

International Monetary Fund

[The Gambia](#) and the
IMF

The Gambia: Staff-Monitored Program: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

December 20, 2005

[Country's Policy
Intentions Documents](#)

E-Mail Notification
[Subscribe](#) or [Modify](#)
your subscription

The following item is a Letter of Intent and a Memorandum of Economic and Financial Policies of the government of the Gambia. 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. This memorandum describes the policies that is implementing in the framework of a staffmonitored program. A member's staff-monitored program is an informal and flexible instrument for dialogue between the IMF staff and a member on its economic policies. A staffmonitored program is not supported by the use of the Fund's financial resources; nor is it subject to the endorsement of the Executive Board of the IMF.

Banjul, The Gambia,
December 20, 2005

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

Dear Mr. de Rato:

1. The Gambia experienced difficult economic problems in the early 2000s as a result of adverse shocks and weak policies. Over the last two years, the macroeconomic environment in the country has improved significantly as the government and the Central Bank of The Gambia (CBG) restored fiscal and monetary discipline and addressed the effects of the earlier policy lapses. Inflation has fallen sharply, the external value of the dalasi has stabilized, and international reserves have risen steadily. Nonetheless, The Gambia still faces many challenges, and we seek the assistance of the International Monetary Fund (IMF) to help us achieve our goals.
2. For this purpose, the government of The Gambia has prepared an economic and financial program which seeks to consolidate the recent gains in macroeconomic stability, foster conditions for sustainable growth and poverty reduction, and move The Gambia toward achieving the Millennium Development Goals. We request that the staff of the IMF monitor this program which spans the period from October 1, 2005 to March 2006.
3. As you know, satisfactory performance under a Poverty Reduction and Growth Facility (PRGF) arrangement is one of the conditions that The Gambia has to meet before it can reach completion point under the enhanced HIPC Initiative. We therefore intend to request a new three-year PRGF arrangement upon completion of the staff-monitored program.
4. The attached Memorandum of Economic and Financial Policies (MEFP) describes the economic and financial policies as well as structural measures that the government intends to implement to meet the objectives of the program (Annex I). Tables 1 and 2 present, respectively, the quantitative indicators and structural benchmarks agreed between the government and the staff of the IMF for monitoring the program. To assist the IMF in assessing progress with implementation of the measures envisaged in the program, the government undertakes to provide in a timely manner the information specified in the attached Technical Memorandum of Understanding (Annex II).

5. The government believes that the policies and measures set forth in the attached memorandum are adequate to achieve the objectives of the program, but it will take any further measures that may become appropriate for this purpose. Throughout the duration of the program, the government will consult with the Managing Director, on its own initiative, or whenever the Managing Director so requests, to discuss The Gambia's economic and financial policies.

6. In order to gauge progress in implementing the program, the IMF, in conjunction with the government of The Gambia, will conduct an initial staff assessment by end-February 2006, based on the end-December 2005 benchmarks. A second staff assessment will take place by end-May 2006, based on the end-March 2006 benchmarks.

Sincerely yours,

/s/
Mousa Bala Gaye
Secretary of State
Department of State for Finance and Economic Affairs

/s/
Famara Jatta
Governor
Central Bank of The Gambia

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

THE GAMBIA

Memorandum of Economic and Financial Policies

Banjul, December 20, 2005

I. INTRODUCTION AND BACKGROUND

1. This memorandum outlines the government of The Gambia's economic and financial program for the period October 1, 2005–March 31, 2006 that will be monitored by the staff of the International Monetary Fund (IMF). The program aims at consolidating recent gains in macroeconomic stability and fostering the conditions for sustainable growth and poverty reduction. The government expects that satisfactory performance under the Staff-Monitored Program (SMP) would pave the way for a new arrangement under the Poverty Reduction and Growth Facility (PRGF), and that The Gambia could reach the completion point under the enhanced HIPC Initiative after at least six months of satisfactory performance under the PRGF arrangement and fulfilling the other completion point triggers.
2. A three-year PRGF arrangement for The Gambia was approved in July 2002 in an amount equivalent to SDR 20.22 million (65 percent of quota). The arrangement expired on July 17, 2005 without the completion of any of the scheduled reviews. The program supported by the arrangement went off-track owing to policy slippages, governance problems (including unrecorded public expenditure in foreign currency and questionable central bank foreign exchange transactions), and the impact of exogenous shocks (especially the drought in 2002). Following the discovery in 2003 of misreporting of data to the IMF under the three-year Enhanced Structural Adjustment Facility (ESAF) arrangement that was approved in 1998, and in keeping with the IMF Executive Board's decision of March 8, 2004, The Gambia repaid the IMF two noncomplying disbursements amounting to SDR 6.87 million in four installments during 2004.
3. The Gambia reached the decision point under the enhanced HIPC Initiative in December 2000, at which time creditors committed to provide debt relief of US\$66.6 million in net present value (NPV) terms at the completion point. To date, interim assistance has been provided by the IMF, World Bank, African Development Bank, European Investment Bank, Islamic Development Bank, OPEC Fund, and the Paris Club. Further debt relief and the resumption of budget support from donors would facilitate substantially the implementation of the government's Poverty Reduction Strategy Paper (PRSP)¹ and enhance The Gambia's prospects for achieving the Millennium Development Goals.

¹ The PRSP is also called the Strategy for Poverty Alleviation II (SPA II).

II. RECENT ECONOMIC DEVELOPMENTS

A. Macroeconomic Performance and Policies

4. A combination of large fiscal deficits and loose monetary policy in the early 2000s led to spiraling inflation and a sharp depreciation in the exchange rate of the dalasi. A turning point was reached in 2003, when first monetary policy was tightened and fiscal restraint followed later in the year. Concurrently, real GDP rebounded from a drought-induced decline in 2002 to growth rates of 7 percent and 5 percent in 2003 and 2004, respectively. The growth rate is projected to remain at 5 percent in 2005, with the agriculture and tourism sectors leading the way.

5. Inflation, as measured by the year-on-year increase in the consumer price index, has fallen steadily from a peak of 21 percent in August 2003, to 8 percent in December 2004, and to 1.1 percent in August 2005. The deceleration in inflation has been associated with stabilization in the external value of the dalasi and a declining trend in the growth of money supply. After falling in value from about D 23/US\$ at end-2002 to D 33/US\$ in September 2003, the exchange rate has fluctuated between D 28 and D 30 per US\$ since early 2004.

6. In pursuing the objective of price stability, the CBG has been following a money targeting regime, with broad money as the intermediate target and reserve money as the operating target. Growth in broad money slowed from 43 percent in 2003 to 18 percent in 2004, and after a temporary spike in early 2005, fell back to 18 percent on a year-on-year basis at end-August 2005. Reserve money growth fell more sharply, going from nearly 63 percent in 2003 to 11 percent in 2004, and 12 percent on a year-on-year basis in August 2005. Specific measures taken by the CBG to restrain monetary expansion included broadening the base on which reserve requirements are calculated to include foreign currency deposits and increasing the required ratio from 14 percent to 18 percent during 2003. Since then, the CBG has relied on its open market operations—mainly through the issuance of 91-day treasury bills—to influence the path of reserve money. The CBG succeeded in keeping reserve money below its targeted path for most of 2004 but this pattern was reversed when it accommodated a substantial level of extrabudgetary spending by the government in the first quarter of 2005 (see paragraph 9 below).

7. The CBG also signals its monetary policy stance through changes in its policy rediscount rate. Success in reducing inflation to low single-digit levels and stability of the exchange rate allowed the CBG to gradually lower the rediscount rate from 34 percent in September 2004 to 19 percent in October 2005. The interest rate on the 91-day treasury bills issued at weekly auctions has fallen more sharply, going from 31 percent to 9 percent over the same period. Credit to the private sector, although initially slow to respond to the decline in interest rates, grew by about 16 percent in the year to end-August 2005, in sharp contrast to a contraction of 11 percent in 2004.

8. The fiscal position as measured by the basic balance strengthened in 2004, recording a 2.4 percent of GDP surplus compared to a 2.5 percent deficit in 2003.² The improvement reflected stronger revenues (especially international trade and domestic sales tax receipts) and effective containment of recurrent expenditures. Measures taken to strengthen tax administration were partly responsible for the increase in revenues; the Central Revenue Department took over the collection of the sales tax from the Customs and Excise Department, and the Customs Department was placed under new management. On the recurrent expenditure side, the National Emergency Fiscal Committee (NEFCOM) set tight cash ceilings on discretionary spending. However, a huge increase in externally financed capital expenditures led to a widening of the overall fiscal deficit from 4.7 percent of GDP in 2003 to 5.7 percent in 2004.

9. Fiscal performance deteriorated in the first half of 2005, mainly on account of extrabudgetary spending to the tune of D 101 million (3/4 percent of GDP) in the first quarter. The unbudgeted expenditures included the acquisition of two aircrafts to spray insecticides to combat the spread of a locust plague, the provision of a loan to the Gambia International Airlines to repatriate Gambian citizens stranded at the Hajj, and payments of arrears in membership dues to the Economic Community of West African States (ECOWAS). In order to offset the fiscal slippage, the government decided to limit quarterly discretionary expenditure allocations to D 190 million per quarter beginning in the second quarter of the year. Specific measures in support of the ceilings included limits on government travel and new restrictions on the use of government vehicles. The government also stepped up efforts to ensure that scheduled repayments by public enterprises of government loans were made, and that dividends were transferred to government promptly. The IMF mission that held Article IV consultation discussions in Banjul in April/May 2005 endorsed these measures.

10. In July 2005 the government increased the pump prices of gasoline and diesel in order to shore up revenues and to ensure that the budget was not called upon to subsidize the rising cost of imported petroleum products. Gasoline prices were raised from D 22 to D 27 per liter and diesel from D 21.5 to D 25 per liter. These increases were sufficient to cross-subsidize the price of kerosene—which was kept unchanged at D 9 per liter—in order to provide some protection to the poor.

11. The external current account deficit (including grants) grew from 5 percent of GDP in 2003 to 12 percent in 2004, driven mainly by strong import growth. The growing current account deficit was financed by increases in foreign direct investment (FDI) and disbursements of official loans for public capital expenditure. The current account deficit is expected to increase slightly to 13 percent of GDP in 2005; strong growth in tourism receipts and remittances are projected to be more than offset by lower grant inflows and a worsening

² The basic balance is defined as domestic revenue minus total expenditure and net lending, excluding externally financed capital expenditure.

in the trade balance as a result of a surge in petroleum and FDI-related imports, and lower groundnut exports.

12. The substantial inflows of FDI and increased remittances in recent years suggest renewed confidence in The Gambia's economic prospects. These inflows and strengthened financial policies have been important factors in the stability of the exchange rate and contributed to a buildup of international reserves. Gross international reserves increased by some US\$22 million in 2004 to reach US\$84 million at the end of the year, and rose further to US\$94 million at end-August 2005.

B. Structural Reforms

13. Progress in the implementation of structural reforms has been mixed, ranging from significant progress in addressing governance issues at the CBG to slow progress in the implementation of the government's privatization program. At the CBG, important steps have been taken to tighten internal controls, in line with the recommendations of the IMF's Safeguards Assessment and those in the report on Selected Internal Controls prepared by the external auditors (following the re-audits of the 2001 and 2002 accounts and the special audit of foreign exchange transactions). Specific actions include the following: (1) formal guidelines for foreign exchange reserves management were approved by the CBG Board in July 2005 and are being implemented; (2) an audit committee, comprising the independent members of the Board, has been formed to oversee the external audit process and the internal control structure of the CBG; (3) the CBG Board has approved an Action Plan for improving internal controls; and (4) monthly reports prepared by the Reforms Implementation Committee (RIC)³ now cover the implementation status of measures in the Action Plan.

14. Progress is being made in improving public financial management and in enhancing fiscal transparency. An organic budget law, which clarified procedures and responsibilities for the management of public finances, was approved by the National Assembly in August 2004. The financial regulations to make the new law operational, which were drafted with the assistance of the IMF's regional fiscal advisor, have been approved and are currently being implemented. The National Audit Office has completed and submitted to the national assembly audited accounts for the fiscal years 1992–99. Efforts are underway to further reduce the backlog of unaudited accounts.

15. In order to improve coordination between the Department of State for Finance and Economic Affairs (DoSFEA) and the CBG, a number of high-level committees with representation from both institutions have been established, namely: the Macroeconomic Committee, the Monetary Policy Committee, and the Treasury-bill Committee.

³ The RIC was established in October 2004 to monitor the implementation of reforms at the CBG, including those recommended by the IMF (e.g., by the Safeguards Assessment report and by technical assistance missions from the Monetary and Financial Systems Department).

16. Slow progress in implementing the government's privatization program reflected delays in the establishment of a multisector regulatory agency and in conducting feasibility studies on the larger and monopolistic public enterprises (Track I enterprises).⁴ The privatization of these enterprises is essential for facilitating private investment, increasing efficiency, and reducing the financial burden on the government budget. For example, the weak performance of NAWEC—evidenced by frequent power and water outages—represents a considerable stumbling block to the country's development. With the recent establishment of the multisector regulatory agency—the Public Utilities Regulatory Authority (PURA)—and the appointment of its key personnel, the privatization program is set to resume.

III. PROGRAM OBJECTIVES AND POLICIES

17. The SMP has been cast within a medium-term macroeconomic framework spanning 2005–08. Key objectives include: (1) real GDP growth of 4½–5 percent per annum; (2) inflation in the range of 3–5 percent per annum; (3) reducing the external current account deficit (including official transfers) from 13 percent of GDP in 2005 to less than 7 percent of GDP in 2008; (4) maintaining international reserves at levels equivalent to 4–5 months of imports of goods and services; and (5) reducing the stock of domestic public debt as a share of GDP from 35 percent to 27 percent. In support of these objectives, the overall fiscal deficit (including grants) is projected to decline from 6 percent of GDP in 2005 to less than 1 percent of GDP in 2008.

18. In the near term, the principal objectives of the SMP are the following: (1) to make progress toward fiscal sustainability (by reducing the government's domestic borrowing requirement); (2) to strengthen internal controls and the operational independence of the CBG; and (3) to strengthen public financial management and accountability. The government is committed to maintaining fiscal discipline, notwithstanding pressures that may arise from the hosting of an African Union summit in June 2006 and presidential and parliamentary elections in the last quarter of 2006 and early 2007, respectively.

A. Fiscal Policy and Related Structural Measures

19. In order to begin to reverse the substantial build-up in domestic debt in recent years, the government will take steps to ensure that the basic balance moves from a nearly 1 percent of GDP deficit in the first half of 2005, to near balance for the year as a whole, and to a surplus in 2006 of about 3 percent of GDP. The 2006 target took account of estimated savings in interest payments (from a sharp reduction in domestic interest rates) and measures

⁴ These enterprises include the National Water and Electricity Corporation (NAWEC), the Gambia Ports Authority, the Gambia Telecommunications Company Ltd., the Gambia Public Transport Corporation, the Gambia Civil Aviation Authority, the Social Security and Housing Finance Corporation, the Gambia International Airline, the National Printing and Stationary Corporation, and the Gambia Groundnut Corporation (GGC).

that are expected to yield about 2 percent of GDP in additional revenues. Improvements in customs administration are also expected to yield additional revenues. The Customs and Excise Department has recently acquired software that enhances its database and capacity for analyzing revenue collection. The government will continue to review the appropriateness of domestic fuel prices on a monthly basis and to adjust prices as needed to safeguard revenues and to avoid subsidization from budgetary resources.

20. On the expenditure side, the government recognizes that social and poverty reducing spending suffered in the past two years on account of tight budget ceilings (including to offset the effects of extrabudgetary spending in 2005). To ensure effective budget execution, NEFCOM has been extended to end-2005 and has been advised to give priority to PRSP expenditures. The government has also given the Strategy for Poverty Alleviation Coordination Office (SPACO) a greater role in the budget preparation process to ensure that the composition of government spending is in accordance with the priorities established in the PRSP.

21. The government is determined to swiftly implement measures to enhance expenditure tracking and reporting capabilities, including fully staffing the new donor coordination unit in the DoSFEA in order to better capture aid flows and related expenditures. Efforts are also underway, with assistance from donors, to transform the current cash rationing system into a more rational cash planning system. With the help of technical assistance from the IMF, a commitment control system is being introduced on a pilot basis in the DoSFEA and a few other selected departments beginning in the fourth quarter of 2005. If the pilot system operates successfully, the full system could possibly be implemented with effect from January 1, 2006.

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

22. The CBG will continue its current stance of a gradual easing of monetary policy as long as the outlook for inflation remains at low single-digit levels. However, it will stand ready to tighten monetary policy should conditions so warrant. In particular, the scope for further reductions in interest rates will depend to a large degree on the government's fiscal stance. The Monetary Policy Committee will continue to operate in a transparent manner, by issuing a press release shortly after each bi-monthly meeting to signal the CBG's monetary policy stance.

23. In line with the recommendations of recent advisory missions from the IMF's Monetary and Financial Systems Department, the CBG is in the process of expanding its range of financial instruments, with a view to enhancing the conduct of monetary policy and more clearly separating monetary operations from financing of the government budget. To this end, it is proposed to introduce a new 14-day instrument that will be dedicated to monetary operations. Other initiatives include the introduction of an overnight instrument to manage liquidity on a daily basis, as well as a secured credit facility designed to promote interbank transactions. It is expected that the rediscount window will be phased out after the introduction of the new instruments.

24. A draft of a new central bank law designed to strengthen the CBG's operational independence was finalized about a year ago, with assistance from the IMF. The national assembly ratified the bill on the new CBG law in December 2005.

25. The external audit of the CBG's financial statements for 2003 was recently completed, and work has begun on auditing the 2004 accounts. The auditors rendered a qualified opinion on the 2003 accounts based on limitations in the scope of available information on certain balance sheet items. The auditing of the 2004 accounts is expected to be completed by end-December 2005, and the CBG expects the audit of the 2005 accounts to be completed by end-March 2006—thus, catching up with the legal requirement that the books be audited within three months of the end of the financial year. In view of lingering concerns about the accounts, the CBG has consented to quarterly external audits of selected accounts (mainly related to international reserves and government balances) required for monitoring the SMP and a possible subsequent PRGF-supported program. The quarterly audits will begin with the accounts for the fourth quarter of 2005 and continue until the auditors are able to issue unqualified opinions on the annual accounts.

26. Starting from June 2006, the government will repay in 30 bi-annual installments the foreign exchange advance it received from the CBG in 2001. The CBG is also stepping up its efforts to recover outstanding claims on foreign exchange bureaus.

C. External Policies

27. The current account deficit is projected to decline slightly from 13 percent of GDP in 2005 to 12 percent of GDP in 2006, reflecting good prospects for continued improvement in tourism receipts and robust remittance inflows. For both years the deficit is expected to be financed largely by FDI and concessional external borrowing.

28. The government aims to enhance The Gambia's external competitiveness through the removal of structural bottlenecks and improvements in infrastructure. To this end, with assistance from the World Bank, work is proceeding to convert the Free Zone into a multiuse Business Park providing serviced facilities for a broad range of investments including manufacturing and commercial activities. The Gambia has also been selected to receive support under the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries. The Diagnostic Trade Integration Studies, being spearheaded by the World Bank, will be completed as a first step to mainstreaming trade into the country's development strategy.

29. The Gambia will continue to follow a flexible exchange rate policy, with central bank intervention in the exchange market limited to smoothing fluctuations in the exchange rate and to achieving international reserves targets. Gross international reserves are projected to remain at the equivalent of about 4½ months of imports during 2005–06.

D. Other Structural Reforms

30. The government will continue to seek ways to improve the investment climate in The Gambia. To this end, several of the recommendations made by the World Bank's recent Diagnostic Assessment of The Gambia's Investment Climate will be implemented, including the centralization of business taxes, the granting of autonomy to the courts to hire and staff themselves appropriately, the review of the legal framework to ensure consistency of the laws and regulations, and the deregulation of the land market.

31. The government convened a stakeholders workshop in September 2005 to chart a path for overcoming the marketing problems that beset the groundnut sector during the 2004/05 season when new regulations introduced by the government led to the creation of a monopoly purchaser and a significant reduction in exports. The government is committed to fully liberalizing the groundnut sector, including the privatization of the GGC—a trigger for reaching the completion point under the HIPC Initiative.

E. The PRSP Process

32. The Gambia's full PRSP which contained programs and projects for the period from mid-2002 to end-2005 was prepared in 2002 through a broad-based participatory process. It sought to promote growth and employment, improve the delivery of social services, and strengthen policies in the areas of gender, HIV/AIDS, and environmental protection. Priorities for poverty reducing expenditures were concentrated on education, health, and agriculture. Implementation of the PRSP has been hampered by limited capacity, absence of donor support, and inadequate prioritization by the government. The first annual PRSP progress report—covering implementation from mid-2002 to the end of 2003—which was submitted to the IMF and the World Bank in January 2005, highlighted a need to increase budgetary resources dedicated to PRSP priority expenditures. The government sought to address this issue in the preparation and execution of the 2005 budget, and has continued to do so in formulating the 2006 budget.

33. A draft of the second annual PRSP progress report covering implementation in 2004 has been completed. The government has set a target of end-2005 for the preparation of an initial draft of a new PRSP. To that end, sectoral consultations involving participation by a broad range of stakeholders has begun.

F. Statistical Issues

34. The quality and timeliness of economic statistics need improvement. Weaknesses persist in the national accounts, the consumer price index, social and poverty indicators, government finance statistics (including the tracking of poverty reducing spending), and balance of payments statistics. Efforts are underway to strengthen the Central Statistics Department (CSD) with assistance from the World Bank (under the Capacity Building for Economic Management Project) and other donors. CSD is currently processing the results of the household budget survey conducted in 2003, which could help in improving the quality of consumer price and national accounts statistics. During the period of the SMP, the IMF

has agreed to provide technical assistance to the CBG in the areas of monetary and financial statistics and balance of payments statistics.

IV. PROGRAM MONITORING, TARGETS, AND STAFF ASSESSMENTS

35. Performance under the SMP will be monitored on the basis of quantitative targets for end-December 2005 and end-March 2006 (Table 1) and a set of structural benchmarks (Table 2). The quantitative targets have been set on the following variables: (1) a ceiling on the government's net domestic borrowing; (2) a ceiling on net domestic assets of the central bank; (3) a floor on the basic balance of the central government; (4) the non-accumulation of external payments arrears; (5) a minimum level of net usable international reserves; (6) a zero ceiling on new nonconcessional external debt contracted or guaranteed by the central government with a maturity of more than one year; and (7) a zero ceiling on the outstanding stock of short-term external public debt (excluding normal import-related credits). The target for the non-accumulation of external payments arrears will be applied on a continuous basis. Definitions of all targeted variables are provided in the attached Technical Memorandum of Understanding (TMU). It is expected that there will be two IMF staff assessments to gauge performance against the SMP targets; the first in February 2006 and the second in May 2006.

Table 1. The Gambia: Proposed Quantitative Targets and Projections, End-December 2004-June 2006

| | 2004 | 2005 | | | 2006 | | |
|---|------------------|------------------|--|-------------------|--------------------|--------------------|-------------------|
| | End-Dec. Act. | End-Mar. Act. | End-Jun. Act. | End-Sep. Proj. | End-Dec. Target | End-Mar. Target | End-Jun. Proj. |
| | (Stock) | | (change from beginning of calendar year) | | | | |
| | | | (In millions of dalasis) | | | | |
| Net domestic borrowing by the central government (ceiling) 1/ | ... | ... | ... | ... | 359.7 | 91.0 | 103.9 |
| Net domestic assets of the central bank (ceiling) | 303.0 | 59.1 | -78.8 | 9.2 | -44.3 | -29.8 | -172.4 |
| Basic balance (floor) 2/ | 284.4 | -178.6 | -108.4 | -73.3 | 45.0 | 43.6 | 142.7 |
| External payments arrears of the central government (ceiling) 3/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | (In millions of U.S. dollars) | | | | |
| Net usable international reserves (floor) | 55.4 | 5.5 | 8.5 | 11.3 | 13.3 | 2.4 | 4.9 |
| New nonconcessional debt contracted or guaranteed by the government with original maturity of more than one year (ceiling) 4/ | 5.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Outstanding stock of external public debt with a maturity of less than one year (ceiling) 5/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

1/ As defined in the Technical Memorandum of Understanding.

2/ Defined as the domestic revenue minus expenditure and net lending, excluding externally financed capital expenditure.

3/ To be applied on a continuous basis.

4/ External debt contracted or guaranteed other than that with a grant element equivalent to 35 percent or more, calculated using a discount rate based on the Organization for Economic Cooperation and Development (OECD) commercial interest reference rates (CIRRs). Excludes borrowing from the IMF.

5/ Excluding normal import-related credits.

Table 2. Proposed Structural Benchmarks under the SMP

| Measures | Expected Date of Implementation |
|--|---|
| <i>Strengthening internal controls and operational independence of the CBG</i> | |
| Provide quarterly audit reports on selected accounts of the CBG to Fund staff as follows: | |
| (1) 2005 Q4 report; and (2) 2006 Q1 report | (1) End-February 2006 (2) End-May 2006 |
| Provide to Fund staff a copy of audited financial statements for 2004, including auditors' report and management letter. | End-January 2006 |
| Strengthen controls in foreign reserves management at the CBG, including separation of duties between front and back office functions (in line with Appendix B Section 3.3 of the Action Plan). | End-March 2006 |
| Formalize and implement regulations and procedures to strengthen the accounting function, including specific measures to ensure that (1) all transactions are reviewed and approved, (2) transactions are recorded accurately and on a timely basis, (3) supporting documentation exists and is adequately safeguarded, and (4) reconciliation of foreign balances and of government accounts are performed regularly. ^{1/} | End-December 2005 |
| <i>Strengthening public financial management</i> | |
| Review all below-the-line accounts and develop guidelines for the opening and closing of such accounts. | End-December 2005 |
| Provide to Fund staff with an one-month lag, copies of the following monthly reports: | |
| (1) flash reports on government expenditure (from the Treasury Main Accounts) and revenue (from revenue departments); and (2) poverty-reducing expenditures in the development budget. | (1) Starting with provision of October 2005 reports by end-November 2005; (2) Starting with the provision of the January 2006 report by end-February 2006. |
| Reduce backlog of unaudited public accounts: | |
| (1) Submit to the Auditor General, the restated accounts for 2000; and (2) Submit to the Auditor-General, the accounts for 2001. | End-December 2005 End-March 2006 |

^{1/} Evidence will include updated operations manuals.

THE GAMBIA

Technical Memorandum of Understanding

(December 20, 2005)

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 indicative targets and structural benchmarks of the Staff-Monitored Program covering the period of October 1, 2005 to March 1, 2006, as well as the related reporting requirements.

II. QUANTITATIVE INDICATIVE TARGETS

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

2. **Definition.** *Net usable international reserves (NIR)* of the Central Bank of The Gambia (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.

3. **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.

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 non-residents and liabilities to non-residents, respectively.

5. 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.

6. **Supporting material.** Net domestic assets of the central bank will be transmitted as part of the balance sheet of the CBG on a monthly basis within four weeks of the end of each month.

C. Net Domestic Borrowing by the Central Government

7. **Definition.** The central government's net domestic borrowing is defined as: claims on the central government by the banking system minus deposits of the central government with the banking system plus the change in the discounted value of government securities held by nonbanks. Central government excludes local and regional governments and public enterprises. The banking system comprises the CBG and commercial banks.

8. **Supporting material.** Data on the central government's net position with the banking system, and 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 central government's position with the banking system will be contained in the monetary survey (see paragraph 21).

D. Basic Balance of the Central Government

9. **Definition.** The basic balance of the central government is defined as domestic 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.

10. **Supporting material.** Reporting on the basic balance will form part of the consolidated budget report described in paragraph 19 below.

E. External Payments Arrears

11. **Definition.** External payments arrears are defined as the stock of external arrears on loans contracted or guaranteed by the public sector (as defined below in paragraph 13), except on debts subject to rescheduling or a stock of debt operation. They 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 is a continuous indicative target.

12. **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.

F. New Nonconcessional External Public Sector Debt Contracted or Guaranteed by the Central Government

13. **Definitions.** In this memorandum, the public sector consists of the central and regional governments and other public agencies, including the CBG. This indicative target is on the contracting or guaranteeing of external debt with original maturity of more than one year by the government.⁵ Excluded from this indicative target are loans or purchases from the IMF and debts with a grant element of at least 35 percent.⁶

14. **Supporting material.** A comprehensive record, including a loan-by-loan accounting of all new concessional and nonconcessional debt contracted or guaranteed by the public sector, 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 concessional terms.

G. Short-Term External Public Debt

15. This indicative 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.⁷ Excluded from this indicative target are normal import-related credits.

16. **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. STRUCTURAL BENCHMARKS

17. The structural benchmarks for the program period are shown in Table 2 of the Memorandum of Economic and Financial Policies (MEFP).

⁵ This indicative target 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.

⁶ 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 approved by the IMF Executive Board on April 15, 1996.

⁷ 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).

IV. OTHER DATA REQUIREMENTS AND REPORTING STANDARDS

A. Prices

18. The monthly disaggregated consumer price index will be transmitted within four weeks of the end of each month.

B. Government Accounts Data

19. A monthly consolidated budget report of the central government reporting on budget execution during the month and cumulatively from the beginning of the year, will be transmitted to the IMF within six weeks of the end of the month. The report will comprise: (1) revenue data by major item, including tax (direct tax, taxes on domestic goods and services, taxes on international trade) and nontax; (2) external grants by type (e.g., project, program); (3) details of recurrent expenditure (including data on wages and salaries, interest payments, and other charges); (4) details of capital expenditure and net lending (including data on externally financed capital expenditure, expenditures from the Gambia Local Fund, and net lending); (5) the overall balance, and the basic balance (defined in paragraph 9); (6) 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).

20. The following supporting monthly reports will also be transmitted to the IMF within six weeks of the end of the month: (1) flash revenue report (from revenue departments); (2) flash expenditure report (based on transactions in the Treasury Main Account); and (3) report on poverty-reducing expenditures.

C. Monetary Sector Data

21. The balance sheet of the CBG, 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) will be transmitted to the IMF on a monthly basis within six weeks of the end of each month.

D. Treasury Bills and CBG bills

22. Weekly data on the issuance and outstanding stocks of treasury bills and CBG bills, and on the yields (interest rates) of the various instruments will be transmitted on a monthly basis within seven days of the end of the month. The weekly Liquidity Management Reports will be transmitted on weekly within seven days of the end of the week.

E. External Sector Data

23. The following standards will be adhered to: (1) 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; (2) 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; and (3) balance of payments data will be transmitted on a quarterly basis within six weeks of the end of each quarter.

V. OTHER ELEMENTS OF THE PROGRAM—PROGRAM-MONITORING COMMITTEE

24. A program-monitoring committee, composed of senior officials from the Department of State for Finance and Economic Affairs (DOSFEA), the CBG, and other relevant agencies, shall be established. The committee shall be responsible for monitoring the performance under the program, recommending policy responses, informing the IMF regularly about progress under the program, and transmitting the supporting materials necessary for the evaluation of indicative targets and benchmarks as specified in section IV above and elsewhere in this memorandum.