and expensive in operation and maintenance**. World Bank support includes the purchase of refurbished generators, advice on the best options to increase power supply fast and cost efficient while diversifying energy sources, and investment in upgraded transmission needed for the streaming of regional hydroelectric power from 2020 that will greatly improve electricity supply while cutting generation cost by about 90 percent. Current electricity tariffs are among the highest in the region, stifling business and making electricity hardly affordable for the population, given the dependence on expensive fuel. Our strategy thus aims at gradually reducing operating cost through new sources of energy outlined above, greater efficiency in the supply of fuel through competitive tender, and cost reductions in NAWEC's operations. Furthermore, NAWEC's non-operating cost has been bloated by legacies of the past and arrears by its customers, including government, other SOEs and municipalities. To account for these cost factors, we have budgeted some resources to partially support debt service on the rescheduled NAWEC bond which will provide the company some breathing room until it has regained a sound financial footing and can resume paying this debt service; and, as a next step, we plan to resolve the issue of cross arrears taking into account the results of the special audits.

21. GAMTEL/GAMCEL has been struggling with structural changes to the telecom market and competitors in the wireless segment. In addition, since 2013, a significant share of its revenue was siphoned off by presidential directive. We will shift oversight over GAMTEL/GAMCEL from the President's Office to the Ministry of Communications (MOCI) which will be in charge of the reform agenda for the two companies. With assistance from the World Bank, we plan to conduct an asset valuation of government owned assets in the telecommunications sector. In the next step, we plan to evaluate options for restructuring and possible divestiture, i.e., tendering for a strategic investor or management contract. In evaluating these options, we will take into account the revenue each would bring to the government under both short- and long-term scenarios.

22. **Other SOEs are financially more stable albeit may not have contributed to the budget through dividend payments, including possibly due to embezzlement of funds during the previous regime (e.g., the Gambia port authority (GPA)).** Having ended all embezzlement in SOEs will improve their situation, and we are confident that implementation of the 2017-19 SOE reform program agreed with the World Bank will put them on a sound footing.

23. **We are committed to conduct special audits of all SOEs to uncover and stop all leakages, with support from our development partners**. We also plan to step up MOFEAs oversight and monitoring of SOEs' operations, financial position and contingent liabilities and fiscal risks emanating from them.

PURSUE PRUDENT MONETARY AND EXCHANGE RATE POLICIES, AND STRENGTHEN CBG INDEPENDENCE

24. **We are committed to continue implementing a flexible exchange rate policy and a monetary policy which aims at price stability.** We realize that it is essential to let the exchange rate fluctuate to absorb external shocks and increase the resilience of the economy. The CBG will intervene in the market only to ensure orderly market conditions, or purchase foreign exchange to meet its needs for external obligations. The CBG will continue to use a money targeting framework to pursue its price stability objective of keeping inflation at or below 5 percent, and use its rediscount rate to signal changes in the policy stance. After exiting from fiscal dominance, monetary policy will become effective in terms of controlling liquidity. In tandem, the policy rate—which is now at an elevated level of 20 percent—should be reduced to provide a floor for market interest rates which are already well below the policy rate.

25. **Curbing the monetization of government deficits is of paramount importance, but other challenges remain.** With still some time before budget support is received, there may be a need for some limited financing from the CBG over the next few months within an overall NDB limit of 2 percent of GDP through end-September 2017. However, starting October 1, 2017, the Government will adhere to a zero limit, on a monthly basis, on new credit from the central bank at below-market interest rates. Separately, we will adhere strictly to the schedule for payments of principal and interest on the CBG-held 30-year bond. We also need to strengthen the independence of the CBG, to align with leading practices for central banks particularly in the areas of autonomy, credit to government, governance and oversight, and audit mechanisms. We will also continue improving liquidity forecasting and management. To this end, the MoFEA will work closely with the CBG to improve liquidity forecasting.

Safeguard Financial Sector Stability

26. **The financial sector continues to be stable and profitable, but large exposure to the public sector bears risks**. Profitability is predicated on large public interest payments, and financial stability indicators mask large vulnerabilities due to the high exposure to the public sector. The CBG will step up the monitoring of the health of the banking sector with a focus on the impact of declining interest rates and lower government borrowing, NPLs and exposure to SOEs. We will also

expeditiously develop our crisis management capacity and upgrade the bank resolution framework, including strategies to handle possible bank crisis.

C. Progress on Poverty Reduction and Key Strategic Directions

27. The Government reform agenda continues to be based on the country's national blueprints, the Vision 2020 long-term development plan and the medium-term Program for Accelerated Growth and Employment (PAGE). The PAGE, approved in 2012 through a participative process involving all national stakeholders, aims to accelerate and sustain economic growth and development while creating employment opportunities for Gambians in order to improve their socio-economic conditions. Given the expensive nature and other macroeconomic effects of domestic debt financing, our macroeconomic framework for implementation under the Staff Monitored Program (SMP) seeks to reduce the government borrowing needs. In this regard, we expect to generate fiscal savings from lower interest costs—that could eventually be redirected to spending on PAGE priorities—and to ease crowding out of the private sector. Since The Gambia is a small open economy that is vulnerable to wide range of external shocks, the requested access under the RCF will support our efforts to rebuild international reserves buffers, which serve as a shock absorber.

28. A new National Development Plan, the PAGE II covering 2017–2021, is close to finalization. We are currently incorporating the findings of the Integrated Households Living Conditions Survey (IHS) and subsequent analytical studies and expect to finalize the PAGE II by mid-2017. We have also prepared an Accelerated National Development Plan synthesizing key priorities for 2017 to garner support from development partners.

Table 1. The Gambia: Proposed Indicative Targets under a Staff-Monitored Program

(Stocks; unless otherwise indicated)

	Mar. 2017 Projected	Jun. 2017 Proposed	Sep. 2017 Proposed	Dec. 2017 Proposed
Indicative quantitative targets				
1. Ceiling on net domestic borrowing of the central government (cumulative flows from the beginning of the calendar year, GMD millions)[1]	545	943	943	471
2. Ceiling on the stock of net domestic assets of the central bank (including RCF onlending, GMD millions, TMU exchange rates)	8,897	9,704	10,525	9,685
3. Floor on the stock of net usable international reserves of the central bank (USD millions, TMU exchange rates)[2 3]	-10.2	-23.9	9.9	-0.1
4. Ceiling on new external payments arrears of the central government (USD millions)[4]	0	0	0	0
5. Ceiling on new nonconcessional external debt contracted or guaranteed by the central government (USD millions)[4]	0	0	0	0
6. Ceiling on the outstanding stock of external public debt with original maturity of one year or less (USD millions)[4]	0	0	0	0
7. Monthly ceiling on central bank credit to the central government at non-market terms (GMD millions)[5]	1,187	943	943	0
8. Floor on poverty-reducing expenditures (cumulative flows from the beginning of the calendar year, GMD millions)	575	843	1,112	1,380

[1] The proposed targets to be adjusted by the dalasi equivalent of the shortfall of the receipts of the external budget support grants.

[2] The proposed targets to be adjusted by the US dollar equivalent of the shortfall of the receipts of the external budget support grants.

[3] Measured at the TMU exchange rates as at 31 March 2017 (see TMU of the MEFP for the RCF and SMP).

[4] Monitored on a continuous basis

[5] The zero ceiling applies to all outstanding credit (for example, overdrafts and advances) at non market terms as of the end of each quarter, excluding the RCF onlending and the 30-year bond held by the CBG.

Table 2. The Gambia: Proposed Structural Agenda	
Measures	**Implementation**
Clear all external debt service arrears on government and government guaranteed debt to official creditors.	Prior Action
Establish a debt management advisory committee comprising MOFEA the CBG, and relevant SOEs, and hold quarterly meetings. Enhance monitoring and coordination to avoid recurrence of arrears.	End-July 2017
Enhance the timely and comprehensive provision and monitoring of debt data by establishing a back-up system.	End-March 2018
Finalize audits of all SOEs and the CBG (with donor support).	End-March 2018
Prepare up-to date position on financial status and contingent liabilities of key SOEs, and regularly monitor SOE operations and fiscal risks.	End-December 2017
Issue a clear definition of payment arrears, and clearly defined procedures for their monitoring and validation.	End-September 2017
Compile an inventory of existing payment arrears, and cross-arrears between government and SOEs; define and approve a strategy for reducing the existing stock, and start implementing it at an appropriate pace (total of the expenditure arrears/3 years).	End-March 2018
Set up a Cash Management Committee (CMC) to oversee determination of the NDB requirement, and approve and monitor implementation of the consolidated government cash plan.	End-July 2017
The CBG should develop a policy for opening and closing accounts to align it with the Public Finance Act of 2014.	End-July 2017
Start publishing detailed monthly budget execution data, including all extra-budgetary spending, on the MoFEA's website no later than 6-weeks after execution to foster greater fiscal transparency and monitoring.	End-September 2017
Establish additional procedures adopted by MoFEA to ensure all government expenditures and revenues are entered through IFMIS.	End-December 2017
Prepare a complete inventory of all government and other public sector bank accounts at the CGB and commercial banks.	End-September 2017
Prepare an action plan to restore the Treasury single account.	End-March 2018
The CBG to draft amendments to the CBG Act to align with leading practices for central banks particularly in the areas of autonomy, credit to government, governance and oversight, and audit mechanisms.	December 2017
Submit draft amendments to the CBG Act to the National Assembly, in coordination with the Ministry of Justice and the MOFEA.	March 2018

Attachment II. Technical Memorandum of Understanding

Introduction

This memorandum sets out the understandings between the Gambian authorities and the staff of the International Monetary Fund (IMF) regarding the definitions of quantitative indicative targets, and structural benchmarks that will be used to monitor under the staff-monitored program (SMP) covering the period of April 2017 to March 2018. It also sets out the related reporting requirements and describes the adjusters that will be applied to certain quantitative targets of the program.

Quantitative Targets

A. Net Domestic Borrowing of the Central Government

1. **Definition: The *net domestic borrowing* of the Central Government is defined as the change in net claims on the Central Government by the domestic monetary sector (monetary authorities and deposit money banks) plus the change in the discounted value of domestic government securities held by the non-monetary sector**. Net domestic borrowing also covers the change in any other net claims on the Central Government by the domestic non-monetary sector, as well as the change in government arrears on domestic debt service obligations. Central Government excludes local and regional governments and public enterprises. In computing the net domestic borrowing of the Central Government, on-lending of the RCF to the budget, as well as changes in the balances of the project accounts listed in Table 1 will be excluded.

2. **Adjuster: The quarterly NDB targets for each quarter will be adjusted downward/upward by the excess/shortfall of the dalasi equivalent of the total budget support grants and loans received in that quarter relative to the program forecasts for the quarter as specified in the table below.** In the event that budget support is lower than programmed, upward adjustment of the net domestic borrowing may not exceed 472 million GMD.

Program Forecasts of External Budget Support Grants and Loans in 2017/18 (Flow in each quarter, in millions of US dollars)			
June 2017	September 2017	December 2017	March 2018
0	66.80	7.0	0

3. Supporting material: Reporting on net domestic borrowing will form part of the consolidated budget report described in paragraph 25 below.

B. Net Domestic Assets of the Central Bank

4. 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.

5. For program monitoring purposes, in the calculation of the net domestic assets of the CBG, foreign assets and liabilities will be converted at the prevailing end-of-period market exchange rates for March 2017: 45.39 GMD/USD, 1.07 USD/EUR, 1.25 USD/GBP, 1.00 USD/CHF, 1.36 USD/SDR. Foreign assets and liabilities denominated in other currencies will be converted into U.S. dollars at the prevailing end-of-period market exchange rates for March 2017, and then into dalasi at the rate listed above. These are accounting exchange rates only and should not be construed as projections.

6. 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 rates) 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.

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

7. Definition: The ***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 convertible foreign 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, but excluding any liabilities to the IMF's SDR Department.

8. For program monitoring purposes, in the calculation of the net usable international reserves of the CBG, foreign assets and liabilities will be converted at the exchange rates listed in paragraph 5 above.

9. Adjuster: The quarterly NIR targets for each quarter will be adjusted downward/upward by the US dollar equivalent of the shortfall/excess of total budget support grants and loans received in that quarter relative to the program forecasts for the quarter as specified in the table above.

10. Adjuster: In case of an allocation of SDRs by the IMF, the net usable international reserves of the CBG will be adjusted upward by the amount of the SDR allocation.

11. Supporting material: A detailed reserve statement with end-month data on net usable international reserves of the CBG will be transmitted within seven days of the end of each month.

D. New External Payments Arrears of the Central Government

12. Definition: External payment arrears are external payments due but unpaid. Under the program the government agrees not to accumulate external payment arrears on its debt, except arrears arising from obligations being renegotiated with external creditors, including bilateral non-Paris Club creditors. No accumulation of new external arrears by the government is a benchmark, to be observed continuously.

13. Supporting material: An accounting of non-reschedulable 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.

E. New Non-Concessional External Debt Contracted or Guaranteed by the Central Government

14. Definition: This target refers to new non-concessional external debt contracted or guaranteed by the Central Government denominated in any currency other than the Gambian Dalasi. 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 3, 1979 (Decision No. 6230–(79/140), as amended by Decision No. 14415–(09/91), but also to commitments contracted or guaranteed for which value has not been received. Loans or purchases from the IMF and debts with a grant element of at least 35 percent[1] are excluded from this target. This performance criterion will be assessed on a continuous basis.

15. Supporting material: A comprehensive record, including a loan-by-loan accounting of all new concessional and non-concessional 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. Non-concessional external debt includes financial leases**

[1] To be considered concessional under this arrangement, a loan should have a grant element of at least 35 percent, calculated using the discount rate as 5 percent.

and other instruments giving rise to external liabilities, contingent or otherwise, on non-concessional terms.

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

16. Definition: **This target refers to the stock of outstanding external public debt with original maturity of one year or less, owed or guaranteed by the public sector.**[2] Public sector consists of the Central Government and regional governments and other public agencies, including the central bank. Normal import-related credits are excluded from this target.

17. 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.

G. Central Bank Credit to the Central Government at Non-Market Terms

18. Definition: **This target refers to the consolidated balance on the Treasury Expenditure Account, the Consolidated Revenue Fund, and other revenue accounts.** It also covers all gross claims on the Central Government on the balance sheet of the central bank, with terms (including maturity and yield) materially different from the ones prevailing in the market for Treasury bills and bonds around the time of acquisition of these claims. The target also covers any overdue payments of principal and interest on Central Government securities held by the central bank. This performance criterion will be assessed at the end of each month.

19. Supporting material: Reporting on new central bank credit to the government at nonmarket terms will form part of the monetary sector data described in paragraphs 27 and 28 below.

H. Poverty-Reducing Expenditures

20. Definition: Poverty-reducing expenditures consist of expenditures financed out of The Gambia Local Fund (GLF) on the following areas: Agriculture and Natural Resources; Education; Health; Nutrition, Population and HIV-AIDS; Infrastructure Programme; Social Fund for Poverty Reduction; Implementation and Monitoring of Poverty Reduction Programmes; Support to Cross-Cutting Programmes; ICT Research and Development; Decentralization and Local Government Capacity Building; Governance and Civil Service Reform Programme.

[2] 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 o August 3, 1979 (Decision No. 6230-(79/140), as amended by Decision No. 14415-(09/91). "Domestic debt" is defined as debt denominated in Gambian dalasi, while "external debt" is defined as debt denominated in any currency other than the Gambian dalasi.

21. Supporting material: A monthly report on poverty-reducing expenditures will be transmitted within four weeks of the end of each month.

Other Data Requirements and Reporting Standards

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

I. K. Prices

23. The monthly disaggregated consumer price index, including weights for each major category, with August 2004 = 100, will be transmitted within four weeks of the end of each month.

J. Government Accounts Data

24. A monthly consolidated Central Government budget report (i.e., the analytical table) on budget execution for the month and cumulatively from the beginning of the year, will be transmitted to the IMF within four weeks of the end of each month. The report will cover: (i) revenue data by major items (such as taxes on income, profits, and capital gains; domestic taxes on goods and services; taxes on international trade and transactions; other taxes; non-tax revenue); (ii) external grants by type (e.g., budget support grants, project grants); (iii) details of recurrent expenditure (including goods and services, interest payments, and subsidies and other current transfers); (iv) details of capital expenditure and net lending (including data on externally financed capital expenditure, expenditure from the Gambia Local Fund, and net lending); (v) the overall balance, the primary and the basic balance; and (vi) details of budget financing (including net domestic and net external borrowing and their components).

25. End-week data on net domestic borrowing (including data on the project accounts listed in Table 1) will be transmitted weekly within five business days of the end of each week.

K. Monetary Sector Data

26. The balance sheet of the CBG, prepared on the basis 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 will explicitly identify all claims on, and liabilities to, the government. Claims include overdrafts, holdings of treasury bills, government bonds, advances to the government in foreign currency, and other claims on the government. Liabilities include balances in the treasury expenditure account, the consolidated revenue fund and other revenue accounts, the treasury bill special deposit account, the privatization proceeds account, and other deposit accounts. The transmission will include the individual balances on the government accounts listed in Table 1.

27. The consolidated balance sheet of the commercial banks and a monetary survey (i.e., a consolidation of the accounts of the CBG and 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.

28. Daily data on reserve money will be transmitted weekly within five business days of the end of each week.

L. Treasury Bill Market and Interbank Money Market

29. Weekly data on the amounts offered and issued, net issuance, over/under subscription, and yields (interest rates) of the various instruments will be transmitted on a weekly basis within five business days of the end of each week. Data on treasury bills outstanding (both at face value and at discounted value, and including information on the distribution by bank and non-bank holders) will be transmitted on a monthly basis within six weeks of the end of each month.

30. Daily data on the interbank money market (interest rates, maturities, and volumes of transactions) will be transmitted weekly within five business days of the end of each week.

M. External Sector Data

31. The CBG will also forward within four weeks of the end of each month, data on transactions in official reserves.

32. Daily interbank market exchange rates, defined as the simple average of the daily weighted average buying and selling rates, will be transmitted on a weekly basis within five business days of the end of the week. Weekly interbank market exchange rates, defined as the simple average of the weekly weighted average buying and selling rates, will be transmitted on a monthly basis within seven days of the end of the month. The CBG's monthly average and end-month exchange rates, including those for all currencies in which foreign assets and liabilities are denominated, will be transmitted within seven days after the end of each month.

33. Daily data on foreign exchange intervention by the central bank will be transmitted weekly within five business days of the end of each week.

34. A detailed reserve statement with end-week data on net usable international reserves of the CBG will be transmitted weekly within five business days of the end of each week.

35. The CBG will also forward monthly data on the 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 dalasi within seven days of the end of each month.

N. Public Enterprises' Data

36. The MOFEA will forward within four weeks of the end of each month, data on monthly cash flow of NAWEC, GNPC, GAMTEL, GAMCEL, GCAA, SSHFC and NFSPMC.

37. The MOFEA will forward within four weeks of the end of each month, data on the stock of consolidated Central Government's stock of payment arrears to NAWEC at the end of each month.

O. Concessional External Debt Contracted or Guaranteed by the Central Government

38. The MOFEA will forward, within four weeks of the Central Government contracting or guaranteeing any new domestic or external loan, the loan's terms and conditions including disbursement schedule, interest rate, grace period, maturity, interest and principal payment schedule.

39. For existing loans, the MOFEA will provide on a loan-by-loan basis, within four weeks of the Board discussion of the SMP, the outstanding disbursed stock, disbursement schedule, and interest and principal payment schedule.

Table 1. The Gambia: List of Projects Accounts at the CBD Excluded from the Calculation of NDB	
ACCOUNT NUMBER	**PROJECT ACCOUNT NAME**
1101004067	NATIONAL AGRICULTURAL LAND & WATER MANAGEMENT DEV. PROJECT (NEMA)
1103002218	BUILDING RESILIENCE TO RECURRING FOOD INSECURITY IN THE GAMBIA IDB COMPONENT
1101005064	AGRICULTURAL VALUE CHAIN PROJECT (GCAV)
1101004689	BUILDING RESILIENCE AGAINST FOOD & NUTRITION INSECURITY IN THE SAHEL PROJECT.
1101004483	GAMBIA COMMERCIAL AGRICULTURE VALUE CHAIN PROJECT.
1101004201	FOOD & AGRICULTURE SECTOR DEV. PROJECT. FASDEP
1103001613	BILINGUAL EDUCATION SUPPORT PROJECT
1101003606	DEV. OF THE UNI. OF THE GAMBIA PROJECT.
1101003709	AFRICA CENTRE OF EXCELLENCE (ACE)
1103001974	RESULTS FOR EDUC. ACHIEVEMENT & DEV. (READ)
1101000832	RURAL WATER & SANITATION PROJECT
1103001754	TRANS GAMBIA CORRIDOR PROJ.
1103000685	GLOBAL FUND MALARIA GRANT
1101003864	GEF PROJ. IMPLEMENTATION IN THE GAMBIA UNIDO/GEF 5 PROJ. MNGMNT. OFFICE
1101004304	IFMIS ADDITIONAL FINANCING PROJ.
1101004988	INST. SUPPORT ECON/FIN GOV (ISEFG) III PROJ.
1101004902	NDEMBAN ULTRA MODERN TVET CENTRE PROJ.
1201200015	LIVESTOCK DEVELOPMENT PRJ
1201200228	UNICEF PRIMARY EDUC. PRJ
1201200252	ENERGY INFRASTRUCTURE (ROC)
1201200371	IDA 3RD EDUC. PHASE 11 GLF

Table 1. The Gambia: List of Projects Accounts at the CBD Excluded from the Calculation of NDB (concluded)	
ACCOUNT NUMBER	**PROJECT ACCOUNT NAME**
1201200399	PROJ. IMPL.MNGMT A/C PIMA
1201200434	LIVESTOCK H/DEVELOPMENT PROJ
1201200451	WORLD BANK DEV. POLICY OP ACCO
1201200491	IFMIS PHASE II
3201200360	SDF (EDMDP) PRJ
3201200361	SDF (EDMDP) CREDIT FUNDS
3201200363	IDA 3RD EDUC. PHASE II
3201200403	INST. SUPPORT ECON/FIN GOV A/C
3201200483	IDB SUPPORTED MALARIA PROJECT
3201200486	IFMIS II
3201200495	GCP
3201200290	GLOBAL FUND/ MALARIA
9201200436	GOLBAL FUND/HIV
3201200497	GLOBAL FUND/ TB
3201200400	PROJ. IMPL. MNGMT A/C PIMA