International Monetary Fund

The Gambia and the IMF

Press Release:
IMF Executive Board Completes Third Review under PRGF Arrangement for The Gambia and Approves US$3.1 Million Disbursement
September 8, 2008

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

July 30, 2008

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
July 30, 2008

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

Dear Mr. Strauss-Kahn:

1. The Gambia's three-year Poverty Reduction and Growth Facility (PRGF) arrangement was approved by the IMF's Executive Board in February 2007. The first and second reviews were completed on August 29 and December 19, 2007, respectively. The attached Memorandum of Economic and Financial Policies (MEFP) reviews progress in implementing the Government's PRGF-supported program in 2007 and during the first half of 2008, and sets out the policies that the government will pursue in the rest of 2008. We are committed to continue maintaining macroeconomic stability and fostering reforms conducive to higher growth and poverty reduction.

2. Performance under the program has been quite strong. All the quantitative performance criteria for end-March 2008 were met, and four out of eight structural performance criteria scheduled for implementation between December 2007 and July 2008 were fully implemented on time. Of the remainder, two were met with a slight delay while the other two were only partially implemented. On the basis of corrective measures that have been taken (see MEFP, paragraphs 12–14), we request waivers for the nonobservance of four performance criteria.

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

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

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

Sincerely yours,

/s/

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

/s/

Momodou Bamba Saho
Governor
Central Bank of The Gambia

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

Attachment I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. INTRODUCTION

1. This memorandum updates the Government of The Gambia's economic and financial program under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement with the International Monetary Fund (IMF). The program, which was approved by the Executive Board of the IMF in February 2007, aims at consolidating macroeconomic stability and fostering the conditions for sustaining high economic growth and reducing poverty. The first and second reviews were successfully completed in August and December 2007, respectively. The Gambia reached completion point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC) in December 2007 and is receiving debt relief under both the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI).

II. RECENT ECONOMIC DEVELOPMENTS

2. Growth has remained strong but is expected to slow down in 2008. Real GDP grew at about 6½ percent a year in 2006 and 2007, led by telecommunications, tourism and construction. Tourist arrivals are on pace to increase by about 10 percent in the 2007/08 season compared to 2006/07; the average length of stay remained roughly the same, albeit with a changing pattern and type of accommodation. Growth in the agriculture sector declined in 2007 due to poor rains during the early part of the crop season. For 2008, overall growth is projected to slow to 5.5 percent, mainly on account of the impact of adverse international developments and dalasi appreciation on tourism and remittances.

3. After rising sharply in 2007, inflation has slowed in 2008. Driven by rising world food prices, the annual rate of inflation on a year-on-year basis rose from less than 1 percent in December 2006 to 6-7 percent during most 2007. Appreciation of the dalasi and relatively tight monetary policy helped to contain the price shocks. Year-on-year inflation was 2.2 percent in June 2008. The 12-month moving average rate fell from 5.2 percent in December 2007 to 4 percent in June 2008. In order to help keep the price of rice affordable, the government eliminated the sales tax on rice imports in May 2008; the tax had been reduced from 15 percent to 5 percent in July 2007.

4. The overall fiscal balance improved in 2007. Gains from tax administration reforms boosted revenues, while shortfalls in the projected level of external financing led to a marked contraction in capital expenditures. In particular, a dispute between the contractor and the supervising consultant delayed grant disbursements for a large European Union (EU)-supported roads project. The problem has now been resolved and implementation of the project is expected to proceed. The stock of domestic government debt fell from 32 percent of GDP at end-2006 to 28 percent of GDP at end-2007, compared to nearly 30 percent projected at the time of the second PRGF review.

5. Performance weakened somewhat in the first quarter of 2008 compared with the first quarter of 2007. Domestic revenues were down 3.5 percent while domestic expenditures increased by 16.5 percent. Nonetheless, the government was able to achieve a surplus of D51 million on the basic balance. On the revenue side, taxes on international trade fell 11 percent. At the same time, wages increased 35 percent in line with the program to help retain and attract skilled manpower to the government. This increase was partially offset by a 21 percent reduction in external interest payments due to HIPC and MDRI relief. In 2007, the government cleared more domestic arrears than programmed, and is on target to clear the remaining stock before the end of 2008.

6. The government increased retail prices of petroleum products in May 2008. The prices per liter were increased from D28 to D32 for diesel, from D30 to D33 for petrol, and from D21 to D26 for kerosene. Petrol and diesel prices were last increased in January 2006, and kerosene in June 2007. The government is committed to adjusting the prices as needed to avoid burdening the budget by subsidizing these products. However, kerosene will continue to be cross-subsidized by the other products.

7. Growth in broad money slowed down significantly in 2007 and through May 2008. Growth fell from 26 percent in 2006 to 7 percent in 2007 as a result of improved government finances. Credit to the private sector was stagnant during most of 2007. Reserve money contracted by 4 percent in 2007 after expanding by 24 percent in 2006, and fell further by 6 percent in the first half of 2008. In March 2008, in response to indications of tight liquidity conditions, and against a backdrop of falling inflation, the CBG reduced the unremunerated statutory minimum reserve requirement of banks from 16 percent to 14 percent.

8. Since the sharp appreciation during the third quarter of 2007, fluctuation of the dalasi in response to changing supply and demand conditions in the foreign exchange market has become more pronounced. The dalasi appreciated by 32 percent by end-September 2007 against the U.S. dollar, mainly due to a change in market sentiments when many banks decided to unwind their long net open positions at the same time during August and September 2007. However, a reversal of the trend occurred during the fourth quarter 2007 when the dalasi depreciated by 18 percent. The CBG acted to restore stability by actively intervening in the market during August-November. Against a backdrop of strong inflow of remittances, less need for foreign exchange to service debt (due to debt relief), and tight liquidity conditions, the dalasi appreciated by 8 percent during the first half of 2008.

9. The external current account deficit (including official transfers) widened from 11½ percent of GDP in 2006 to 12½ percent in 2007. The current account deficits were financed largely by inflows of foreign direct investment (FDI). In 2007, FDI included US$28.5 million in privatization proceeds, reflecting part payment (out of a total of US$35 million) for the sale of 50 percent of GAMTEL.

10. The financial sector is relatively sound and competition has been increasing. With the entry of two new banks since October 2007, there are now ten commercial banks operating in The Gambia and two more have been granted approval-in-principle. Generally, the banks are profitable and adequately capitalized. However, their gross earnings in 2007 were significantly lower than in 2006, reflecting, in large part, revaluation losses associated with the marked appreciation of the dalasi. The risk-weighted capital adequacy ratio has stayed in the 22–23 percent range since the first quarter of 2007, against the minimum requirement of 8 percent. Nonperforming loans fell during the first quarter of 2008 to 10 percent of gross loans (compared to about 13 percent in the fourth quarter of 2007) as banks have been making serious efforts in loan recovery and in restructuring loans. In order to satisfy the demand for an Islamic instrument, the CBG introduced the short-dated Sharia-compliant Sukuk Al-Salaam in November 2007.

III. Performance Under the Program

11. All the quantitative performance criteria for end-March 2008 were met (Table A1). New external loans contracted during October 2007-March 2008 amounted to US$10.9 million in net present value terms, compared to an indicative target of US$20.7 million.

12. Four out of eight structural performance criteria were met (Table A2). Of the rest, two (submission of special audit reports on program monetary data by December 2007 and June 2008) were implemented with a slight delay, while the others were only partially met. As was the case in earlier reviews, the delays on the special audit reports reflected delays experienced by the external auditor in obtaining confirmations from some of the CBG's correspondent banks abroad.

13. With respect to the establishment of a central register of capital expenditure commitments, information was collected in different formats and varying degrees of completeness for individual projects. A uniform format has now been adopted and information gaps are being filled. Completion of the register has been established as a prior action for completion of the third review (Table A2).

14. A credit reference bureau has been established but is not yet fully operational. Banks are providing information to the Bureau but concerns about the legal basis for sharing information have slowed down implementation of the project. The Financial Institutions Act (2003) prohibits the sharing of information on individual customers of banks. The Act is under review, inter alia, to address this shortcoming. In view of uncertainty about the legislative calendar, this performance criterion has been reset to end-March 2009 to provide a realistic timeframe for implementation.

15. On the basis of the remedial actions that the government and the CBG have taken, the government requests waivers for the non-observance of the four performance criteria indicated above.

16. With respect to structural benchmarks, there has been a delay in the submission of the Auditor-General's report on the government's 2000-04 accounts to the national assembly (scheduled for end-December 2007). In January 2008, the Auditor-General provided an interim report to the Department of State for Finance and Economic Affairs (DoSFEA) to allow the Treasury Directorate an opportunity to respond to some queries and correct portions of the accounts. DoSFEA responded in May, and the Auditor-General now expects to complete a review and submit his final report to the national assembly by end-October 2008.

17. Work is progressing well on rebasing the national accounts to 2004 prices and on beginning to estimate GDP by the expenditure approach. Full implementation of this benchmark is now expected by end-September 2008.

IV. Medium-Term Objectives and Strategy

18. The government's medium-term objectives and strategy are contained in The Gambia's second Poverty Reduction Strategy Paper (PRSP II). PRSP II, which covers 2007-11, provides the framework for poverty reduction efforts in The Gambia and also sets the development agenda towards meeting the Millennium Development Goals (MDGs) by 2015. Strategic priorities include: (i) macroeconomic stability and effective public resource management; (ii) promotion of pro-poor growth and employment through private sector development; and (iii) improved provision of basic social services. Successful implementation of PRSP II requires significant strengthening of capacity in the civil service, improvements in the budget process (formulation, monitoring), and the mobilization of highly concessional external resources.

19. A Diagnostic Trade Integration Study (DTIS) led by the World Bank was approved by the government in August 2007, following the validation of its findings by stakeholders. It found that re-export trade (on which a large part of the economy and public finances depend) was in decline as a result of The Gambia losing some of the advantages which made it an attractive regional entrepot. In particular, harmonization of imports and sales taxes in the region and improvements in ports and customs operations in Senegal and other neighboring countries have eroded The Gambia's competitive edge. The DTIS contains a wide range of recommendations to enhance The Gambia's international competitiveness through sector-specific reforms and cross-cutting measures to improve the investment climate. Key areas of focus include infrastructure (e.g., transport, energy), tourism, and agricultural export diversification. The government is seeking funding to implement the highest priority recommendations of the DTIS, including those related to reinforcing trade facilitation services.

20. The Gambia has preserved macroeconomic stability in the last two and a half years with strong growth, relatively low inflation, and adequate international reserves. The government will continue to maintain prudent macroeconomic policies in the face of

challenging global economic and financial conditions. The main objectives and assumptions underlying the medium term macroeconomic framework are:

- real GDP growth rates of 5.5–6.5 percent a year;
- inflation below 6 percent;
- basic fiscal balance surpluses of 1–2 percent of GDP;
- a reduction in government's domestic debt from 28 percent at end-2007 to 16 percent at end-2010;
- external current account deficits (including official transfers) around 10 percent of GDP; and
- international reserves equivalent to 4–5 months of imports.

21. The baseline 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 the burden of domestic debt to ease upward pressure on interest rates and create fiscal space for poverty-reducing expenditures. The current account path reflects the medium-term projections of capital inflows.

22. Resources freed by debt relief under the HIPC and MDR Initiatives will be used to increase poverty-reducing expenditures, in line with PRSP II priorities. They will be allocated among various uses, including increased social sector expenditures, reduced domestic debt, and civil service pay and pension reform.

23. The government has established a Task Force to prepare recommendations for a comprehensive civil service reform program for The Gambia, drawing on studies supported by the World Bank and other donors. The main aim of the reform is to rebuild the capacity of the civil service to formulate and implement policies needed for effective delivery of public services. A heavy loss of professional and managerial staff has undermined the effectiveness of the civil service. To reverse this, the reform program is expected to address issues related to pay and benefits, as well as career development. In the short run (within one year), the reform will focus on pay reform, developing a pension reform strategy, and strengthening payroll and establishment controls. Over the medium-term (2–5 years), activities will include functional review of all departments, overhaul of job descriptions and schemes of service, and implementation of the pension reform.

24. The CBG will continue to take steps to promote the development and deepening of the financial sector. The CBG will encourage competition among financial institutions in order to lower interest rate spreads, increase the provision of services, expand the branch network in all parts of the country, and enhance growth and development. The CBG has taken a number of legal initiatives to promote a safe and vibrant financial system in The Gambia. To that end, it: (1) is preparing a draft Banking Act to replace the Financial

Institutions Act 2003; (2) has prepared a new Non-Bank Financial Institutions Bill to encourage nonbanks to provide financial services; (3) has proposed amendments to Mortgage and Sheriff Acts that will reduce legal risks for banks, thereby promoting lending to the private sector. The CBG Board also has approved two new initiatives to promote foreign exchange operations. They are: (1) a code of conduct of foreign exchange market operators; and (2) establishing a system of market makers in foreign exchange, similar to the primary market dealership in treasury bills. The CBG will continue to implement the Prompt Corrective Action (PCA) framework, introduced in March 2007, to guide and help troubled banks. The CBG is setting up a new Financial Intelligence Unit (FIU) to combat money laundering.

V. Policies for the Rest of 2008

25. A major challenge for economic management in the second half of 2008 will be coping with the impact of rising world food and oil prices. Thus far, appreciation of the dalasi has helped contain the impact of the price increases. At the same time, it has adversely affected the prospects for the upcoming tourist season.

A. Fiscal policy

26. Revenue is broadly on track to meet the targets set in the government's 2008 budget. On the expenditure side, efforts will be made to speed up the disbursements for externally financed capital expenditures. The government may consider expanding social programs (e.g., school feeding program) to mitigate the impact of rising world food prices on the poor.

27. Preparation for the 2009 budget has begun with the issuance of the call circular in June. Key elements of the preparations will include government decisions on civil service and pension reforms. The government is also in discussions with the AfDB, EU, and the World Bank for assistance in the form of budget support.

28. The CBG and DoSFEA have enhanced their coordination of fiscal and monetary policies. Further to signing a memorandum of understanding last year to guide domestic debt management and monetary operations, the government has undertaken the following to strengthen the CBG's financial position and its ability to conduct monetary policy. It will: (1) take over a nonperforming loan of the CBG to the Gambia National Petroleum Corporation of D136.9 million and clear the loan within four years at equal installments with the first one beginning in the last quarter of 2008; (2) continue to replenish the CBG's capital by D20 million each year to the total of D100 million; of which, contributions for 2006–07 and half of the amount for 2008 have already been made; (3) reach agreement with the CBG in the near future on the timing and the amount of replenishment of the treasury bill special deposit account. Currently, this account has a very low balance, thereby limiting the CBG's options to conduct monetary policy. DoSFEA and the CBG will agree on concrete proposals by end–October 2008.

B. Monetary and Exchange Rate Policies

29. 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 of government revenues and expenditures.

30. The exchange rate of the dalasi is market determined. The CBG will intervene in the foreign exchange market from time to time to: (1) 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 conditions; (2) correct misalignment of the exchange rate of the domestic currency; and (3) calm disorderly markets, including exchange rate volatility and market illiquidity.

31. The second half of 2008 will be a challenging period for monetary policy making as The Gambia faces the impact of the increase in international food and oil prices. CBG policy will continue to be based on maintaining price stability. The CBG will use all the available instruments at its disposal to reach this goal.

C. External Debt

32. The HIPC and MDRI relief has significantly reduced The Gambia's external debt burden. In net present value terms, the stock of debt fell from $439 million (68 percent of GDP) to $165 million (24 percent of GDP) at end-2007. Paris Club creditors have confirmed that they will provide the debt relief they promised. The government is making efforts to obtain debt relief from all non-Paris Club bilateral creditors.

33. The government is committed to the careful management of external debt to maintain external stability. To this end, it promotes a strategy of donor engagement and prudent debt management to attain PRSP priorities without compromising debt sustainability. It will be prudent with new borrowing and will respect the indicative targets for 2008 ($50 million) under the program. The limit for 2009 ($25 million) will be revisited in the context of program reviews, which will take into account the result of the government's own debt sustainability analysis (DSA). Support is being sought from the Commonwealth Secretariat for technical assistance to undertake a DSA and to build capacity. Results of the DSA are expected by October 2008. The government will also ensure that new loans have a minimum grant element of 45 percent.

34. The results of the DSA will feed into the design of a national debt management strategy which will be prepared by end-February 2009. The strategy will be in line with best international practice and will incorporate the following principles: (1) a clear definition of debt management objectives; (2) a well-defined institutional framework; (3) an adequate

mechanism to prevent the accumulation of arrears and monitor contingent liabilities; and (4) a commitment to implement cost effective cash management policies.

D. PRSP II Implementation and Aid Effectiveness

35. PRSP II was the focus of a Round Table Conference on The Gambia held in London in February 2008. The government has established mechanisms to monitor and analyze progress implementing PRSP II. In particular, the government has prepared a Results Matrix providing quantitative indicators and targets that can be matched to development results. A draft of the Annual Poverty Report for 2007 has been completed, and a final version will be published after it has been validated by stakeholders. A draft of the Poverty Reduction Expenditure Report for 2007 is also under preparation, and is expected to be finalized by end-August 2008.

36. Under the government's ownership and leadership, an in-country Development Partners Coordination and Consultation Mechanism has been established under the Chairmanship of the Secretary of State for Finance and Economic Affairs. This mechanism is to facilitate and deepen development dialogue with The Gambia's partners, bring about positive changes to aid practices, and encourage more effective use of aid resources for greater development impact for the implementation of PRSP II.

37. At the first consultation and coordination meeting held in April 2008, the government presented to its development partners a draft Aid Effectiveness Action Plan. The Action Plan adapted the Paris Declaration principles of Ownership, Alignment, Harmonization, Management for Results, and Mutual Accountability to the situation of The Gambia. The meeting noted the positive steps taken by some multilateral donors to have a joint Country Assistance Strategy for The Gambia and called on other development partners to develop similar joint and harmonized programming activities for the country. Consultation and coordination meetings will be held quarterly. At the next meeting, the Aid Effectiveness Action Plan will be finalized. The government informed development partners of plans to hold sector specific consultation and coordination meetings starting with Health and Education in the course of 2008.

VI. Program Monitoring and Access Level

38. The program will continue to be monitored based on agreed quantitative targets (Table A1), a set of structural performance criteria and benchmarks (Table A3), and program reviews. The quantitative financial targets for end–September 2008 and end–March 2009 are performance criteria; and those for end–December 2008, and end–June 2009 are indicative targets. The fourth and fifth program reviews are scheduled to be completed by end–January 2009 and end–July 2009, respectively. Definition of all targeted variables and reporting requirements are contained in the attached technical memorandum of understanding (TMU).

39. The CBG has strengthened its internal control and audit. In lieu of the special audits, the CBG proposes to implement alternative measures that would provide assurances to the IMF that financial controls at the CBG have been strengthened. These measures include: (1) preparation of pro-forma financial statements for 2007 based on the International Financial Reporting Standards (IFRS), which should be reviewed by the CBG's external auditor, and (2) internal audit reports verifying the accuracy of monetary program data for test dates (September 2008 and March 2009). As the contract of the current external auditors expired after the audit of the 2007 financial statements, the CBG and the Auditor-General (who is responsible for appointing the CBG's external auditor) are discussing an audit rotation and selection policy appropriate for The Gambia's circumstances (few options available locally).

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

41. The government will monitor the impact of rising world food and oil prices on The Gambia's balance of payments in the coming months. If the balance of payments deteriorates significantly on account of adverse price developments, the government may request an augmentation of the level of access to IMF resources under the PRGF arrangement. The government intends to take this up with the next review mission, currently scheduled for October/November 2008.

VII. Requests for Technical Assistance and FSAP

42. The government is grateful for the technical assistance that the IMF has provided to The Gambia. It welcomes the resumption of assistance in public financial management with the appointment of a new regional advisor based in Liberia whose work will complement the work of other macro-fiscal and debt management experts in DoSFEA, who are being supported under an AfDB technical assistance grant.

43. The government and the CBG welcome the continuation of assistance on financial, balance of payments, and national accounts statistics. The government requests that the IMF provide assistance to the Gambia Bureau of Statistics in the compilation of producer prices.

44. Technical assistance from the IMF has also contributed to the strengthening of banking supervision at the CBG. In view of the increasing number of banks and the introduction of new products in the financial sector, we request The Gambia be considered for an FSAP.

Table A1. The Gambia: Quantitative Targets and Projections, End-December 2006 to End-June 2009

	2006	2007		2008						2009	
	End-Dec.	End-Dec.[1]		End-Mar.		End-Jun.		End-Sep.	End-Dec.	End-Mar.	End-Jun.
	Act.	Prog. (2nd review)	Act.	Prog. (2nd review)	Act.	Prog. (2nd review)	Act.	Prog. (3rd review)	Prog. (3rd review)	Prog. (3rd review)	Prog. (3rd review)
	(Stock)	(Change from End-December 2006)									
Performance criteria [2]											
		(Millions of dalasis)									
Net domestic assets of the central bank (ceiling)	38.7	504.5		603.2		581.7		-48.8	-97.0	87.5	49.2
Adjusted for privatization proceeds[3]		262.5	-270.4	361.2	-334.5	339.7	-393.2				
Basic balance (floor)[4]	...	659.4	613.6	628.5	661.8	746.2	…	793.4	859.3	932.5	1,005.8
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	0.0	0.0	0.0
		(Millions of U.S. dollars)									
Net usable international reserves (floor)	94.9	12.3		15.8		16.2		27.0	36.5	34.8	36.2
Adjusted for privatization proceeds[6]		23.3	32.0	26.8	27.5	27.2	29.0				
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	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	0.0	0.0	0.0
Indicative targets											
		(Millions of dalasis)									
Domestic budgetary arrears	561.5	-440.2	-455.5	-486.5	-547.7	-532.5	…	-561.5	-561.5	-561.5	-561.5
		(Millions of U.S. dollars)									
Net present value of new contracted external debt (cumulative ceiling)[9]		4.2		20.7	10.9	20.7	…	31.7	31.7	38.6	38.6
Memorandum item:											
Program exchange rate (D/$)		22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
Privatization proceeds ($ millions)	…	17.5	28.5	17.5	28.5	17.5	28.5	35.0	35.0	35.0	35.0
Privatization proceeds (D millions at program exchange rate)	…	385.0	627.0	385.0	627.0	385.0	627.0	770.0	770.0	770.0	770.0

Source: IMF staff estimates.

[1] MDRI debt relief took place in the fourth quarter of 2007.
[2] March 2008, September 2008, and March 2009 are performance criteria; December 2007, June 2008, December 2008, and June 2009 are indicative targets.
[3] Adjusted upward (downward) by the dalasi equivalent of the extent to which actual receipts fall short of (exceed) projected level of privatization receipts.
[4] Defined as domestic revenue minus expenditure and net lending, excluding externally financed capital expenditure.
[5] To be applied on a continuous basis.
[6] Adjusted upward (downward) by the extent to which actual receipts exceed (fall short of) projected level of privatization receipts.
[7] External debt contracted or guaranteed other than that with a grant element equivalent to 45 percent or more, calculated using a discount rate based on the Organization for Economic Corporation and Development (OECD) commercial interest reference rates (CIRRs). Excludes borrowing from the IMF.
[8] Excluding normal import-related credits.
[9] Cumulative from October 1, 2007.

Table A2. The Gambia: Structural Conditionality for December 2007–July 2008[1]

Measure	Target Date	Status
Public financial management and accountability		
1. Auditing of government accounts		
(i) Submit to the national assembly the audited accounts for 2000-04 (B)	End-December 2007	Not met
(ii) Submit to the Auditor-General the accounts for 2006 (PC)	End-December 2007	Met
2. Issue a comprehensive monthly budget execution report, including information on commitments, with a one-month lag (PC)	Monthly	Met
3. Establish a central register of capital expenditure commitments related to externally financed projects for ongoing and new projects (PC)	End-April 2008	Partially met
4. Establish a central register of capital expenditure commitments related to externally financed ongoing and new projects (PA)	July 15, 2008	Met
5. Prepare a national debt strategy after receiving TA (B)	End-July 2008	Not met
Central bank governance and operational independence		
6. Implement the action plan to bring government borrowing from the CBG in line With the limit under the CBG Act (PC)	End-December 2007	Met
7. Provide to Fund staff special audit report on monetary program data at program test dates:		
(i) end-September 2007 (PC)	(i) End-December 2007	Met with delay
(ii) end-March 2008 (PC)	(ii) End-June 2008	Met with delay
8. Complete a gap analysis and establish an Action Plan for moving to IFRS (PC)	December 2007	Met
Financial deepening		
9. Make the credit reference bureau operational (PC)	End-March 2008	Partially met
Statistics		
10. Publish quarterly balance of payments statistics, with one quarter lag Q1 (B)	(i) End-December (2007Q3 data) (ii) End-March 2008 (2007Q4 data) (iii) End-June 2008 (2008Q1 data)	Met Met with delay Met with delay
11. Rebase the national accounts to 2004 prices and begin estimating GDP by expenditure components (B)	June 2008	Partially met

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

Table A3. The Gambia: Structural Conditionality for September 2008–September 2009[1]

Measure	Target Date	Macro Rationale
Public financial management and accountability		
1. Auditing of government accounts		
(i) Submit to the Auditor-General the accounts for 2007 (PC)	End–September 2008	To improve fiscal accountability and hence control.
(i) Submit to the national assembly the audited accounts for 2005, 2006, and 2007 (B)	End–September 2009	
2. Prepare a national debt strategy after receiving TA (B)	End-February 2009	To ensure debt sustainability.
Strengthening financial controls at the Central Bank of The Gambia		
3. Prepare pro-forma financial statements for 2007 based on IFRS and have this reviewed by the CBG's external auditor (PC)	End–September 2008	To enhance the central bank's internal controls and audit capacity, thereby reducing financial risk.
Financial deepening		
4. Make the credit reference bureau operational (PC)	End–March 2009	To deepen the financial sector by removing an impediment to evaluation of risk.
Statistics		
5. Publish quarterly balance of payments statistics, with one quarter lag (B)	(i) End–September 2008 (2008Q2 data) (ii) End–December 2008 (2008Q3 data) (iii) End–March 2009 (2008Q4 data) (iv) End–June 2009 (2009Q1 data)	To improve policy formulation through timely provision of economic statistics.
6. Rebase the national accounts to 2004 prices and begin estimating GDP by expenditure components (B)	September 2008	To improve policy formulation by providing additional information on the national accounts.

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

Attachment II

Technical Memorandum of Understanding

(July 2008–September 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 to monitor 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 will be adjusted upward (downward) by the dalasi equivalent of the extent to which actual receipts fall short of (exceed) the projected level of privatization receipts.

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.

6. **Supporting material:** The CBG will report data on privatization receipts in the currency it is received in 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. The Department of State for

Finance and Economic Affairs (DoSFEA) will report data on a monthly basis within two week of the end of the month on expenditures made from the privatization receipts.

B. Basic Balance of the Central Government

7. **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.

8. **Supporting material:** Reporting on the basic balance will form part of the consolidated budget report described in paragraph 30 below.

C. New External Payments Arrears of the Central Government

9. **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.

10. **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

11. **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.

12. **Adjuster:** Net usable international reserves of the CBG will be adjusted upward (downward) by the extent to which actual receipts in foreign currency exceed (fall short of) the projected level of privatization receipts in foreign currency.

13. **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

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

15. [1] 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.

16. **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

17. **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]

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[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 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).

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.

18. **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

19. **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.

20. **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

21. **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.

22. **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

23. **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 an up-to-date database on capital expenditure commitments made by the government in relation to ongoing and new externally financed projects.

24. **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.

B. Pro-Forma Financial Statements

25. The CBG shall prepare pro-forma financial statements based on the International Financial Reporting Standards (IFRS) for the 2007 financial statement by end-September 2008. The pro-forma financial statement shall include IFRS-required disclosures and balances valued in accordance with the IFRS. It shall be reviewed by the external auditors, who shall prepare a report summarizing their findings from the review and recommended next steps to achieve full compliance.

C. Credit Reference Bureau

26. The Bureau is deemed operational when it is staffed, begins compiling a database on commercial bank customers, and commercial banks are able to share information from the database. The legal basis for sharing such information should be formalized by amending Section 60 of the Financial Institutions Act (2003).

D. Quarterly Balance of Payments Statistics

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

E. National accounts

28. **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 (2004) market prices.

V. Other Data Requirements and Reporting Standards

29. 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

30. 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

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 7); 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 difference between the net domestic debt at the end of the period and 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,

consolidated revenue fund and other revenue accounts, treasury bill special deposit, privatization, special projects, foreign projects, and other deposit accounts.

35. 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.

36. 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.

37. The CBG will also forward within four weeks of the end of each month, data on government borrowing from the CBG as defined in the CBG Act 2005. The data shall indicate the limit on government borrowing from the CBG based on the government's tax revenues in the preceding year.

E. Treasury Bills

38. 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

39. 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.

40. 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. CBG Report on Monetary Program Data

41. The CBG shall forward a report prepared by the Internal Audit Department verifying the accuracy of monetary data submitted to the IMF. The report shall be submitted within one quarter after each test date. The first test date for which the report to be prepared is September 2008.