International Monetary Fund

The Gambia and the IMF

Press Release:
IMF Executive Board Completes Fourth Review Under PRGF Arrangement for The Gambia and Approves US$9.2 Million Augmentation and US$7.5 Million Disbursement
February 18, 2009

Country's Policy Intentions Documents

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

February 3, 2009

Banjul, The Gambia
February 3, 2009

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 third review was completed on September 8, 2008. The attached Memorandum of Economic and Financial Policies (MEFP) reviews progress in implementing the Government's PRGF-supported program in 2008, and sets out the policies that the Government will pursue in 2009.

2. Performance under the program has been quite strong. All but one of the quantitative performance criteria for end-September 2008 were met. The fiscal basic balance target was missed on account of lower-than-expected government revenue. All structural measures slated for completion by end-December 2008 were implemented on time. In order to boost revenues, the government decided to maintain the retail price of petroleum products at current levels even though world prices have fallen significantly since the prices were last adjusted in May 2008. On that basis, we request a waiver for the nonobservance of the fiscal basic balance performance criterion.

3. The Gambia has been adversely affected by the ongoing global financial crisis as the exchange rate and international reserves have come under pressure in recent months. In particular, as a result of recessions in Europe and the US, receipts from tourism and remittances have fallen, and real GDP growth is projected to fall significantly in 2009. On the basis of the revised outlook for 2009 agreed with IMF staff, we request modification of the performance criteria for end-March 2009 with respect to net domestic assets of the Central Bank of The Gambia, fiscal basic balance, and net usable international reserves.

4. Notwithstanding the challenging global environment, the government is committed to continue pursuing prudent policies in order to maintain macroeconomic stability and promote high growth and poverty reduction. To help us rebuild our international reserves to a comfortable level, we request an augmentation of access under the current PRGF arrangement in the amount of SDR 6.22 million (20 percent of quota) to be disbursed in two

equal installments of SDR3.11 million each at the completion of the fourth and fifth reviews (augmenting these two disbursements to SDR5.11 million each). We are aware that an augmentation will require completion of an update safeguards assessment of the central bank, and will provide Fund staff with all the information required to complete it in a timely manner.

5. In support of our policies described in the MEFP, the Government of The Gambia requests the completion of the fourth review and fifth disbursement under the PRGF arrangement in an amount equivalent to SDR5.11 million (including an augmentation of SDR3.11 million).

6. 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 fifth and sixth reviews under the PRGF arrangement are expected to be completed by no later than end-July 2009 and end-January 2010, respectively.

7. The government intends to make the contents of this letter, 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/	/s/
Mousa Gibril Bala-Gaye Secretary of State Department of State for Finance and Economic Affairs	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 third review under the arrangement was completed on September 8, 2008. Discussions on the fourth review took place against the backdrop of the global financial crisis and recessions in Europe and the US. There is a high degree of uncertainty about the prospective impact of these exogenous developments on the country. So far, The Gambia's financial system has not been affected directly but there are indications of adverse impacts on tourism income and inflows from remittances and foreign direct investment.

II. RECENT ECONOMIC DEVELOPMENTS

2. Real GDP growth declined from 6.3 percent in 2007 to about 6 percent in 2008. The main contributor to growth in 2008 was the agriculture sector, reflecting the impact of relatively good rains. Other important sources of growth were communications and electricity. Growth slowed in the tourism and construction sectors, while trade-related services contracted.

3. Inflation rose in the second half of 2008. Tight monetary policy and appreciation of the dalasi helped lower year-on-year inflation from 6 percent in December 2007 to 1.4 percent in April 2008, despite rising world food prices. Subsequently, annual year-on-year inflation has been rising, reaching 6.6 percent in November 2008.

4. Growth in broad money picked up in 2008 after a significant slowdown in 2007, but reserve money continued to grow more slowly than programmed. In the twelve months to end-November 2008, broad money grew by 19.8 percent compared to 7.9 percent a year earlier. Domestic factors were largely responsible for the growth in broad money; net domestic assets of the banking system rose by 24.4 percent while net foreign assets increased by 12.1 percent. Reserve money growth stayed relatively flat, growing at 5.7 percent in the year ending December 2008, compared to a growth rate of 4 percent a year earlier. The CBG raised the rediscount rate from 15 percent to 16 percent in October 2008 after the treasury bill yield rose to 14.5 percent. The rate had remained at 15 percent since June 2007 when it was raised from 14 percent on inflation concerns.

5. Fluctuations in the value of the dalasi have become more pronounced after the sharp appreciation of the currency in the third quarter of 2007. A partial reversal of the appreciation occurred in the fourth quarter of 2007, representing a market correction. Responding to changing supply and demand conditions in the interbank foreign exchange market, the dalasi again strengthened in the first quarter of 2008 before beginning a steady depreciation the rest of the year. In the twelve months ending in March 2008, the dalasi appreciated 30 percent against the US dollar and 15 percent against the euro. From end-March to end-December 2008, it depreciated by 38 percent against the dollar and 10 percent against the euro. The recent depreciation has been driven by external shocks—high world food and oil prices earlier in the year, and declining inflows of remittances and tourism receipts more recently. The CBG supplied foreign exchange to the market in October and November 2008 to contain exchange rate volatility. The CBG had also intervened to purchase foreign currency earlier in the year to stem a sharp appreciation of the dalasi.

6. Fiscal performance weakened in 2008, mainly on account of lower-than-expected revenues from imports. The fiscal basic balance surplus fell from D614 million in 2007 to an estimated D35 million in 2008 (compared to a budget estimate of D111 million). A shortfall of D450 million in revenues is the main factor behind the lower-than-budgeted performance. This is partially offset by lower-than-budgeted expenditure from the Gambia Local Fund (GLF). The revenue shortfall is explained by three main factors: (i) lower non-oil import revenues, reflecting the relatively appreciated dalasi in the first three quarters of 2008 compared to 2007 and a decline in the volume of some high-revenue-yielding imports (reflecting a decline in the re-export trade); (ii) adjustment of the retail price of petroleum products lagged behind rising world prices during most of the year, leading to a substantial loss of revenues from petroleum products; and (iii) increases in the import duties on car spare parts and used vehicles—intended to compensate for the revenue loss from the removal of sales tax on rice imports—did not yield the expected additional revenue as imports of these goods seem to have declined.

7. On the expenditure side, wages and salaries rose significantly in 2008 because of the wage increase awarded at the beginning of the year as part of the civil service reform program. Basic salaries were increased by 20 percent across the board, but the wage bill increased by about 40 percent reflecting: (i) the extension of the salary increase to subvented agencies; (ii) the impact of the salary increase on allowances (including double shift allowance for teachers and exchange concession for officials serving abroad); and (iii) an increase in the number of employees on the payroll.

8. The current account deficit (including official transfers) increased by about 4 percentage points of GDP in 2008. To a large extent the deterioration was driven by the impact of higher international prices of commodities in the earlier part of the year, and by the effects of the global financial crisis and associated economic slowdowns in Europe and the

US. Tourism receipts, remittances and re-export trade have all slowed down, and official transfers have been much lower than expected. Gross official reserves of the CBG dropped to under 4 months of imports at end-December 2008 compared to 5.5 months of imports at end-December 2007.

9. The financial sector is relatively sound and competition has been increasing. With the entry of two new banks in 2008, there are now eleven commercial banks operating in The Gambia. Approvals-in-principle have been granted to five other banks, and it is expected that there will be sixteen banks operating in the country by the end of 2009. Generally, the banks are profitable but 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 was 30 percent at end-September 2008, against the minimum requirement of 8 percent. The ratio of nonperforming loans to total loans fell to 7 percent in September 2008 (compared to 13 percent in December 2007), reflecting the recovery of some previously nonperforming loans, restructuring of other loans, as well as enhanced enforcement of court orders by the Sheriff Department.

10. In November 2008, the government terminated the partnership agreement with Spectrum Company which bought 50 percent shares of GAMTEL/GAMCEL in 2007. At the time the contract was terminated, the government had received US$28.5 million out of the US$35 million sale price, leaving a balance of US$6.5 million. The government is in negotiations with Spectrum for the settlement of all matters surrounding the latter's operation of GAMTEL/GAMCEL. For now, government intends to retain control over GAMTEL but will offer a significant portion of its shares in GAMCEL (the mobile phone service provider) for sale.

III. Performance Under the Program

11. All the quantitative performance criteria for end-September 2008 were met except the target on the fiscal basic balance (Table A1). The targets for net usable international reserves, net domestic assets of the CBG were met comfortably after adjustment for the nonreceipt of the outstanding balance of US$6.5 million in privatization proceeds from the sale of 50 percent of GAMTEL/GAMCEL. The indicative limit on the contracting of new concessional external loans was also met.

12. The target for the fiscal basic balance was missed by D49 million due to lower than expected revenues. By maintaining the retail price of petroleum products in spite of falling world prices, the government was able to recoup some of the revenue loss in the fourth quarter of 2008. The government requests that the Executive Board grant a waiver for the nonobservance of this performance criterion on the basis of the decision to maintain retail prices of petroleum products at current levels in spite of the sharp fall in their world prices.

13. All structural measures expected to be undertaken by end-December 2008 have been implemented (Table A2). With the submission of the 2007 government account to the Auditor-General in August 2008, DoSFEA has cleared the backlog of outstanding government accounts. The Auditor-General submitted his report on the accounts for 2000–04 to the National Assembly in January 2009, and expects to submit the report on the 2005–07 accounts by end-September 2009. The CBG is making progress toward adopting International Financial Reporting Standards (IFRS) in the preparation of its financial statements for 2009. It successfully produced pro-forma statements for 2007 based on IFRS, and will repeat the exercise for the 2008 accounts. The Gambia Bureau of Statistics (GBoS) has released new estimates of GDP for 2004–07 in current and constant (2004) prices, including by expenditure components. The CBG has made steady progress toward making the Credit Reference Bureau operational by end-March 2009. The proposed amendment to the Financial Institutions Act (2003) to facilitate the sharing of information among banks is being reviewed by the Department of State for Justice.

IV. Medium-Term Objectives and Strategy

14. The government's medium-term objectives and strategy are contained in The Gambia's second Poverty Reduction Strategy Paper (PRSP II) which spans 2007–11. PRSP II provides the framework for poverty reduction efforts in the country as well as the path to reaching the Millennium Development Goals (MDGs) by 2015. It is organized around five pillars: (i) creating an enabling environment for rapid and sustainable economic growth; (ii) enhancing the capacity and output of productive sectors; (iii) improving the coverage of basic social services and social protection for the poor and vulnerable; (iv) enhancing governance systems and building the capacity of local communities and civil society organizations to play an active role in economic growth and poverty reduction; and (v) mainstreaming cross-cutting issues, including gender and the environment.

15. 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.

16. The government is reviewing the Investment Promotion Act with a view to increasing the predictability, stability and transparency of the legal regime for investment. Amendments will be proposed to the law based on international best practice. Existing procedures will be streamlined and the list of activities eligible for incentives will be updated. The new law will also clarify the framework for coordination of data-gathering activities related to investment.

17. The Gambia has achieved and maintained macroeconomic stability over the last three years with strong growth and low inflation. The government will continue to implement 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 4.6–6 percent a year;
- inflation falling to 6 percent in 2009 and to 5 percent in 2010;
- a reduction in government's domestic debt from 25.5 percent of GDP at end-2008 to 17.3 percent at end-2011;
- external current account deficits (including official transfers) falling from about 16 percent of GDP in 2008 to about 12 percent in 2011; and
- rebuilding international reserves to cover at least 4 months of imports.

18. 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.

19. 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). Resources freed by debt relief 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 and reduced domestic debt.

V. Policies for 2009

A. Fiscal Policies and Public Debt Sustainability

20. In view of the uncertain revenue outlook, the government adopted a conservative approach toward revenue projections for 2009. Domestic tax revenues are expected to grow

in line with nominal GDP with the exception of taxes on petroleum products which recover substantially because of the government's decision to maintain retail prices at current levels. In the event world oil prices reverse course, the government will act speedily to fully pass-through rising world prices to retail prices. Should the world price for rice continue to fall, the government will consider re-instating sales tax on rice imports. The government has requested technical assistance from the IMF to review tax policy and provide recommendations for broadening the tax base and rationalizing central and local government taxation. The government would like to learn from countries that have lowered taxes on businesses while broadening the tax base to cover informal sectors. The results of the assistance will feed into the 2010 budget preparation process.

21. Program grants which have been negligible in recent years are expected to provide substantial resources to the budget in 2009. In particular, the World Bank and the African Development bank (AfDB) will provide budget support in the amounts of US$7 million and US$4.5 million, respectively. These funds are in support of the government's public sector reforms and the revitalization of the groundnut sector. Project grants, especially from the EU-supported roads project, are also expected to increase as problems between the consultant and contractor that have led to slow disbursements are resolved.

22. On the expenditure side, the government will limit spending to levels that will ensure the attainment of a target surplus in the fiscal basic balance of about D37 million. This will allow some new domestic borrowing while maintaining the downward trajectory of the domestic debt/GDP ratio. Notably, the government decided to defer a significant increase in wages and salaries that had been planned for 2009 as part of the civil service reform program. To promote growth and meet its commitment to provide matching funds for externally financed projects, the government plans a modest boost to locally funded capital investment. Debt relief is expected to lower external interest payments and offset an increase in domestic interest due to higher interest rates. Other expenditures, including net lending and "other charges" will be constrained to grow at or below the nominal GDP growth rate.

23. Existing domestic expenditure arrears included in the program's indicative targets were cleared as of end-2008. However, additional arrears to the state-owned National Water and Electricity Corporation (NAWEC) have come to light. These arrears arose as some ministries failed to pay their water and electricity bills. At the same time, NAWEC has additional tax payments outstanding to the government. By end-June 2009, the government will verify the outstanding arrears and tax due and draw up a timetable for settlement of net claims. To prevent arrears on utility payments in the future, the government has embarked on a program to install pre-paid meters in government departments and agencies.

24. At the request of the government, the Commonwealth Secretariat completed an independent debt sustainability analysis (DSA) in October 2008. The independent DSA

reached broadly similar conclusions as the DSA undertaken by the staffs of the IMF and World Bank, but was not as categorical about the degree to which The Gambia was at risk of falling back into debt distress. Assuming higher export growth and less new external borrowing than the staffs of the IMF and World Bank, the Commonwealth Secretariat DSA concluded that The Gambia was bordering on being at high risk of debt distress, and that improvement in the Country Policy and Institutional Assessment conducted by the World Bank—reflecting a strengthening of policies and institutions—would lower the risk of debt distress from "high" to "moderate". The government will seek assistance from the World Bank—under the newly launched Debt Management Facility for low-income countries—to prepare a detailed and sequenced program for capacity building in debt management. The focal point of the assistance will be the Debt Directorate of DoSFEA. That Directorate will also have the services of a resident expert on debt management (funded by AfDB) starting in early 2009. In view of these developments, and to foster on-the-job training and government ownership, the target date for completing the national debt strategy has been reset to September 2009 (from February 2009).

25. Meanwhile, the government will continue to adhere to its commitments under the PRGF-supported program with regard to the contracting of new external concessional loans. In particular, it will seek a minimum grant element of 45 percent in new loans, and will stay within the indicative limit on the total amount of new borrowing. In October 2008, the National Assembly ratified four new loans contracted by the government, all of which satisfied the conditions agreed with the IMF. The loans are: (i) US$10.85 million from the Kuwait Fund for expansion of the Banjul international airport; (ii) US$20 million from EBID for rural electrification; (iii) US$7.5 million from BADEA for construction of the Brikama-Dimbaya road; and (iv) US$10 million from Exim Bank (India) for construction of a new National Assembly complex.

B. Exchange Rate and Monetary Policies

26. The principal objective of monetary policy will continue to be maintaining price stability. The CBG will use all the available instruments at its disposal to reach this goal. A money targeting framework will continue to guide the CBG's monetary operations. The CBG 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.

27. The exchange rate of the dalasi is market determined. The CBG will intervene in the foreign exchange market from time to time mainly to: (1) accumulate foreign reserve assets to meet targets or prevent reserves from being depleted; or (2) calm disorderly developments in the market which cause exchange rate volatility and market illiquidity.

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 2006–08 have been made.

VI. Capacity Building and PRSP Implementation

A. Capacity Building

29. Since the mid-1980s, the government of The Gambia has implemented reform programs aimed at accelerating economic growth and reducing poverty. The effectiveness of these programs, however, has been limited partly by capacity constraints that hindered sustained implementation. To address these constraints, the government has developed a plan for comprehensive reform of the civil service with support from the World Bank, the AfDB, and the EC to be implemented 2009–2011. The plan includes measures to boost professional and managerial capacity, raise salaries and benefits (which are low even by low income country standards), increase pension benefits, and improve coordination and strategic planning. Due to unexpected revenue shortfalls in 2008 and uncertain revenue prospects for 2009, the government has deferred pay increases originally planned for 2009. Instead, it has set aside D50 million for fiscal year 2009 to provide flexible mechanisms to address the immediate problem of attracting and retaining critical skills within the service and a taskforce has already started work to distribute these funds in line with recommendations from consultants. The taskforce will report to the Public Service Capacity Board.

30. The government is receiving assistance from the AfDB to strengthen capacity and improve macroeconomic management and financial governance. The assistance is in the form of a UA 1.4 million grant to meet foreign exchange and local cost associated with hiring resident experts and undertaking a study on aid coordination. The project which was launched in May 2008, provides for the recruitment of resident experts in the following areas: macroeconomics, debt management, and fiscal/financial management.

31. The government and the CBG appreciate the technical assistance received from the IMF in recent years in the areas of public financial management (PFM), central bank operations, and compilation of economic statistics. The government will welcome closer engagement with the regional PFM advisor based in Liberia. It also requests that the IMF provide assistance in the compilation of producer prices. The CBG requests further assistance in banking supervision and that The Gambia be considered for an FSAP.

B. PRSP Implementation and Progress Toward MDGs

32. The first Annual Report on the implementation of PRSP II, covering developments in 2007, was completed in October 2008. It reports notable achievements in social services, including significant increase in the enrolment rate for basic education (reflecting the completion of new classrooms and the expanded school feeding program), and improved access to health services. However, it acknowledges the inadequacy of the current monitoring framework and highlights severe data limitations that hamper analysis of developments. The Annual Report on PRSP implementation is supplemented by the Poverty Reduction Expenditure Report for 2007 and a report on progress toward the achievement of the MDGs. Progress towards the MDGs is reported to be mixed. While the target of reducing poverty to 15 percent (goal 1) is unlikely to be achieved, The Gambia has made significant strides in several areas including: (i) Goal 2 on the achievement of universal primary education; (ii) Goal 3 on the promotion of gender equality and empowerment of women; and (iii) Goal 4 on the reduction of child mortality.

33. 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. In December 2008, there was an in-country sector-wide consultation on the Aid Effectiveness Action Plan that had been updated following a Donor Coordination meeting in London earlier in the year. The implementation time frame is now 2009-11. A sector-wide approach has been agreed upon, with the Department of State for Basic Education serving as a in-country best practice on aid coordination. The Education model will be replicated at the Departments of State for Health and Social Welfare, Agriculture, and Infrastructure.

VII. Access Level, Modification of the Program, and Program Monitoring

34. In view of emerging pressures on international reserves and the uncertain balance of payments outlook, the government is requesting an augmentation in the access level under the current PRGF arrangement by SDR 6.22 million (20 percent of quota). Inflows of remittances have slowed in recent months and the level of net usable reserves have fallen from US$127 million at end-December 2007 to US$96 million at end-December 2008. The government is seeking additional grants from its development partners, including the EU, to meet the country's higher balance of payments need.

35. The government also requests modification of three quantitative performance criteria for end-March 2009. In line with the revised outlook for 2009 agreed with IMF staff, the modifications loosen the targets for net domestic assets of the CBG, fiscal basic balance, and

net usable international reserves. Due to delays in receiving technical assistance, the government has postponed the target date for completing the national debt strategy—a structural benchmark under the program—from February 2009 to September 2009.

36. 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–March 2009 and end-September 2009 are performance criteria; and those for end–December 2008, end–June 2009, and end-December 2009 are indicative targets. The fifth and sixth reviews are scheduled to be completed by end–July 2009 and end-January 2010, respectively. Definitions of all targeted variables and reporting requirements are contained in the attached technical memorandum of understanding (TMU).

37. 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.

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

	2006	2007		2008								2009			
	End-Dec.	End-Dec. [1]		End-Mar.		End-Jun.		End-Sep.		End-Dec.		End-Mar.	End-Jun.	End-Sep.	End-Dec.
	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Prog.	Prog.	Prog.
Performance criteria [2]	(Stock)	(Cummulative change from end-December 2006)													
		(Millions of dalasis)													
Net domestic assets of the central bank (ceiling)	38.7	504.5		603.2		581.7		-48.8		-97.0		759.0	859.0	964.6	914.5
Adjusted for privatization proceeds [3]		262.5	-270.4	361.2	-334.5	339.7	-393.2	94.2	-365.9	46.0	617.8				
Basic balance (floor) [4]	…	659.4	613.6	628.5	661.8	746.2	755.6	793.4	744.9	859.3	…	616.9	745.5	772.7	685.6
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		(Millions of dalasis)													
Net usable international reserves (floor)	94.9	12.3		15.8		16.2		27.0		36.5		-2.9	-6.1	-5.9	-13.7
Adjusted for privatization proceeds [6]		23.3	32.0	26.8	27.5	27.2	29.0	20.5	32.7	30.0	1.5				
New nonconcessional debt contracted or guaranteed by the government with original maturity of more than one year (ceiling) [8]	0.0	0.0	0.0	0.0	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) [9]	0.0	0.0	0.0	0.0	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 [10]	561.5	-440.2	-369.5	-486.5	-441.6	-532.5	-494.3	-561.5	-494.3	-561.5	-561.5	-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	0.0	20.7	4.2	20.7	4.2	31.7	4.2	31.7	30.2	40.1	40.1	45.6	45.6
Memorandum item:															
Program exchange rate (D/$)		22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
Privatization proceeds ($ millions)	…	17.5	28.5	17.5	28.5	17.5	28.5	35.0	28.5	35.0	28.5	28.5	29.9	29.9	29.9
Privatization proceeds (D millions at program exchange rate)	…	385.0	627.0	385.0	627.0	385.0	627.0	770.0	627.0	770.0	627.0	627.0	657.8	657.8	657.8
Expenditure from privatization receipts (D millions)	…	70.0	158.6	179.0	180.1	288.0	612.0	548.6	612.0	612.0	612.0	612.0	612.0	657.8	657.8

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, June 2009, September 2009, and December 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.
Adjusted downward by the dalasi equivalent of the amount of external budget support in excess of the projected levels up to a cummulative maximum in of US$10 million in 2009.
[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.
[10] Actual domestic budgetary arrears have been revised upwards for December 2007 and March 2008 to exclude loans that were initially in

Table A2. Structural Conditionality August - December 2008 1/

Measure	Target date	Status
2009 Budget		
1. Submit to the National Assembly, a budget for 2009 that is in line with understandings reached with IMF staff on revenues, budget support grants, and the basic balance (PA)	December 15, 2008	Met
Public financial management and accountability		
2. Auditing of government accounts: submit to the Auditor-General the accounts for 2007 (PC)	End-Sept 2008	Met
3. Issue a comprehensive monthly budget execution report, including information on commitments, with a one-month lag (PC)	Monthly	Met
Central bank governance		
4. Prepare pro-forma financial statements for 2007 based on on IFRS and have this reviewed by the CBG's external auditors (PC)	End-Sept 2008	Met
Statistics		
5. Publish quarterly balance of payments statistics, with a one quarter lag (B)	(i) End-Sept 2008 (2008Q2 data)	Met
	(ii) End-Dec 2008 (2008 Q3 data)	Met
6. Rebase the national accounts to 2004 prices and begin estimating GDP by expenditure components (B)	End-Sept 2008	Met

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

Table A3. Structural Conditionality January-December 2009 1/

Measure	Target date	Macro rationale
Public financial management and accountability		
1. Verify claims of government and NAWEC on each other and draw up timetable for settlement of net claims (PC)	End-June 2009	To instil fiscal discipline and promote fiscal sustainability.
2. Auditing of government accounts: submit to the national assembly audited government accounts for 2005, 2006, and 2007 (B)	End-Sept 2009	To improve fiscal accountability and control.
3. Prepare a national debt strategy after receiving TA (B)	End-Sept 2009	To promote debt sustainability.
Central bank governance		
4. Prepare pro-forma financial statements for 2008 based on IFRS and have this reviewed by the CBG's external auditors (B)	End-June 2009	To enhance CBG internal controls and audit capacity, thereby reducing financial risk.
Financial deepening		
5. Make the credit reference bureau operational (PC)	End-March 2009	To deepen financial intermediation and promote growth.
Statistics		
7. Publish quarterly balance of payments statistics, with a one quarter lag (B)	(i) End-March 2009 (2008Q4 data) (ii) End-June 2009 (2009 Q1 data) (iii) End-Sept 2009 (2009 Q2 data) (iv) End-Dec 2009 (2009 Q3 data)	To facilitate policy formulation through timely provision of economic statistics.

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

ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

(October 2008–December 2009)

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 program exchange rate of D22/US$. 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 privatization receipts fall short of (exceed) the programmed levels specified in the budget..

5. **Adjuster:** The net domestic assets of the CBG will be adjusted upward (downward) by the dalasi equivalent of the extent to which actual budget support receipts fall short of (exceed) the programmed levels specified in the budget..

6. **Supporting material:** Net domestic assets of the central bank will be transmitted as part of the balance sheet of the CBG (compiled based on the TMU 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.

7. **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 weeks of the end of the month on expenditures made from the privatization receipts.

B. Basic Balance of the Central Government

8. **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.

9. **Supporting material:** Reporting on the basic balance will form part of the consolidated budget report described in paragraph 29 below.

C. New External Payments Arrears of the Central Government

10. **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.

11. **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

12. **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.

13. **Adjuster:** Net usable international reserves of the CBG will be adjusted upward (downward) by the extent to which actual privatization receipts exceed (fall short of) the programmed level specified in the budget..

14. **Adjuster:** Net usable international reserves of the CBG will be adjusted upward (downward) by the extent to which actual budget support receipts exceed (fall short of) the programmed level specified in the budget..

15. **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

16. **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.[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.

17. **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.

[1]To be considered concessional in IMF arrangements, a loan should have a grant element of 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.

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

18. **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.

19. **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

20. **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.

21. **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

22. **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 (ratified by parliament). 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.

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[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).

23. **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. Pro-Forma Financial Statements

24. The CBG shall prepare pro-forma financial statements based on the International Financial Reporting Standards (IFRS) for the 2008 financial year by end-June 2009. The pro-forma financial statement shall include IFRS-required disclosures and balances valued in accordance with the IFRS and reviewed by external auditors.

B. 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 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).

C. Quarterly Balance of Payments Statistics

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

V. Other Data Requirements and Reporting Standards

27. 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

28. 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

29. 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).

30. 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

31. 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

32. 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.

33. 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.

34. 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.

35. 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

36. 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

37. 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.

38. 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

39. 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.