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

February 7, 2007

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

Banjul, The Gambia
February 7, 2007

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

Dear Mr. de Rato:

1. The macroeconomic environment in The Gambia has improved significantly over the last three years as a result of policies implemented by the government and the Central Bank of The Gambia (CBG) to reverse earlier policy lapses. Inflation has returned to low single-digit levels, the exchange rate of the dalasi has stabilized, and international reserves have been rebuilt to a comfortable level. Nevertheless, the country still faces many development challenges. A majority of the population lives below the poverty line, and the narrow production base of the economy makes it vulnerable to exogenous shocks such as drought. Furthermore, a heavy debt service burden has limited the government's scope for undertaking growth-promoting and poverty-reducing expenditures.

2. We seek the assistance of the International Monetary Fund to help us address the economic development challenges we face. In this regard, the government of The Gambia has prepared a medium-term economic and financial program to build on the recent achievement of macroeconomic stability by undertaking reforms aimed at promoting sustained growth and poverty reduction. The program draws on the government's recently completed second Poverty Reduction Strategy Paper (PRSP II).

3. As you know, The Gambia reached the decision point under the Heavily Indebted Poor Countries (HIPC) Initiative in December 2000, but has not yet been able to advance to the completion point, partly because the country's last IMF-supported program—under a Poverty Reduction and Growth Facility (PRGF) arrangement—went off-track soon after it was approved in 2002. Following the successful implementation of a staff monitored program (SMP) that spanned October 2005–March 2006, the government of The Gambia hereby requests a three-year arrangement under the Poverty Reduction and Growth Facility in an amount equivalent to SDR 14 million (45 percent of quota), to be disbursed in seven equal installments of SDR 2 million each. The first disbursement would occur upon Executive Board approval of this arrangement, and subsequent disbursements would be linked to six program reviews that are scheduled to be conducted at six-monthly intervals beginning in July 2007. In addition, we request the resumption of interim relief under the enhanced HIPC Initiative in the amount of SDR 0.36 million (20 percent of the total HIPC commitment) to help us cover part of the principal repayments to the IMF falling due during 2007.

4. The Memorandum of Economic and Financial Policies (MEFP) attached to this letter (Attachment I) describes the economic and financial policies as well as structural measures that the government intends to implement to meet the objectives of the program. Table 1 in the MEFP contains quantitative financial performance criteria and indicative targets, while Table 2 contains structural performance criteria and benchmarks, to be used to monitor the program. To further assist the IMF monitor the program, the government and the CBG undertake to provide in a timely manner the information specified in the Technical Memorandum of Understanding (TMU) attached to this letter (Attachment II).

5. The government believes that the policies and measures set forth in the MEFP are adequate to achieve the objectives of the program. However, it is prepared to take any further measures that may become appropriate for this purpose. During the implementation of the program, the government will consult with the Managing Director on the adoption of any measures that may be appropriate, on its own initiative, or whenever the Managing Director requests such a consultation.

6. We wish to assure you that the government of The Gambia is determined to fully implement the PRGF-supported program. In particular, we will take all necessary measures to ensure that the first program review is completed by end-July 2007. That review will be based on the quantitative performance criteria at end-March 2007 and structural performance criteria through end-June 2007. We expect that by end-July 2007, the government would also have implemented all the measures required for The Gambia to reach completion point under the HIPC Initiative.

7. The government intends to make the contents of this letter and those of the attached MEFP and TMU available to the public, and so authorizes the IMF to arrange for these documents to be posted on the IMF website following Executive Board approval of The Gambia's request for the new PRGF arrangement.

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 of Economic and Financial Policies
Technical Memorandum of Understanding

ATTACHMENT I

Memorandum of Economic and Financial Policies

I. INTRODUCTION AND BACKGROUND

1. This memorandum outlines the government of The Gambia's economic and financial program under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement with the International Monetary Fund (IMF). Following the successful implementation of a Staff Monitored Program (SMP) over the period October 2005–March 2006, the new program aims at consolidating macroeconomic stability and fostering the conditions for sustaining high growth and reducing poverty.
2. The focus of the SMP was on strengthening internal controls at the Central Bank of The Gambia (CBG) to underpin its operational independence, and enhancing public financial management and accountability. All the structural benchmarks under the SMP were implemented, albeit a few with a delay. In particular, the CBG instituted guidelines and procedures to strengthen accounting practices, and the government made progress toward clearing the backlog of unaudited accounts by submitting the 2000 and 2001 accounts to the Auditor-General.¹ Performance against the quantitative targets was mixed in relation to the December 2005 targets but improved in the second half of the program and all the targets were met on a cumulative basis at the end of March 2006.
3. The Gambia reached the decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in December 2000. Reaching the completion point will make The Gambia eligible for debt relief under the Multilateral Debt Relief Initiative (MDRI). The conditions for reaching the completion point include satisfactory performance under the PRGF-supported program for at least six months and the implementation of the other completion point triggers established at the decision point.

II. STRATEGY FOR POVERTY ALLEVIATION

4. The Gambia's first Poverty Reduction Strategy Paper (PRSP) which spanned 2002–05 was prepared through a broad-based participatory process. Reviews contained in two annual progress reports (APRs) prepared by the government indicated that implementation of the PRSP was hampered by capacity constraints, limited donor support, and inadequate prioritization by the government. The APRs noted some progress in increasing access to basic social services, but not much progress in the government's divestiture and decentralization programs. The APRs also highlighted a need to increase budgetary resources dedicated to PRSP-priority expenditures.
5. A new PRSP (PRSP II) which integrates the achievement of the Millennium Development Goals (MDGs) into its objectives has been completed after an extensive

¹ The government subsequently submitted the 2002 and 2003 accounts to the Auditor-General in October 2006 and December 2006, respectively.

consultative process. The strategy for growth and poverty reduction is built on the following five pillars: (i) improving the policy environment; (ii) enhancing the capacity and output of the productive sectors—agriculture, fisheries, industry, trade, and tourism; (iii) improving the delivery of basic social services; (iv) building the capacity of local communities and civil society organizations; and (v) mainstreaming issues related to gender, youth, population, HIV/AIDS, nutrition and the environment into the development process.

6. PRSP II emphasizes prudent fiscal and monetary policies to achieve macroeconomic stability. Objectives of fiscal policy include: improving revenue collection by strengthening institutional capacity, making the budget process more transparent and reflective of government priorities, and reducing the domestic debt burden by maintaining a primary surplus and containing the government's borrowing requirement. The principal objective set for monetary policy is the maintenance of low inflation. The CBG is also charged with promoting a sound and flexible financial system.

III. RECENT ECONOMIC DEVELOPMENTS

7. The macroeconomic environment has improved significantly over the last few years. Real GDP growth rebounded from a drought-induced decline in 2002 to an annual average of about 6 percent a year during 2003–06, outpacing average annual population growth (estimated at 2.8 percent). From a peak of 21 percent in August 2003, year-on-year consumer inflation fell to 1.8 percent in December 2005, and stayed below 2 percent through November 2006. Key interest rates have fallen, but remain very high in real terms. The CBG lowered its rediscount rate gradually from 31 percent at the end of 2004 to 15 percent in May 2006 and to 14 in October 2006. The CBG also lowered the statutory reserve requirement in October 2006—from 18 percent to 16 percent. The dalasi has remained relatively stable in nominal and real effective rate terms after marked depreciations during 2001–03.

8. Fiscal performance deteriorated in 2005 after a strong adjustment in 2004. The basic balance fell from a surplus of 2.4 percent of GDP in 2004 to near balance in 2005, reflecting extrabudgetary spending, lower customs revenues, and higher domestic interest payments. A two-month closure of the border with Senegal pushed customs revenues down, and high domestic debt at the end of 2004 resulted in a substantial increase in domestic interest payments. A larger fiscal deficit and a relatively tight monetary stance increased domestic debt from 33 percent of GDP at the end of 2004 to 36 percent of GDP at the end of 2005. Preliminary indicators of fiscal performance in 2006 show an improvement over 2005, but not by as much as envisaged in the budget mainly due to higher-than-budgeted expenditures on the hosting of the African Union summit in July 2006.

9. High interest payments have crowded out priority PRSP-related expenditures. In 2005 and 2006, interest payments are estimated to have accounted for 47 percent and 35 percent of total current expenditure, respectively. PRSP-related spending fell short of budget estimates in both 2005 and 2006.

10. In spite of strong growth in tourism earnings, the external current account deficit (including official transfers) widened significantly from about 13 percent of GDP in 2004 to

20 percent of GDP in 2005 before falling to 14 percent of GDP in 2006. The current account deficits were financed mainly by inflows of foreign direct investment (FDI) and official concessional loans. The ratio of nominal external debt to GDP fell from 145 percent at the end of 2004 to 136 percent at the end of 2005.

IV. PROGRAM OBJECTIVES AND POLICIES

A. Medium-Term Objectives and Macroeconomic Framework

11. The key assumptions and objectives underlying the program's medium-term macroeconomic framework are:

- Annual real GDP growth of 6–7 percent.
- Annual inflation in the range of 2–4 percent.
- The fiscal basic balance improves from a surplus of less than 2 percent of GDP in 2006 to an annual average of about 3 percent of GDP during 2007–09.
- The ratio of domestic public debt to GDP is projected to fall from 32 percent at the end of 2006 to about 23 percent in 2009.
- The external current account deficit (including official transfers) is reduced from about 14 percent of GDP in 2006 to 9 percent of GDP in 2009.
- International reserves will be maintained at the equivalent of about four months of imports.

12. The growth rates assumed under the program are higher than the 4.5 percent average annual growth rate assumed in PRSP II. The rates for the program are based on substantial upward revisions of recent growth performance and growth prospects undertaken after completion of PRSP II.

13. The projected improvement in the fiscal basic balance reflects lower interest payments, associated with lower domestic borrowing by the government.

14. The projected reduction in the external current account deficit reflects increased official transfers and lower trade deficits. Part of the increase in official transfers is associated with a switch in the composition of official external financing for projects from loans to grants by the World Bank and the African Development Bank. In addition, it is assumed that there will be a modest increase in external financing in support of PRSP II. A donor conference has been scheduled for March 2007 to solicit additional external assistance for the implementation of PRSP II. Lower trade deficits mainly reflect a recovery in groundnut exports from near collapse in 2005.

15. Monetary policy will target an expansion in broad money slightly above the growth rate of nominal GDP over the medium term. Low inflation is expected to boost the demand

for money and steady fiscal consolidation should allow real interest rates to fall, stimulating credit to the private sector.

B. Policies for 2007

Fiscal policy and related structural reforms

16. Fiscal policy will be the principal instrument for consolidating macroeconomic stability. The government is committed to maintaining fiscal discipline in order to contain domestic borrowing and so put downward pressure on interest rates and reduce the domestic public debt to sustainable levels.

17. The government is implementing measures to improve tax administration and thereby boost revenues through efficiency gains. The establishment of the Gambia Revenue Authority (GRA) which merged the previous Central Revenue and Customs and Excise departments under one management structure was designed to achieve synergies in the government's revenue collection efforts. Measures aimed at broadening the tax base include the introduction of taxpayer identification numbers, enhanced taxpayer education efforts, and increased staffing, training and equipment to strengthen the valuation and audit functions.

18. Weaknesses in budget formulation—for example, inadequate provision in the budget for the government's contribution to projects financed by international development banks and donors and for the payment of utility bills—have in the past led to large domestic payments arrears. Extrabudgetary expenditures have also crowded out budgeted expenditures and complicated budget execution. The government is taking steps to avoid over-commitments and the resort to extrabudgetary expenditures except in the circumstance and under the conditions stipulated in the Government Budget Management and Accountability Act (2004).

19. The launching of the Integrated Financial Management Information System (IFMIS) in January 2007 will go a long way to improve all aspects of the budget process (formulation, execution, monitoring, and reporting). In particular, commitment control will be strengthened by ensuring that funds are available before local purchase orders or other commitments are entered into. In the event IFMIS is delayed, the government will strengthen the monitoring of compliance with the manual commitment control system.

20. The government is committed to increasing poverty-reducing expenditures in line with PRSP II objectives and targets. In order to monitor the extent to which this objective is being achieved, the Department of State for Finance and Economic Affairs (DoSFEA) will continue producing a monthly report on PRSP-related expenditures out of the Gambia Local Fund, by functional and economic classifications. In due course, as IFMIS becomes established, the reporting will be extended to cover all expenditures (i.e., including those that are externally financed).

21. In order to improve the transparency and comprehensiveness of government accounts, the government is setting up a central project management and aid coordination directorate at

DoSFEA with responsibilities that will include compiling comprehensive information on aid flows into the country and the uses to which the resources are put.

22. The government intends to enhance accountability in the use of public resources by clearing the backlog of unaudited government accounts and publishing more information on the budget and its execution. Accounts for 2004 are scheduled to be submitted to the Auditor-General by February 2007, and those for 2005 and 2006 will follow before the end of the year. The National Audit Office will be adequately equipped to conduct the audits and submit reports on them to the national assembly as soon as possible after they receive the accounts. With respect to publications, DoSFEA has established a website (www.dosfea.gm) where budget related information and reports will be posted.

23. In order to improve fiscal transparency and to track fiscal risks, the government will establish a reporting framework to collect quarterly financial information on selected public enterprises (see sample format in Annex I). Initially, the following public enterprises will be covered: Social Security and Housing Finance Corporation, Gambia Port Authority, and Gambia Telecommunications Cellular Company (GAMCEL). In due course, information will also be collected on the Gambia Telecommunications Company (GAMTEL) and the National Water and Electricity Company (NAWEC). This reporting framework will help to (i) maintain a transparent record of possible quasi-fiscal activities of key public enterprises, and (ii) improve the capacity of the government to monitor the financial position of parastatals and introduce, if necessary, corrective measures to improve their efficiency and reduce the risk to the budget.

Monetary policy, CBG governance, and related structural reforms

24. The CBG will continue to use a money targeting framework to pursue its price stability objective. It will also use its rediscount rate to signal changes in policy stance. In setting the rediscount rate, the CBG's Monetary Policy Committee will pay due regard to the evolution of the market determined treasury bill rates. In order to improve the efficiency of the treasury bill market, the CBG upgraded its electronic book-entry system in September 2005, and in April 2006 introduced a primary dealership system and shortened the settlement period from five days to one day after the auction date.

25. The CBG has been in a weak financial position for several years, a situation that may constrain its operational independence. It expects to turn a profit in 2006. However, since 2001, it has incurred operational losses ranging from about 2 percent of GDP in 2003 to 0.2 percent in 2005. These losses reflect a combination of factors including the following: (i) a rundown of international reserves associated with a special loan to the government during 2001–02 at low interest and with a long grace period; (ii) acquisition of other significant non-interest bearing assets (e.g., overdrafts on the governments Treasury Main Account); (iii) sharp increases in foreign currency denominated costs during the period of marked depreciation of the dalasi (2001–03); (iv) large administrative costs; and (v) provisions for various credit losses, some of which reflect loans extended to private enterprises.

26. In order to strengthen the CBG's operational independence, the government and the CBG have undertaken to ensure compliance with two key provisions of the CBG Act (2005) related to CBG capital and limits on lending to the government. The government will recapitalize the CBG to the tune of D100 million (the amount stipulated in the CBG Act) over a five year period beginning in 2006. The government has already paid the 2006 contribution of D20 million and has appropriated another D20 million in the 2007 budget.

27. The 2005 CBG Act stipulates that the CBG's lending to the government should not exceed 10 percent of government tax revenues in the previous year. The CBG's claims on the government have exceeded this limit throughout 2006. Since June 2006, the government has acted to reduce substantially the level of its outstanding borrowing from the CBG. The government and the CBG have undertaken to bring government borrowing from the CBG in line with the statutory limit by the end of 2007. An action plan indicating how this will be achieved has been provided to IMF staff. The action plan will include a clarification of items covered by the quantitative limit and will also establish a mechanism for ensuring that duration limits on CBG advances to government stipulated in the law are respected.

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

29. The CBG intends to adopt International Financial Reporting Standards (IFRS) as its accounting framework. As first steps in that direction, it will commission a gap analysis and formulate an Action Plan to convert to IFRS over three years commencing with a gap analysis for the 2006 financial statements. The CBG is also undertaking reforms aimed at strengthening monetary operations and banking supervision. It will also continue work on its research agenda aimed at enhancing the effectiveness of monetary policy.

Financial intermediation

30. The banking system in The Gambia is relatively sound, but financial intermediation remains low. Profitability and liquidity ratios are high, and the proportion of loans that are nonperforming is relatively small at 13 percent in September 2006. However, the loan-to-deposit ratio is very low (40–45 percent) suggesting scope for increased lending activities. In order to facilitate the lending process, the CBG has decided to establish a credit reference bureau. Commercial banks are supportive of the plan and are willing to share the cost of implementing it.

External policies and reforms to enhance external competitiveness

31. The government is in the process of establishing a business park under the World Bank supported Gateway Project. The project is designed to promote private investment in export-oriented production and employment. The Gambia Investment Promotion and Free Zones Agency (GIPFZA) which was set up under the Gateway Project is fully operational and is actively involved in investment promotion and facilitation. The government is in the process of reviewing the investment act and associated incentive regime.

32. The World Bank is also helping the government with several studies that should provide material for formulating an action plan to improve the investment climate in The Gambia. The studies include an Investment Climate Assessment and a Diagnostic Trade Integration Study (DTIS). The DTIS is the first stage of The Gambia's participation in the Integrated Framework for Trade-Related Technical Assistance which is designed to help the country integrate more effectively into the regional and global economy through trade. The DTIS draft report which is due in February 2007 will identify key constraints to the expansion and diversification of exports. The final report will contain an Action Plan that will include policy reforms to be undertaken by government and investment projects to be funded by donors.

Other structural reforms

33. The government has agreed to the privatization of public industrial assets in the groundnut sector, in line with commitments entered into with its bilateral and multilateral donor partners. However, the problems that have beset marketing operations in the sector during recent crop seasons and which have resulted in poor quality exports have undermined confidence in the viability of the sector by local banks and international buyers. A recent World Bank mission that examined the sector concluded that it was still capable of contributing significantly to poverty reduction if the privatization process is professionally implemented in phases. In particular, the mission cautioned that it was necessary to regain the confidence of potential strategic partners before embarking on a full privatization in order to avoid pitfalls experienced with similar ventures in the sub-region. The government is seeking assistance from the EU to commission a study that will map out a privatization strategy for the sector.

34. In view of the importance of capacity constraints in the implementation of government programs, the government is seeking assistance from the World Bank to undertake a comprehensive civil service reform.

Statistics

35. The quality and timeliness of economic statistics need improvement. Weaknesses in a broad range of economic statistics are hampering the analyses of economic developments in the country. The National Assembly passed a new statistics act in December 2005 that formed the basis for transforming the Central Statistics Department (CSD) into an autonomous Gambia Bureau of Statistics (GBS). The GBS is receiving assistance from the World Bank to use the results of the household budget survey conducted in 2003 to improve the quality of the consumer price index and national accounts statistics. In the area of balance of payments statistics, the CBG has begun to prepare estimates according to the fifth edition of the *Balance of Payments Manual*.

V. PRIOR ACTIONS AND PROGRAM MONITORING

36. The following actions have been implemented prior to IMF Executive Board consideration of The Gambia's request for a new PRGF arrangement: (i) approval of a budget for 2007 by the National Assembly that is in line with understandings reached

between representatives of the government and IMF staff on the size of the fiscal basic balance; (ii) submission of government accounts for 2003 to the Auditor-General; and (iii) formulation of an action plan to bring government borrowing from the CBG in line with the limit under the CBG Act (2005) by the end of 2007.

37. Performance under the program will be monitored through a set of quantitative financial targets (Table 1), a set of structural performance criteria and benchmarks (Table 2), and program reviews. The quantitative financial targets for end-March 2007 and end-September 2007 are performance criteria, and those for June 2007, and December 2007 are indicative targets. The first and second program reviews are scheduled to be completed by end-July 2007 and end-January 2008, respectively. Definitions of all targeted variables and reporting requirements are contained in the attached Technical Memorandum of Understanding.

Table 1. The Gambia: Quantitative Targets and Projections, End-December 2005–End-December 2007

	2005	2006		2007			
	End-Dec. Act.	End-Sep. Act.	End-Dec. Proj.	End-Mar. Program	End-Jun. Program	End-Sep. Program	End-Dec. ¹ Program
	(Stock)	(Change from End-December 2005)					
Performance criteria ²		(Millions of dalasis)					
Net domestic assets of the central bank (ceiling)	174.3	-112.4	-1.1	41.2	9.7	12.3	-313.3
Basic balance (floor) ³	...	244.5	189.1	292.9	419.5	487.1	671.3
New external payments arrears of the central government (ceiling) ⁴	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		(Millions of U.S. dollars)					
Net usable international reserves (floor)	71.1	6.0	6.7	9.2	10.4	9.7	26.5
New nonconcessional debt contracted or guaranteed by the government with original maturity of more than one year (ceiling) ⁵	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of external public debt with original maturity of one year or less (ceiling) ⁶	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets		(Millions of dalasis)					
Domestic budgetary arrears	524.5	-176.8	-176.8	-258.2	-339.6	-421.0	-502.3

Source: IMF staff estimates.

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

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

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

⁴To be applied on a continuous basis.

⁵External debt contracted or guaranteed other than that with a grant element equivalent to 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.

⁶Excluding normal import-related credits.

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

Measure	Target Date
Public financial management and accountability	
1. Clear the backlog of unaudited government accounts	
(i) Submit to the Auditor-General the accounts for 2003 (PA)	End-December 2006
(ii) Submit to the Auditor-General the accounts for 2004 (PC)	End-February 2007
(iii) Submit to the Auditor-General the accounts for 2005 (PC)	End-July 2007
(iv) Submit to the national assembly the audited accounts for 2000-04 (B)	End-December 2007
(iv) Submit to the Auditor-General the accounts for 2006 (B)	End-December 2007
2. Make operational the central project management and aid coordination directorate at DoSFEA (PC)	End-June 2007
3. Launch IFMIS by mid-January 2007 (B)	Mid-January 2007
4. Establish a comprehensive commitment control system (PC)	End-April 2007
5. Prepare and issue a comprehensive monthly budget execution report, including information on commitments, with a one-month lag, starting with the report for April 2007 (PC)	From May 2007
Central bank governance and operational independence	
6. Prepare an action plan to bring government borrowing from the CBG in line with the limit under the CBG Act within one year (PA)	January 15, 2007
7. Implement segregation of duties in the management of international reserves (PC)	End-March 2007
8. Provide to Fund staff special audit reports on monetary program data at program test dates (PC)	
(i) March 2007 report	End-June 2007
(ii) September 2007 report	End-December 2007
Financial deepening	
9. Establish and staff the credit reference bureau (B)	End-May 2007
Statistics	
10. Start publishing monthly CPI series based on 2003 household survey weights (PC)	End-June 2007
11. Prepare and publish quarterly balance of payments statistics, with a one quarter lag beginning with 2007 Q1 (B)	From end-June 2007

¹PA, PC, and B denote prior action, performance criterion, and benchmark, respectively.

THE GAMBIA

Technical Memorandum of Understanding

(December 2006–December 2007)

I. INTRODUCTION

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

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Net Domestic Assets of the Central Bank

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

3. For program monitoring purposes, in the calculation of the net domestic assets of the CBG, foreign assets and liabilities will be converted first into U.S. dollars at the prevailing cross-rates and then converted into dalasi using the D/USD program exchange rate. The end-of-quarter dalasi/U.S. dollar program exchange rates are as follows: 28.10 (December 2006); 28.17 (March 2007); 28.23 (June 2007); 28.30 (September 2007); and 28.36 (December 2007). These are accounting exchange rates only, and should not be construed as projections.

4. **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.

B. Basic Balance of the Central Government

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

6. **Supporting material.** Reporting on the basic balance will form part of the consolidated budget report described in paragraph 26 below.

C. External Payments Arrears of the Central Government

7. **Definition.** External payments arrears are defined as the stock of external arrears on loans contracted or guaranteed by the central government, except on debts subject to rescheduling or a stock of debt operation. 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 performance criterion will be assessed on a continuous basis.

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

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

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

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

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

11. **Definition.** This target refers to new nonconcessional external debt with original maturity of more than one year contracted or guaranteed by the central government. It applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 24, 2000 (Decision No. 12274–00/85), but also to commitments contracted or guaranteed for which

value has not been received. Excluded from this target are loans or purchases from the IMF and debts with a grant element of at least 35 percent.²

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

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

13. **Definition.** This target refers to the stock of outstanding external public sector debt with original maturity of one year or less, owed or guaranteed by the central government.³ Public sector consists of the central and regional governments and other public agencies, including the CBG. Excluded from this target are normal import-related credits.

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

III. QUANTITATIVE INDICATIVE TARGETS

A. Domestic Budgetary Arrears

15. **Definition.** Domestic budgetary arrears are defined as the sum of all bills that have been received by a central government spending unit or line ministry under the recurrent expenditure budget (including rents and utilities) or the development expenditure budget, and for which payment has not been made within 30 days. Arrears can be cleared in cash or through debt swaps.

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

² 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.

³ 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. STRUCTURAL PERFORMANCE CRITERIA AND BENCHMARKS

A. Make the Central Project Management and Aid Coordination Directorate Operational

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

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

B. Commitment Control System

19. **Definition.** The target on establishing a comprehensive system will be deemed to be met if IFMIS becomes operational and is used to track expenditure commitments made by all government departments and agencies covered by the central government budget. In the event IFMIS is delayed, the target will be deemed to be met if the manual commitment control system introduced on a pilot basis in 2006 is extended to all government departments and agencies covered by the central government budget.

20. **Supporting material.** A monthly budgetary execution report with detailed information on expenditure appropriations, commitments, payment orders, and actual payments by broad category of spending will be transmitted within four weeks of the end of each month. The coverage of the monthly budget execution report will include all government departments and agencies covered by the central government budget.

C. Segregation of Duties in the Management of International Reserves

21. **Definition.** This target refers to the item in the CBG's "Policy Guidelines on Segregation of Duties of Foreign Exchange Market Operations" which prescribes that front and back office responsibilities will be assigned to the Foreign and the Finance Departments, respectively, and which envisages the establishment of a middle office.

22. **Supporting material.** The CBG's Internal Audit Department will issue a report on compliance with the Guidelines.

D. Special Audit Reports on Monetary Program Data

23. The special audits will be conducted on the basis of the draft terms of reference dated December 19, 2006, agreed between CBG and IMF staffs.

V. OTHER DATA REQUIREMENTS AND REPORTING STANDARDS

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

A. Prices

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

B. Government Accounts Data

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

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

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

C. Poverty Reducing Expenditure

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

D. Financial Information on Selected Public Enterprises

30. Quarterly financial data in the format of Annex I will be transmitted to the IMF within four weeks of the end of the quarter.

E. Monetary Sector Data

31. The balance sheets of the CBG, prepared on the bases of current and program exchange rates, will be transmitted on a monthly basis to the IMF within four weeks of the end of each month. The balance sheet should explicitly identify all claims on government. In addition, balances in the treasury main, sterilization, and other deposit accounts should also be presented. 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 within six weeks of the end of each month.

F. Treasury Bills and CBG Bills

32. 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 (LMRs) will be transmitted on a weekly basis within seven days of the end of the week. Data on treasury bills outstanding (including information on the distribution by bank and nonbank holders) will be transmitted on a monthly basis within six weeks of the end of each month. The monthly LMR, reflecting the data as of the last working day of the month, will be transmitted within seven days after the end of each month.

G. External Sector Data

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

34. The CBG will compile balance of payments statistics on a quarterly basis beginning from the first quarter of 2007. The balance of payments data will be transmitted to the IMF with a one quarter lag.

ANNEX I

QUARTERLY REPORTING SYSTEM FOR PUBLIC ENTERPRISES

Name of the Enterprise: _____

Supervisory Authority: _____

Regulatory Authority (if any): _____

Law Establishing the Company: _____

Government Shares (percent of total capital): _____

Date of Last Audited Accounts: _____

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