

International Monetary Fund

[The Gambia](#) and the
IMF

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

Press Release:
[IMF and World Bank
Support The Gambia's
Completion Point
Under the Enhanced
HIPC Initiative and
Approve Debt Relief
Under the Multilateral
Debt Relief Initiative](#)
December 20, 2007

December 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.

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Banjul, The Gambia
December 7, 2007

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

The Gambia's three-year Poverty Reduction and Growth Facility (PRGF) arrangement was approved by the IMF's Executive Board in February 2007. The first review was completed on August 29, 2007. The attached Memorandum of Economic and Financial Policies (MEFP) reviews progress in implementing the Government's PRGF-supported program during the second half of 2007, and sets out the policies that the Government will pursue in 2008. We are committed to continue maintaining macroeconomic stability and fostering reforms conducive to higher growth and poverty reduction.

Performance under the program has been strong. All the quantitative targets for end-September were met, and six out of eight structural measures either have been met on schedule or are track to be met by end-2007 as scheduled (MEFP, paragraph 10). With respect to the performance criterion on submission of monthly budget execution reports, technical difficulties led to inconsistencies between these reports and analytical fiscal tables submitted in the third quarter. We have revised the format of the report to remove the source of inconsistency and have submitted reports in the new format to Fund staff. On that basis we request a waiver for the nonobservance of the performance criterion.

In support of our policies described in the MEFP, the Government of The Gambia requests the completion of the second review and third disbursement under the PRGF arrangement in an amount equivalent to SDR 2 million.

The Government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program. However, it will stand ready to take any additional measures that may become appropriate to meet these objectives. The Gambia will consult with the IMF on the adoption of these measures and in advance of revisions to policies contained in the MEFP, in accordance with the Fund's policies on such consultation. The third and fourth reviews under the PRGF arrangement are expected to be completed by no later than end-July 2008, and end-January 2009, respectively.

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

Sincerely yours,

/s/

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

/s/

Momodou Bamba Saho
Governor
Central Bank of The Gambia

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

Attachment I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. INTRODUCTION

1. This memorandum updates the Government of The Gambia's economic and financial program under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement with the International Monetary Fund (IMF). The program, which was approved by the Board of Executive Directors of the IMF on February 21, 2007, aims at consolidating macroeconomic stability and fostering the conditions for sustaining high economic growth and reducing poverty. The first review under the PRGF was successfully completed on August 29, 2007. This memorandum provides information on recent developments, reviews performance under the program, and updates the government's strategy for pursuing its financial and economic policies.

II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

2. **Growth remains robust and inflation has stabilized.** Real GDP grew at an annual average rate of 6.4 percent during 2003–06, and is projected to grow at 7 percent in 2007. Growth has been broad-based, led by the construction, telecommunications, and tourism sectors. Based on the 12-month moving average of the consumer price index, inflation rose from 1.7 percent in December 2006 to 4 percent in September 2007. On a year-on-year basis, inflation rose from 0.4 percent in December 2006 to a peak of 6.6 percent in May 2007 before falling to 6.0 percent in September 2007. Recent appreciation of the dalasi, slower growth in broad money, improving supply conditions for certain imported food items (e.g., fruits and vegetables, palm oil, nuts), and falling prices for other commodities (e.g., cement), suggest an easing of inflation pressures.

3. **Fiscal performance in the first three quarters of 2007 has been stronger than anticipated in the budget, reflecting higher revenues and restrained spending.** The fiscal basic balance registered a surplus of around 4 percent of GDP from January through September. Revenue performance was associated with improvements in tax administration—including the expansion of the coverage of tax identification numbers (TINs)—as well as the late payment of telecommunication license fees initially due in 2006. On the expenditure side, interest payments and the wage bill are below budget; the latter reflecting a high rate of attrition and rising vacancies. In the fourth quarter, public expenditures on a number of goods and services increased modestly, in line with the government's supplementary budget approved by the national assembly in September (0.5 percent of GDP) and the use of privatization proceeds (0.4 percent of GDP).

4. **The government decided to sell 50 percent of its shares in the Gambia Telecommunication Company (GAMTEL).** This decision was driven by the need to induce efficiency improvements in the sector and ensure greater coverage, equity and quality of services. The sale of the government's stake was conducted without open tender procedures, due to the need to act urgently to avoid a deepening of the crisis in this key sector. However, the government acted cautiously and created a broad-based technical committee to assess

three offers it had received over the last few years and determine which one would offer the highest value for money. The strategic investor agreed to pay US\$35 million, of which the government has received US\$17.5 million to date. The balance is expected to be paid by end-December 2007.

5. **Strong fiscal performance made it possible to significantly reduce the stock of arrears.** The objective of eliminating all domestic payment arrears by end 2008 is on track. However, a shortfall in donor funds for an ongoing development project led to the emergence of US\$2.3 million arrears, which the government will fully repay in 2008. It represents a claim initially submitted by a contractor to an external funding agency but which the government had to assume; the agency had fully disbursed its loan to the government when it received the claim. Public finance management reforms currently under way (see below) will prevent these difficulties from recurring. The government also repaid in full, early in 2007, the loan of D93 million that was contracted from public enterprises to finance the African Union summit in 2006.

6. **Growth in broad money and reserve money slowed significantly during 2007, reflecting improved fiscal performance.** The annual rate of growth in broad money fell from 26 percent in December 2006 to 13 percent in September 2007. Over the twelve month period ending in September 2007, nearly all the growth in broad money came from an increase in the banking system's net foreign assets; lending to the private sector was stagnant, while the banking system's net claims on the central government fell. The slowdown in the growth of reserve money was more pronounced than that for broad money, reflecting the impact of the Central Bank of The Gambia (CBG) sterilization operations.

7. **In response to signs of rising inflation pressures earlier in the year, the CBG increased the rediscount rate from 14 percent to 15 percent in June 2007.** At its meeting in October, the Monetary Policy Committee (MPC) noted that inflationary pressures were receding but cited risks to the outlook related to rising oil prices to justify its decision to leave the rediscount rate unchanged. Treasury bill yields have trended downwards since July.

8. **The dalasi appreciated sharply against all major currencies in the third quarter, after remaining relatively stable in the first half of 2007.** By end-September, the appreciation against the U.S. dollar was close to 32 percent. While the dalasi is likely to remain relatively strong in the medium term—thanks to strong macroeconomic fundamentals—the magnitude and speed of the appreciating observed in the third quarter (especially during August-September) is more likely to have been driven by a change in market sentiment. Some banks, which had accumulated long net open positions in foreign currencies, decided to unwind those positions as the appreciation of the dalasi became more pronounced, and in doing so they reinforced the trend. During September, the CBG intervened to purchase about US\$10 million which calmed the market. By late-October, the situation in the foreign exchange market had stabilized, with the dollar hovering around 19-20 dalasis.

9. **The external current account deficit narrowed further in 2007 due to strong tourist trade and increased transfers.** Reflecting vibrant economic activity and foreign

10. investment, imports over the first three quarters increased by 10 percent in dollar terms compared with the same period in 2006. However, the current account deficit was contained by record tourist arrivals through April, large private transfers, and an upturn in donor financing for new infrastructure projects. As a result, the current account deficit as a percent of GDP is estimated to have narrowed from a revised 2006 deficit of 11.5 percent of GDP to an expected 11 percent of GDP in 2007. Foreign direct investment—in particular, in the telecommunications and tourism sectors—and official borrowing continued to provide financing for the current account deficit, while allowing for a comfortable level of net international reserves. Nominal external debt reached 133 percent of GDP at end-2006, but should fall to sustainable levels over the medium term after HIPC completion point (see below).

III. PERFORMANCE UNDER THE PROGRAM

11. **Overall performance under the program has been strong.** All the quantitative targets for end-September were met (Table 1). The targets for net usable reserves, net domestic assets (NDA) of the CBG, and the fiscal balance were met comfortably even after adjusting for the impact of privatization proceeds that were not anticipated at the time of the last review. Six out of eight structural measures slated for implementation in the second half of 2007 have either been met on time or are on track to be met by end-2007 as scheduled (Table 2). The government accounts for 2006 were submitted to the Auditor-General at the end of September, three months ahead of schedule, and the Central Project Management and Aid Coordination Directorate (CPMACD) at the Department of State for Finance and Economic Affairs (DoSFEA) has become operational. There was a slight delay in meeting the benchmark on the submission of quarterly financial information on selected public enterprises. With respect to the performance criterion related to monthly budget execution reports, there were errors in the reports submitted to Fund staff in the third quarter due to difficulties in reconciling data from the Integrated Financial Management Information System (IFMIS) budget reports and the analytical fiscal tables. The government has revised the format of the report to make the links between the budget execution and analytical fiscal tables more transparent. Reports in the new format have been submitted to Fund staff as the basis for the government's request for a waiver for the nonobservance of the performance criterion.

12. **DoSFEA and the CBG have agreed on a framework for coordinating monetary and fiscal policy.** In line with the MEFP for the PRGF first review, the CBG and DoSFEA signed a memorandum of understanding to guide domestic debt management and monetary operations. In view of constraints to the CBG's monetary operations arising from low balances in the treasury bill special deposit account, DoSFEA and the CBG will agree on a mechanism to gradually replenish the account for the amounts that were withdrawn in January 2007 to jump-start IFMIS.

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

13. **The government will continue to maintain prudent macroeconomic policies, consolidating the gains of recent achievements and fostering reforms conducive to higher growth and poverty reduction.** Macroeconomic stability has been preserved in the

last two years, with low inflation, adequate international reserve levels; and lower fiscal deficits. Going forward the successful implementation of the PRGF-supported program, which draws on the country's second Poverty Reduction Strategy Paper (PRSP II), will help to consolidate recent macroeconomic achievements and the attainment of the Gambia's economic and social objectives. Under the current scenario for 2008-09, the government aims to:

- Sustain real GDP growth rates of 6-7 percent.
- Contain end-year inflation below 5 percent.
- Maintain a basic fiscal balance surplus of 1-2 percent of GDP.
- Reduce the ratio of domestic debt to GDP from 32 percent of GDP at the end of 2006 to below 21 percent of GDP by 2009.
- Maintain an external current account deficit (including official transfers) around 12 percent of GDP.
- Maintain a level of international reserves equivalent to about four months of imports.

14. **The baseline macroeconomic scenario takes into account the importance of preserving fiscal discipline, containing inflation, and ensuring the sustainability of the external current account.** It seeks to reduce gradually the burden of domestic debt to ease upward pressure on interest rates and create much needed fiscal space for social sectors. It also aims at maintaining an external current account position that is sustainable in light of medium-term projections of capital inflows. Projected growth rates are higher than the 4.5 percent average annual growth rate assumed in the PRSP II. However, the government believes that upward revisions of recent growth performance and indications of strong and sustained growth of some key sectors of the economy (tourism, construction, and transportation and telecommunication services) justify this more ambitious projection. The government intends to produce the first annual progress report on PRSP II implementation by mid-2008; it will cover implementation in 2007.

V. POLICIES FOR 2008

A. Fiscal Policy and PFM Reforms

15. **The government is committed to the maintenance of a prudent fiscal policy, as one of the cornerstones of the program.** The fiscal stance will be defined with due regard to (i) maintaining public debt on a sustainable path, (ii) the need to continuously limit the government's domestic borrowing requirements (and hence avoid putting upward pressure on interest rates), (iii) the importance of avoiding inflationary pressures that might be associated with excessively high aggregate demand, and (iv) the sustainability of the external current account, given medium-term projections of capital inflows.

16. **Fiscal performance over the medium term is expected to remain broadly in line with the original program.** The cumulative fiscal basic balance surplus for 2007-09 is now projected to be around 1 percent of GDP lower than in the original program due to the higher scheduled public expenditures. However, a fraction of the increase in public spending will be financed by the recent privatization proceeds, and therefore will not generate additional debt. Moreover, interest payments have come down faster than expected, while growth in revenue and GDP have been higher. As a result, domestic debt at end-2009 is projected to decline to 21 percent of GDP, more than 1 percentage point lower than initially targeted under the program.

17. **Revenue performance is going to be negatively affected by the sharp appreciation of the dalasi.** In particular, the tax-to-GDP ratio is projected to decline from 22 percent of GDP in 2007 to 21 percent of GDP in 2008. This is because the appreciation of the exchange rate may reduce international trade taxes, a key source of revenues for the Gambian economy. In addition, corporate tax receipts may be affected by the losses incurred by commercial banks in their foreign exchange operations. However, overall revenue performance will continue to be strong, supported by strong economic activity and continuous efforts to improve tax administration. In addition, the effect of these potential revenue losses on public finances are likely to be partially offset by higher custom duties on oil imports and lower debt service payments.

18. **The government has decided to raise civil service salaries to attract and retain highly qualified staff.** Low pay levels in the public sector have led to a high rate of attrition of professional staff, preventing The Gambia from pursuing its development objectives in an efficient and consistent manner. The wage bill in 2007 is expected to be contained around 4.5 percent of GDP (0.3 percentage points lower than projected in the budget), due to recruitment difficulties to fill existing vacancies. In 2008, the government anticipates an increase in base salaries which will lead to an increase in the wage bill to 5.1 percent of GDP. In 2009, the wage bill is expected to increase further to 6 percent of GDP. However, the second phase of salary increases will be implemented within the context of a comprehensive civil service reform program, which is under preparation with World Bank support.

19. **The government's civil service reform program will seek to increase the attractiveness of public sector employment and better adapt civil service salaries to performance.** In particular, the reform strategy will aim at (i) improving the Civil Service remuneration package so as to retain highly trained and professional staff; (ii) strengthening institutional capacity for policy formulation and monitoring of public sector management and programs; and (iii) promoting ethical values and standards in order to create a merit-based system within the Public Service. As a first step, the government will set up by March 2008 a capacity building task force that will operationalize this program and prepare a detailed schedule for its implementation.

20. **Of the approximately D700 million expected from the sale of 50 percent shares in GAMTEL, D500 million has been allocated to finance projects during 2007-09.** About two-thirds of the allocated amount will be spent on military and security infrastructure in 2008-09. The remainder of the resources will be used to finance education and health projects, the construction and renovation of government residences, and the establishment of

a science academy. The government will also consider using a portion of the unallocated resources to reduce the domestic debt.

21. **Public Finance Management reform will be key to support fiscal policy objectives and improve the transparency and efficiency in the use of public resources.** In this regard, the launch of the IFMIS system in January 2007 has gone a long way in introducing a comprehensive system of commitment control aimed at ensuring that budget execution is in line with budget appropriations. However, the system to allocate and monitor government counterpart funds to externally financed capital projects needs to be strengthened. The government believes that the recently established (CPMACD) will help address this issue. On the revenue side, efforts to enhance tax administration through increased staffing, training and equipment for the Gambia Revenue Authority, as well as efforts to expand the tax base through the issuance of tax identification numbers and taxpayer education, will be pursued.

22. **The DOSFEA and the National Planning Commission will pursue efforts to enhance accountability in the use of public resources and obtain better value-for-money in the implementation of public projects.** To this end,

- *CPMACD has become operational and produced its first report in October 2007. It has started to collect information on donor projects following standardized forms. In order to assist it establish a register of ongoing and new development projects, it will collect information using a format such as that shown in Annex I.*
- *Efforts to clear the backlog of unaudited government accounts are continuing. The government accounts for 2000–04 are being audited and are due to be presented to the national assembly by end-December 2007. The government accounts for 2005 2006 were submitted to the Auditor-General in July and September, respectively.*
- *A Public Investment Process (PIP) will be introduced once the National Planning Commission becomes operational by early 2009. The PIP will be based on projects of high technical quality and proven feasibility.*

23. **The government is committed to the careful management of external debt after HIPC completion point.** HIPC and MDRI debt relief will reduce the stock of nominal external debt from about 130 percent of GDP at end-2006 to 50 percent by the end of this year. However, while debt relief should move The Gambia to a sustainable external debt path, the government recognizes debt relief is only the first step towards maintaining external sustainability. With this in mind, careful management of external debt will be promoted through a strategy of donor engagement and prudent debt management designed to attain PRSP priorities without compromising debt sustainability. The government is committed to respecting the indicative targets for 2008 (US\$50 million) and 2009 (US\$25 million) established under the PRGF-supported program. However, these limits will be revisited in the context of program reviews, which will take into account the result of the government's own debt sustainability analyses. The government will also ensure that new loans have a minimum grant element of 45 percent.

24. **Beginning with the forthcoming donor conference, the government will present for discussion with development partners the Gambia's Aid Effectiveness Action Plan.** The plan will be based on the Paris declaration and a PRSP II Results Matrix as a basis for increased donor engagement, and tracking of implementation of the PRSP II, while signaling areas of financing shortfalls.

25. **A comprehensive debt management strategy will be prepared by end-July 2008.** The strategy will be inspired by best international practices and will incorporate the following principles: (i) a clear definition of the debt management objectives; (ii) a well-defined institutional framework; (iii) an adequate mechanism to prevent the accumulation of arrears and monitor contingent liabilities; and (iv) a commitment to implement cost effective cash management policies.

B. Monetary and Exchange Rate Policies and Related Structural Reforms

26. **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 its policy stance. In setting the rediscount rate, the CBG will analyze developments in the economy and the inflation outlook. It will strengthen the short-term liquidity forecasting framework through efforts to improve forecasts for government revenues and expenditures.

27. **The CBG will intervene in exchange markets to prevent disorderly adjustments and according to its well-defined intervention policy.** The CBG guidelines envisage intervention: (i) to accumulate foreign reserve assets to meet targets or prevent reserves from being depleted, which is essential to build investor confidence and strengthen the government's debt repayment capacity and external liquidity position; (ii) to correct misalignment or stabilize the exchange rate of the local currency by influencing domestic market liquidity of major trading currencies; and (iii) to calm disorderly markets, including exchange rate volatility and market illiquidity.

28. **In order to strengthen the CBG's operational independence, the government and the CBG will ensure compliance with provisions of the CBG Act (2005) on CBG capital requirements and limits on lending to the government.** The recapitalization of the CBG has already started and will reach D100 million (the amount stipulated in the CBG Act) over a five-year period. The contributions for 2006 and 2007, D20 million each year, have already been disbursed. The government will also comply with the 2005 CBG Act stipulation that CBG's lending to the government should not exceed 10 percent of government tax revenues in the previous year. To this end, the government and the CBG have been implementing an Action Plan to bring government borrowing from the CBG within the statutory limit by the end of 2007.

29. **Progress is being made toward making the Credit Reference Bureau fully operational by end-March 2008.** Banks are expected to start providing data on customers and to be able to access the full database in December 2007. Initially, information will be maintained in a spread sheet while negotiations continue for the installation of a more sophisticated software package by March 2007.

30. **A Prompt Corrective Action (PCA) Framework was introduced in March 2007.** The PCA is a means to promote a safe and sound financial system by monitoring each bank's compliance and performance against five critical indicators, including capital adequacy, nonperforming loans, liquidity ratios, earnings, and foreign exchange exposure. Within 90 days following the end of each calendar year, the Financial Supervision Department (FSD) will complete a PCA review for each bank and notify each bank's Board of Directors of the results of the PCA review.

31. **The CBG intends to adopt International Financial Reporting Standards (IFRS) as its accounting framework.** To this end, a gap analysis (between current accounting policies and the requirements of IFRS) and an Action Plan for moving to IFRS over a three-year period, will be completed by December 2007. Accordingly, the CBG has contracted Deloitte and Touche to carry out the gap analysis on the 2006 financial statements. Work has already begun.

C. Program Monitoring

32. **The program will continue to be monitored based on the agreed quantitative financial targets (Table 3), a set of structural performance criteria and benchmarks (Table 4), and program reviews.** The quantitative financial targets for end-March and end-September 2008 are performance criteria, and those for end-June and end-December 2008 are indicative targets. The third and fourth program reviews are scheduled to be completed by end-July 2008 and end-January 2009, respectively. Definitions of all targeted variables and reporting requirements are contained in the attached technical memorandum of understanding (TMU).

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

VI. TOWARD HIPC COMPLETION POINT

34. **The Gambia has met the spirit and letter of nearly all the HIPC completion point triggers.** Of the eleven triggers, two—an annual increase of at least 5 percent in the share of births attended by trained antenatal personnel, and the bringing to the point of sale of public assets in the groundnut sector—were only partially met. The government is requesting waivers for these two triggers. Births attended by trained personnel increased, but the target set for the trigger did not anticipate a long lag before completion point. Since completion point was delayed, the government believes that achieving an increase from 44 percent in 1998 to 56.3 percent in 2005, a figure that compares favorably in the region, meets the spirit of this trigger.

35. **The government has taken corrective action to move beyond the requirement to bring the public sector groundnut processing plants to the point of sale.** Efforts to attract private investors have been unsuccessful. At the same time a consensus has emerged among stakeholders that revitalization of the sector—crucial for poverty reduction and growth—should go beyond the simple sale of assets that does not address core weaknesses in the sector. Instead, the government has adopted a comprehensive Groundnut subsector Roadmap Implementation Framework based on various recent studies undertaken with support from the World Bank, European Union and IMF. As part of this roadmap, the government has taken several specific actions ahead of the 2007/08 season, including opening all aspects of operations in the sector to the private sector and assigning responsibility for managing key aspects of the sector (e.g., the setting of producer prices) to the Agribusiness Service Plan Association (ASPA). The government believes it has done enough to warrant waivers of the two triggers that were not fully met.

36. **Resources freed by debt relief under the HIPC and multilateral debt relief initiatives will be used to increase poverty-reducing expenditures, in line with PRSP II priorities.** Resources freed by debt relief will amount to nearly \$22 million in 2008. These resources will be allocated among various uses, including increased social sector expenditures, reduced domestic debt, and pay and pension reform in the civil service. The government will continue to make careful use of debt relief in the context of the ongoing PRGF program and future budgets.

ANNEX I.- STANDARD FORMAT FOR PROJECT IMPLEMENTATION REPORTS.

I/ GENERAL PROJECT DATA

Name of the Project:____Project Manager:_____

Project Duration:_____ Overall Costs _____

Date of Project Commencement _____

Supervisory Ministry:_____

II/ INITIAL PROJECT OBJECTIVES AND PROGRESS ACHIEVED TO DATE:

[Please provide a detailed description of the project’s objectives, the different components of the project, progress achieved to date, and future expected disbursements]

III/ PROBLEMS OBSERVED DURING THE IMPLEMENTATION PERIOD

Please note the main difficulties observed since the inception of the project [e.g. problems with procurement, insufficient staff assigned to the project, lack of coordination with other Departments of State, etc.], and suggestions for improvement. What would help the project be more successful if it had to start all over again

IV/ OTHER OBSERVATIONS

[Please provide any other information that may help the Central Project Management and Aid Coordination Directorate evaluate progress with this project]

Table 1. The Gambia: Quantitative Targets and Projections, End-December 2005–End-September 2007¹

	2005		2006		2007					
	End-Dec.	End-Dec.	End-Mar.		End-Jun.		End-Sep.			
	Act.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Rev.	Act.	
	(Stock)		(Change from End-December 2005)							
Performance criteria²	(Millions of dalasis)									
Net domestic assets of the central bank (ceiling)	174.3	-135.5	41.2	-121.3	9.7	-334.4	12.3	-87.8	-926.1	
Basic balance (floor) ³	...	207.3	292.9	446.0	419.5	703.8	487.1	537.1	834.7	
New external payments arrears of the central government (ceiling) ⁴	0.0	0.0	0.0	0.0 ⁵	0.0	0.0	0.0	0.0	0.0	
	(Millions of U.S. dollars)									
Net usable international reserves (floor)	71.1	23.8	9.2	13.4	10.4	20.8	9.7	16.5	42.3	
New nonconcessional debt contracted or guaranteed by the government with original maturity of more than one year (ceiling) ⁶	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Outstanding stock of external public debt with original maturity of one year or less (ceiling) ⁷	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Indicative targets	(Millions of dalasis)									
Domestic budgetary arrears ⁸	770.3	-223.8	-258.2	-448.5	-339.6	-499.4	-421.0	-574.3	-585.0	

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; and June 2007 is the indicative target.

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

⁴To be applied on a continuous basis.

⁵The Gambia accumulated temporary arrears to the World Bank and the African Development Bank which have been cleared.

⁶External debt contracted or guaranteed other than that with a grant element equivalent to 45 percent or more, calculated using a discount rate based on the Organization for Economic Cooperation and Development (OECD) commercial interest reference rates (CIRRs). Excludes borrowing from the IMF.

⁷Excluding normal import-related credits.

⁸The stock of domestic arrears at end-2005 was previously estimated at D524.5 million.

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

Measure	Target Date	Status
<i>Public financial management and accountability</i>		
1. Clear the backlog of unaudited government accounts		
(i) Submit to the national assembly the audited accounts for 2000-04 (B)	End-December 2007	On track
(ii) Submit to the Auditor-General the accounts for 2006 (PC)	End-December 2007	Met (9/28/07)
2. Make operational the Central Project Management and Aid Coordination Directorate at DoSFEA (PC)	October 2007	Met
3. Issue a comprehensive monthly budget execution report, including information on commitments, with a one-month lag, starting with the report for April 2007 (PC)	Monthly	Partially met.
4. Provide quarterly financial information on selected public enterprises with a one-quarter lag, starting with reports for end-March 2007 (B)	End-September 2007 (report for end-June 2007)	Met (with a delay).
<i>Central bank governance and operational independence</i>		
5. Implement the action plan to bring government borrowing from the CBG in line with the limit under the CBG Act within one year (PC)	End-December 2007	Met
6. Provide to Fund staff special audit report on monetary program data at program test date at end-September 2007 (PC)	End-December 2007	On track
7. Complete a gap analysis and establish an Action Plan for moving to IFRS (PC).	December 2007	On track
<i>Statistics</i>		
8. Publish quarterly balance of payments statistics, with one quarter lag beginning with 2007Q1 (B)	From end-June 2007	Met

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

Table 3. The Gambia: Quantitative Targets and Projections, End-December 2007–End-December 2008

	2005	2007				2008					
	End-Dec.	End-Dec. ¹				End-Mar.		End-Jun.		End-Sep.	End-Dec.
	Act.	Prog.	Rev. (1st review)	Rev. with new exch. rate base	Rev. (2nd review)	Prog. (1st review)	Rev. (2nd review)	Prog. (1st review)	Rev. (2nd review)	Prog. (2nd review)	Prog. (2nd review)
	(Stock)	(Change from End-December 2005)									
Performance criteria²	(Millions of dalasis)										
Net domestic assets of the central bank (ceiling) ³	174.3	-313.3	-277.8	350.0	369.0	385.5	467.7	385.0	446.2	442.2	569.5
Basic balance (floor) ⁴	...	671.3	771.3		866.7	969.3	835.8	1042.1	953.5	977.5	1031.6
New external payments arrears of the central government (ceiling) ⁵	0.0	0.0	0.0			0.0		0.0	0.0	0.0	0.0
	(Millions of U.S. dollars)										
Net usable international reserves (floor) ⁶	71.1	26.5	36.1	36.1	36.1	39.6	39.6	39.9	39.9	39.8	41.6
New nonconcessional debt contracted or guaranteed by the government with original maturity of more than one year (ceiling) ⁷	0.0	0.0	0.0			0.0		0.0	0.0	0.0	0.0
Outstanding stock of external public debt with original maturity of one year or less (ceiling) ⁸	0.0	0.0	0.0			0.0		0.0	0.0	0.0	0.0
Indicative targets	(Millions of dalasis)										
Domestic budgetary arrears ⁹	770.3	-502.3	-649.0		-649.0	-679.4	-695.0	-709.8	-741.0	-786.9	-832.9
	(Millions of U.S. dollars)										
Net present value of new contracted external debt (cumulative ceiling) ¹⁰					4.2		20.7		20.7	31.7	31.7
<i>Memorandum item:</i>											
Program exchange rate (D/\$)			27.5	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0

Source: IMF staff estimates.

¹MDRI debt relief is assumed to take place in the fourth quarter of 2007.²March 2008 and September 2008 are performance criteria; December 2007, June 2008, and December 2008 are indicative targets.³Will be adjusted downward from December 2007 onward by the dalasi equivalent of 100 percent of privatization receipts exceeding \$35 million.⁴Defined as domestic revenue minus expenditure and net lending, excluding externally financed capital expenditure.⁵To be applied on a continuous basis.⁶Will be adjusted upward from December 2007 onward by 100 percent of privatization receipts exceeding \$35 million.⁷External debt contracted or guaranteed other than that with a grant element equivalent to 45 percent or more, calculated using a discount rate based on the Organization for Economic Cooperation and Development (OECD) commercial interest reference rates (CIRRs). Excludes borrowing from the IMF.⁸Excluding normal import-related credits.⁹The stock of domestic arrears at end-2005 was previously estimated at D524.5 million.¹⁰Cumulative from October 1, 2007.

Table 4. The Gambia: Structural Conditionality for January-September 2008¹

Measure	Target Date
<i>Public financial management and accountability</i>	
1. Issue a comprehensive monthly budget execution report, including information on commitments, with a one-month lag, starting with the report for April 2007 (PC)	Monthly
2. Re-submit corrected monthly budget execution reports for July and August 2007, and complete reports for September and October, 2007 (PA)	End-November 2007
3. Establish (in the Central Project Management and Aid Coordination Directorate of DOSFEA) a central register of capital expenditure commitments related to externally financed projects for ongoing and new projects (PC)	End-April 2008
4. Prepare a national debt strategy after receiving TA (B)	End-July 2008
5. Auditing of government accounts	
(i) Submit to the national assembly the audited accounts for 2005 and 2006 (B)	End-September 2008
(ii) Submit to the Auditor-General the accounts for 2007 (PC)	End-September 2008
<i>Financial deepening</i>	
6. Make the credit reference bureau operational (PC)	End-March 2008
<i>Central bank governance</i>	
7. Provide to Fund staff special audit report on monetary program data at program test date of end-March 2008 (PC)	End-June 2008
<i>Statistics</i>	
8. Publish quarterly balance of payments statistics, with one quarter lag beginning with 2007 Q1 (B)	From end-June 2007
9. Rebase the national accounts to 2003/04 prices and begin estimating GDP by expenditure components (B)	June 2008

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

Attachment II

Technical Memorandum of Understanding

(October 2007–December 2008)

I. INTRODUCTION

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

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Net Domestic Assets of the Central Bank

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

3. For program monitoring purposes, in the calculation of the net domestic assets of the CBG, foreign assets and liabilities will be converted first into U.S. dollars at the prevailing cross-rates and then converted into dalasi using the D/USD program exchange rate of 22. This is an accounting exchange rate only and should not be construed as a projection.

4. **Adjuster:** The net domestic assets of the CBG from December 2007 onward will be adjusted downward by the dalasi equivalent of 100 percent of privatization receipts exceeding \$35 million.

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

B. Basic Balance of the Central Government

6. **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.

7. **Supporting material:** Reporting on the basic balance will form part of the consolidated budget report described in paragraph 31 below.

C. New External Payments Arrears of the Central Government

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

9. **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

10. **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.

11. **Adjuster:** Net usable international reserves of the CBG from December 2007 onward will be adjusted upward by 100 percent of privatization receipts exceeding \$35 million.

12. **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. The CBG will identify

the U.S. dollar equivalent of privatization receipts within net usable international reserves as a memorandum item.

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

13. **Definition:** This target refers to new nonconcessional external debt with original maturity of more than one year contracted or guaranteed by the central government. It applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 24, 2000 (Decision No. 12274–00/85), but also to commitments contracted or guaranteed for which value has not been received. Excluded from this target are loans or purchases from the IMF and debts with a grant element of at least 45 percent¹ Also excluded are two loans from the OPEC Fund for International Development with grant elements of 39.5 percent each, which were approved in the first half of 2007.

14. **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

15. **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.² 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.

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.

¹ A loan is concessional if its grant element is at least 35 percent, calculated on the basis of the commercial interest reference rates (CIRR) and following the methodology set out in staff paper on Limits on External Debt or Borrowing in Fund Arrangements – Proposed Change in Implementation of the Revised Guidelines (SM/96/86, 4/8/96) approved by the IMF Executive Board on April 15, 1996.

² The term “debt” has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 24, 2000 (Decision No. 12274–00/85).

III. QUANTITATIVE INDICATIVE TARGETS

A. Domestic Budgetary Arrears

17. **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.

18. **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.

B. Net Present Value of New Contracted External Debt

19. **Definition:** The net present value (NPV) of new external debt contracted or guaranteed by the government from October 2007 onward is calculated by discounting the future stream of payments of debt service due by the country-specific commercial interest reference rates (CIRRs) as published by the Organization for Economic Cooperation and Development (OECD). The new external debt will be measured by the U.S. dollar nominal sum of all loan agreements that have been contracted. Disbursed debt will be converted to U.S. dollars, based on prevailing WEO test date exchange rates; for loans contracted but not yet disbursed, the profile disbursement will be measured at the actual exchange rate at the test date, based on the projected drawdown consistent with the medium-term fiscal framework as discussed with the Fund staff.

20. **Supporting material:** Data on the NPV of the stock of outstanding external debt contracted or guaranteed by the government since October 2007 will be provided on a monthly basis within five weeks of the end of each month.

IV. STRUCTURAL PERFORMANCE CRITERIA AND BENCHMARKS

A. Central Register of Capital Expenditure Commitments

21. **Definition:** The register in the Central Project Management and Aid Coordination Directorate of the Department of State for Finance and Economic Affairs is deemed established when the directorate compiles and maintains up-to-date database on capital expenditure commitments made by the government in relation to ongoing and new externally financed projects.

22. **Supporting material:** A comprehensive record of capital expenditure commitments made by the government in relation to ongoing and new externally financed projects will be

transmitted on a quarterly basis within four weeks of the end of each quarter. The record shall explicitly identify commitments made for each project.

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

B. Special Audit Report on Monetary Program Data

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

C. Credit Reference Bureau

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

D. Quarterly Balance of Payments Statistics

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

E. National accounts

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

V. OTHER DATA REQUIREMENTS AND REPORTING STANDARDS

28. 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

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

B. Government Accounts Data

30. 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.

31. 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 6); and (vi) details of budget financing (including net domestic borrowing and its gross components, external grants, net external borrowing and its gross components, utilization of privatization proceeds, and arrears).

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

C. Poverty Reducing Expenditures

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

D. Monetary Sector Data

34. The balance sheets of the CBG, prepared on the basis of current and program exchange rates, will be transmitted on a monthly basis to the IMF within four weeks of the end of each month. The balance sheet should explicitly identify all claims on, and liabilities to, the government. Claims include overdrafts, holdings of treasury bills, interest and noninterest-bearing government bonds, advances to the government in foreign currency, and other claims. Liabilities include balances in the treasury main, treasury expenditure, treasury bill special deposit, privatization, special projects, foreign projects, and other deposit accounts. The consolidated balance sheet of the commercial banks and a monetary survey (i.e., consolidation of the accounts of the CBG and the commercial banks), including foreign

currency deposits held by residents of The Gambia with commercial banks, will be transmitted within four weeks of the end of each month. The CBG will also forward, within four weeks of the end of each month, data on banks' reserves held at the CBG to meet statutory reserve requirements during the last week of each month (broken down by total reserves, and excess reserves or deficits). Data will be provided for each commercial bank as well as for the industry as a whole.

E. Treasury Bills and CBG Bills

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

F. External Sector Data

36. 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.

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

G. Privatization Receipts

The CBG will report data on privatization receipts in the currency it received as well as equivalent amounts in U.S. dollars and in dalasis on a monthly basis within two weeks of the end of the month