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The Gambia: 2002 Article IV Consultation, Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Use of HIPC Interim Assistance—Staff Report; Staff Statement; Public Information Notice, News Brief, and Press Release on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2002 Article IV consultation with The Gambia and request for a three-year arrangement under the Poverty Reduction and Growth Facility and use of HIPC interim assistance, the following documents have been released and are included in this package:

- the staff report for the combined 2002 Article IV consultation, request for a three-year arrangement under the Poverty Reduction and Growth Facility and use of HIPC interim assistance, prepared by a staff team of the IMF, following discussions that ended on **May 8, 2002**, with the officials of The Gambia on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on June 26, 2002**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **July 10, 2002** updating information on recent developments.

- a Public Information Notice (PIN), News Brief, and Press Release, **summarizing the views of the Executive Board as expressed during its July 10, 2002, discussion** of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

The document(s) listed below have been or will be separately released.

Joint Staff Assessment of the Poverty Reduction Strategy Paper
Letter of Intent sent to the IMF by the authorities of The Gambia*
Memorandum of Economic and Financial Policies by the authorities of The Gambia*
Technical Memorandum of Understanding*

*May also be included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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THE GAMBIA

Staff Report for the 2002 Article IV Consultation, Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Use of HIPC Interim Assistance

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs, Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by Donal Donovan and Anne McGuirk

June 26, 2002

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EXECUTIVE SUMMARY

Background and recent economic developments

- The Gambia is requesting a three-year **Poverty Reduction and Growth Facility** (PRGF) arrangement in the amount of SDR 20.22 million (65 percent of quota). The staff report also covers the **2002 Article IV consultation** discussions.

- **Economic performance during 2001 was mixed**. Despite robust real **GDP** growth, moderate **inflation**, and progress in the settlement of the property dispute with Alimenta (a Swiss groundnut marketing company) and with the PRSP process, there were budgetary slippages and delays in implementing some reforms. Presidential, national assembly, and local **elections** were conducted in late 2001 and early 2002, and the **PRSP** was forwarded to the Fund and World Bank in May 2002.

- **Real GDP** grew by 6 percent in 2001, while **inflation** was 4½ percent, owing to good agricultural performance. The **external current** account deficit (excluding official transfers) widened to 14.8 percent of GDP from 12.1 percent in 2000, mainly reflecting the onetime importation of electricity generators. The **fiscal deficit** (excluding grants) increased to 8¾ percent of GDP from 3½ percent in 2000, owing to shortfalls in customs revenue and one-off expenditures for the settlement of the Alimenta property dispute, on-lending to a public enterprise, and election-related expenditure overruns. **Broad money** growth, which had accelerated to 35 percent in 2000, moderated to 19.4 percent in 2001, with measures taken to mop up banks' excess reserves. However, increased government domestic borrowing raised the stock of domestic debt to about 34 percent of GDP.

- The first quarter of 2002 was dominated by further expansionary fiscal policies. While revenues were broadly on target, there were expenditure overruns of about 2 percent of GDP as elections-related outlays continued. Net government credit expansion was moderated by project disbursements. Delays in receipts of groundnut exports and border controls that impeded the reexport trade exerted pressure on the dalasi, which depreciated by 5 percent against the U.S. dollar.

Macroeconomic framework for 2002–05

- Consistent with the PRSP, the key **medium-term macroeconomic objectives** include: annual real GDP growth of about 6 percent; average inflation of about 3¾ percent per annum; an external current account deficit (excluding official transfers) of 10 percent of GDP by 2005; and gross external reserves of about 5¼ months of imports of goods and services. The overall budget deficit (excluding grants) is expected to decline to 5 percent in 2002 and about 2 percent by 2005.

- **Structural reforms** aim at promoting broad-based economic growth in a low-inflation environment, and at contributing to a durable reduction in poverty, consistent with the PRSP. Fiscal policy focuses on improving tax administration and reorienting expenditure to social sectors and infrastructure development in order to underpin a tight monetary policy, with adequate provision of private sector credit.

- **Prior actions** under the program comprise (a) a Central Bank of The Gambia board resolution in support of the reforms recommended by the December 2001 Fund technical mission; (b) initiation of a review of the Central Bank Act; and (c) an audit of the 2001 operations of the Customs and Excise Department.

- **Measures to contain expansionary fiscal policies** include improved tax administration to curtail exemptions, collect arrears, and close loopholes, together with strict controls on expenditure from the below-the-line accounts and the slowing down of certain projects. The nonrecurring expenditure from 2001 would also be a factor in containing the deficit.

Issues highlighted in the staff appraisal

- The staff welcomes the authorities' efforts to address the fiscal slippages, which need to be complemented by broad reforms to strengthen the tax and budget systems.

- In the monetary area, the envisaged broad-based reforms should emphasize the expanded use of indirect policy instruments and enhanced supervision of institutions, taking advantage of Fund technical assistance. The consolidation and broadening of other structural reforms remains key to stimulating private sector activity, including measures to improve business legislation, the regulation of public enterprises, and the privatization process. The former Alimenta assets should be sold to competing firms as part of other reforms in the groundnut sector.

- The staff welcomes the PRSP, which has provided the essential building blocks for the PRGF-supported program. The authorities are encouraged to strengthen the means to solicit the views of the poor, including through the governance program. The staff welcomes the efforts taken to strengthen the implementation of broad-based structural reforms, partly through better coordination of donor technical assistance, to which the Fund is contributing via the Technical Cooperation Action Plan (TCAP).

- Notwithstanding the progress that has been made in improving economic and financial data, the staff urges the authorities to continue their efforts to enhance the timeliness and quality of data, especially in the national accounts and prices, and the fiscal and external sectors.

- On the basis of a number of positive economic and financial developments, the authorities' efforts to address the slippages that emerged, their adoption of an appropriate macroeconomic framework for 2002–05, and the implementation of prior actions, the staff recommends that the Executive Board approve The Gambia's request for a new three-year PRGF arrangement.

I. Introduction

1. Discussions for the 2002 Article IV consultation and the authorities' request for an arrangement under the Poverty Reduction and Growth Facility (PRGF) were held in Banjul during the period January 30–February 14 and April 25–May 8 2002.[1] The Executive Board approved The Gambia's request for a three-year PRGF arrangement on June 29, 1998 in an amount equivalent to SDR 20.6 million (66.5 percent of quota), together with the first annual arrangement there under (SDR 3.4 million). However, the first review under the first annual PRGF arrangement could not be completed because of slippages in implementing the budget and structural reforms, as well as governance problems arising from the government's seizure of the property of the Gambia Groundnut Corporation—owned by Alimenta, a Swiss groundnut-marketing company. Performance under the second and third annual PRGF arrangements was satisfactory; the Board granted waivers for the nonobservance of quantitative performance criteria for end-March 2000 (three), end-March 2001 (four), and end-September 2001 (one). The authorities met all of the end-September 2000 quantitative performance criteria. The Gambia drew fully the resources available under the three-year arrangement.[2]

2. On July 13, 2001, the Executive Board concluded the most recent Article IV consultation with The Gambia. Directors, while commending the authorities for achieving robust real GDP growth, low inflation, and progress in the poverty reduction strategy paper (PRSP) process, noted that economic performance under the program had been mixed. They expressed concern about slippages in fiscal policy, stressed the need for corrective measures and reforms, and urged the authorities to implement the governance program on a timely basis.

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[1] The Gambian representatives included the Hon. F. Jatta, Secretary of State for Finance and Economic Affairs; Mr. M. Bajo, Governor of the Central Bank of The Gambia (CBG); other secretaries of state; and senior public officials. Vice President Isatou Njie-Saidy received the second mission. Discussions were also held with representatives of the donor community and the private sector. Participants in the missions comprised Mr. Kibuka (Head), Mr. Tjirongo, Mr. Haacker (all AFR), and Ms. Al-Mashat (EP, PDR). Mr. Haley (Research Assistant) and Ms. Kabia (Assistant) (both AFR) were also part of the first mission while Mr. Christensen (OTM) and Ms. Silman (Assistant, AFR) participated in the second mission. The two missions overlapped with World Bank missions.

[2] The Executive Board discussed the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative) decision point document (www.imf.org), the interim poverty reduction strategy paper (I-PRSP) (www.imf.org), and the joint staff assessment (JSA) of the I-PRSP (www.imf.org) in December 2000. It discussed the PRSP preparation status report (www.imf.org) and the associated JSA (www.imf.org) in December 2001.

3. In the attached letter to the Managing Director, dated June 25, 2002 (Appendix I), the government of The Gambia requests a new three-year arrangement under the PRGF in an amount equivalent to SDR 20.22 million (65 percent of quota). The requested arrangement is in support of policies and measures outlined in the attached memorandum of economic and financial policies (MEFP) for 2002/03 (April-March) and the full PRSP (www.imf.org). If the full amount under the three-year PRGF arrangement is disbursed, and taking into account scheduled repayments, The Gambia's use of Fund resources would rise from 66.3 percent of quota at end-2001 to 124.6 percent of quota at end-2005 (Tables 1 and 2).

4. In 1993, The Gambia accepted the obligations under Article VIII, Sections 2 (*a*), 3, and 4 of the Fund's Articles of Agreement. The Gambia maintains an exchange system that is free of restrictions on payments and transfers for current transactions. Summaries of The Gambia's relations with the Fund and the World Bank Group are contained in Appendices III and IV, respectively. Outstanding statistical issues are discussed in Appendix V.

II. Performance Under the Program and Recent Economic Developments

5. **Under the PRGF arrangement (1998–2001), The Gambia overall registered significant** gains on the macroeconomic and structural policy fronts although performance was somewhat uneven, especially towards the latter part of the program period. A recovery in real GDP growth, led by improved agricultural performance, including in the key groundnut sector, helped reduce inflation (see table below). There was considerable fiscal and external sector adjustment, and exports and imports recovered significantly. However, broad money growth was erratic, partly reflecting efforts to finance the marketing of groundnuts following the disruption occasioned by the seizure of the Alimenta property.

6. **The authorities implemented a number of structural reforms,** inter alia, to strengthen the budget process, including measures to improve the reporting and control of expenditure and to close the public accounts for 1991/92–99[3]. They further reduced external tariffs, lowering in 2000 the top rate from 90 percent in 1998 to 18 percent, and the number of the tariff bands from over 30 to 3. In the financial sector, the remaining controls on interest rates were lifted, longer-term treasury bills and foreign currency deposits were introduced, and the Trust Bank was privatized. Parliament enacted legislation to encourage private sector activities, including via the establishment of a regulatory and privatization framework and supporting institutions. There was also a renewed emphasis, with support from donors, on implementing agricultural marketing reforms and providing extension services, improved inputs, and access to credit for farmers.

[3] July–June fiscal years until 1996/97; calendar year thereafter.

Selected Economic Indicators, 1994/95–2005
(Percentage change, unless otherwise specified)

	1994/95-1997 1/	1998-2001	2002	2003	2004	2005
			Prog.		Proj.	
Real GDP	1.9	5.3	6.0	6.0	6.0	6.2
Groundnut production (metric tons)	70.0	120.9	125.0	128.0	130.0	135.0
Consumer price index (end of period)	3.4	2.5	5.5	4.0	3.0	3.0
Exports, f.o.b.	-3.1	8.1	8.2	4.5	3.5	5.0
Imports	-0.5	5.7	2.7	3.6	1.9	2.5
Real effective exchange rate	-1.6	-4.1	. . .	. . .	. . .	. . .
M2 growth	15.9	17.0	13.2	9.9	9.6	9.3
Fiscal balance, excl. grants (in percent of GDP)	-9.1	-5.4	-5.0	-2.7	-2.3	-2.1
External current account balance, excl. off. grants (in percent of GDP)	-14.0	-12.6	-13.2	-12.1	-11.6	-10.2
Gross official reserves (in million of SDRs)	68.2	80.3	87.7	93.8	100.2	105.1
In months of imports (in millions of SDRs)	5.6	5.5	5.1	5.3	5.5	5.6

Sources: Fund staff estimates and projections.

1/ In 1997 fiscal year was changed from July/June to the calendar year.

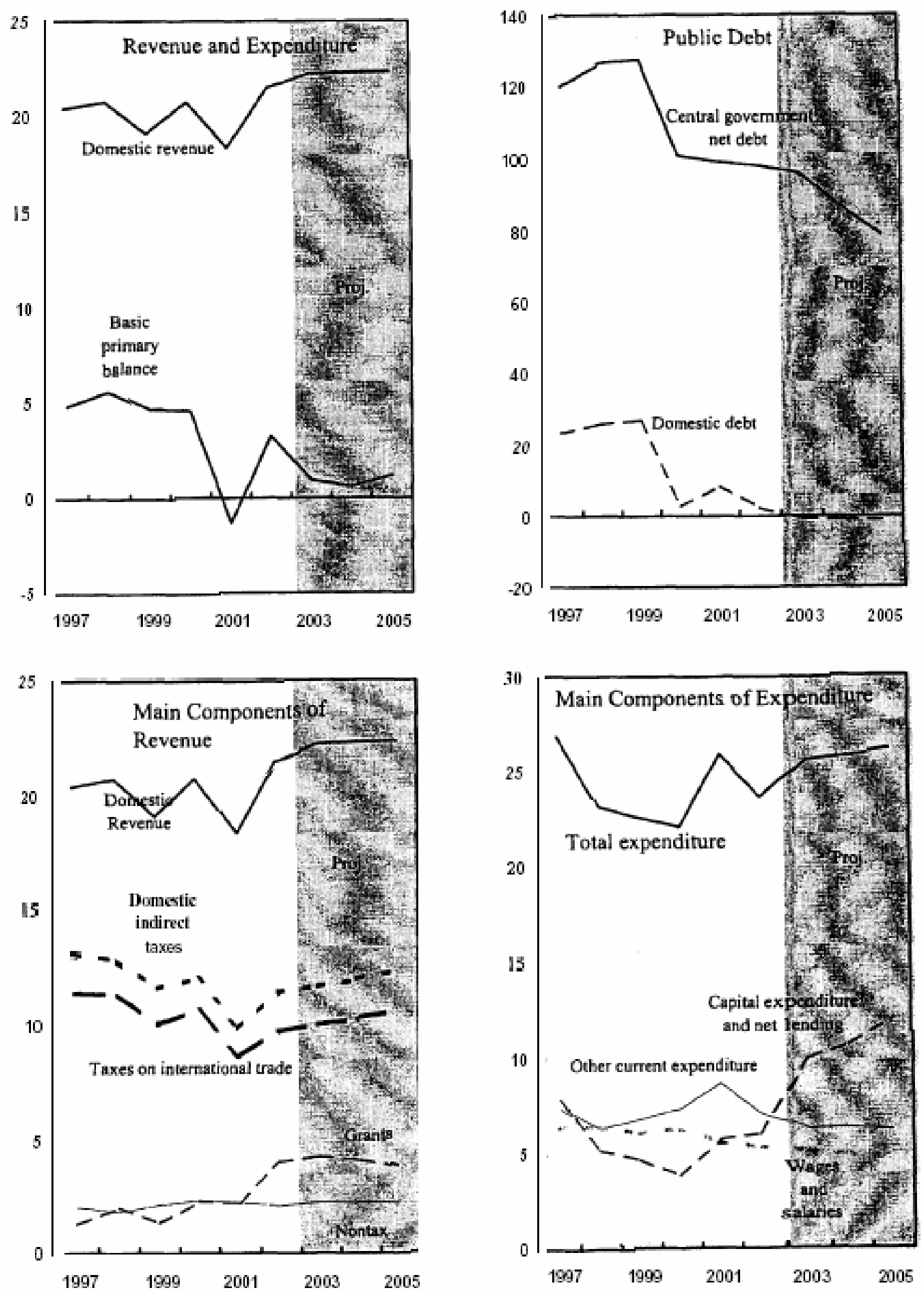
7. **Economic performance during 2001 was mixed**.[4] **Real GDP** grew by 6 percent, underpinned by the strong performance of the agriculture, tourism, and construction sectors (Tables 3 and 4). Moreover, **average annual inflation** (based on the consumer price index for low-income households in the greater Banjul area) edged up to 4½ percent, driven by higher imported inflation (via the depreciation of the dalasi) and expansionary fiscal policies. Notable progress was achieved in the settlement of the property dispute with Alimenta (the last payment of US$5 million was effected in August 2001) and with the PRSP process.

8. In the **fiscal area**, the overall budget deficit (excluding grants) reached 8¾ percent of GDP in 2001, compared with the revised program target of 5.9 percent; including grants, the deficit increased to 7.6 percent of GDP from 3 percent in 2000[5] (Figure 1). The government incurred sizeable one-off expenditures, including (a) D 15 million to rehabilitate the former Alimenta assets in order to facilitate groundnut marketing; (b) nonprogrammed government on-lending to a public enterprise to improve the generation and distribution of electricity; and

[4] Details of developments through the third quarter of 2001 are provided in the letter of intent attached to this paper (Appendix I).

[5] Grants funded mostly bilateral donor projects while debt relief under the enhanced HIPC Initiative financed poverty-reducing expenditure.

Figure 1. The Gambia: Central Government Finances, 1997-2005
(In percent of GDP)



Sources: The Gambian authorities; and IMF staff estimates and projections.

(c) election-related outlays, largely from the below-the-line (BTL) accounts. Additionally, revenue shortfalls, including in customs revenue (1.3 percent of GDP), reflected weak performance in tax administration and the financial problems of public enterprises, as the latter built up sizable arrears to the government. Overall, domestic revenue declined to 16.2 percent of GDP in 2001 from 18.2 percent in 2000. Moreover, outlays (US$6.7 million in 2001) for the settlement of the Alimenta dispute and the delayed receipt of donor grants (1.6 percent of GDP) contributed to higher domestic interest payments and to a larger-than-programmed recourse to net bank financing. Government domestic debt, which had been programmed to decline, actually increased to 33½ percent of GDP at end-2001 from 31½ percent at end-2000.

9. Owing to an expansionary fiscal policy, the end-September 2001 **quantitative performance criterion** with respect to net bank credit to the government was exceeded by some D 40 million (0.7 percent of GDP). Through end-2001, net credit to the government increased by 8.3 percent of GDP, which was significantly above the target, while credit to the private sector increased by 12.8 percent. **Broad money** growth, which had accelerated to about 35 percent in 2000, moderated to 19.4 percent in 2001, reflecting measures to mop up banks' excess reserves (Figure 2). As a result, the Treasury bill rate was increased from 12½ percent in August to 15 percent by October 2001. A **waiver of the performance criterion** was granted by the Executive Board during the final review of the third annual arrangement under the PRGF.

10. Developments in the **external sector** were dominated by a surge in imports, including the unprogrammed importation of three electricity generators (funded by a donor concessional loan and supplier's credit). As a result, the current account deficit (excluding official transfers) widened to about 14¾ percent of GDP in 2001 from 12 percent in 2000.[6] The nondisbursement of donor grants (1.6 percent of GDP) was the main factor explaining the decline in gross official reserves to the equivalent of 4.9 months of imports and also contributed to a further depreciation of the dalasi by 7 percent in real effective terms in 2001 (Figures 3 and 4).

11. Notwithstanding some delays, there was significant progress in implementing **structural reforms** and arrangements aimed at accessing **technical assistance** to strengthen the limited institutional capacity. All but one of the PRGF-supported program **structural benchmarks** were implemented, some with delays (see Appendix I, Table 3). The exception—the rebasing of the national accounts to 1998 (currently based on 1976/77)—was delayed owing to inadequate personnel, a problem that is being addressed.

12. **Budgetary reforms included further efforts to enhance transparency and strengthen the reporting and control system,** assisted by the Fund resident budget advisor

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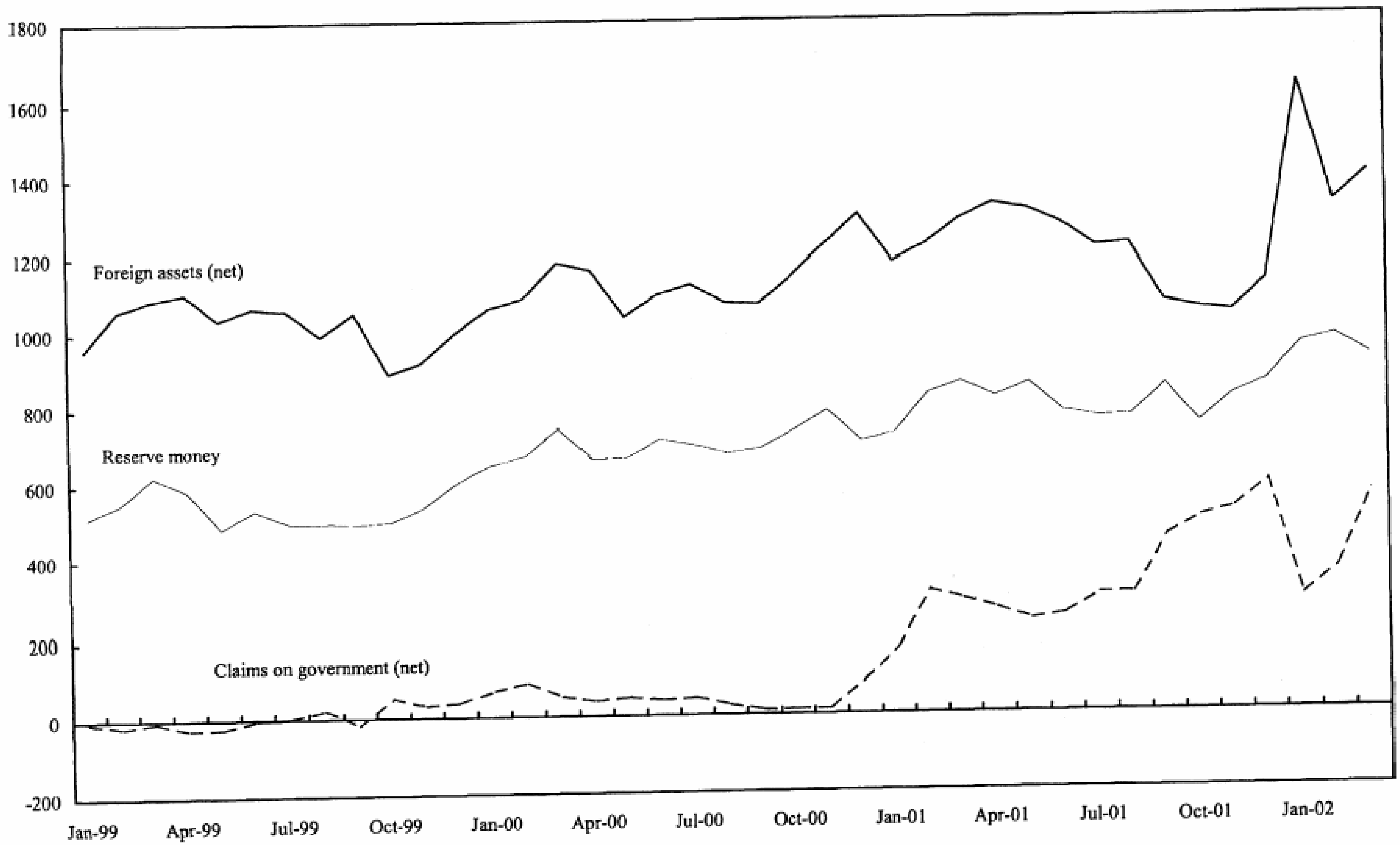
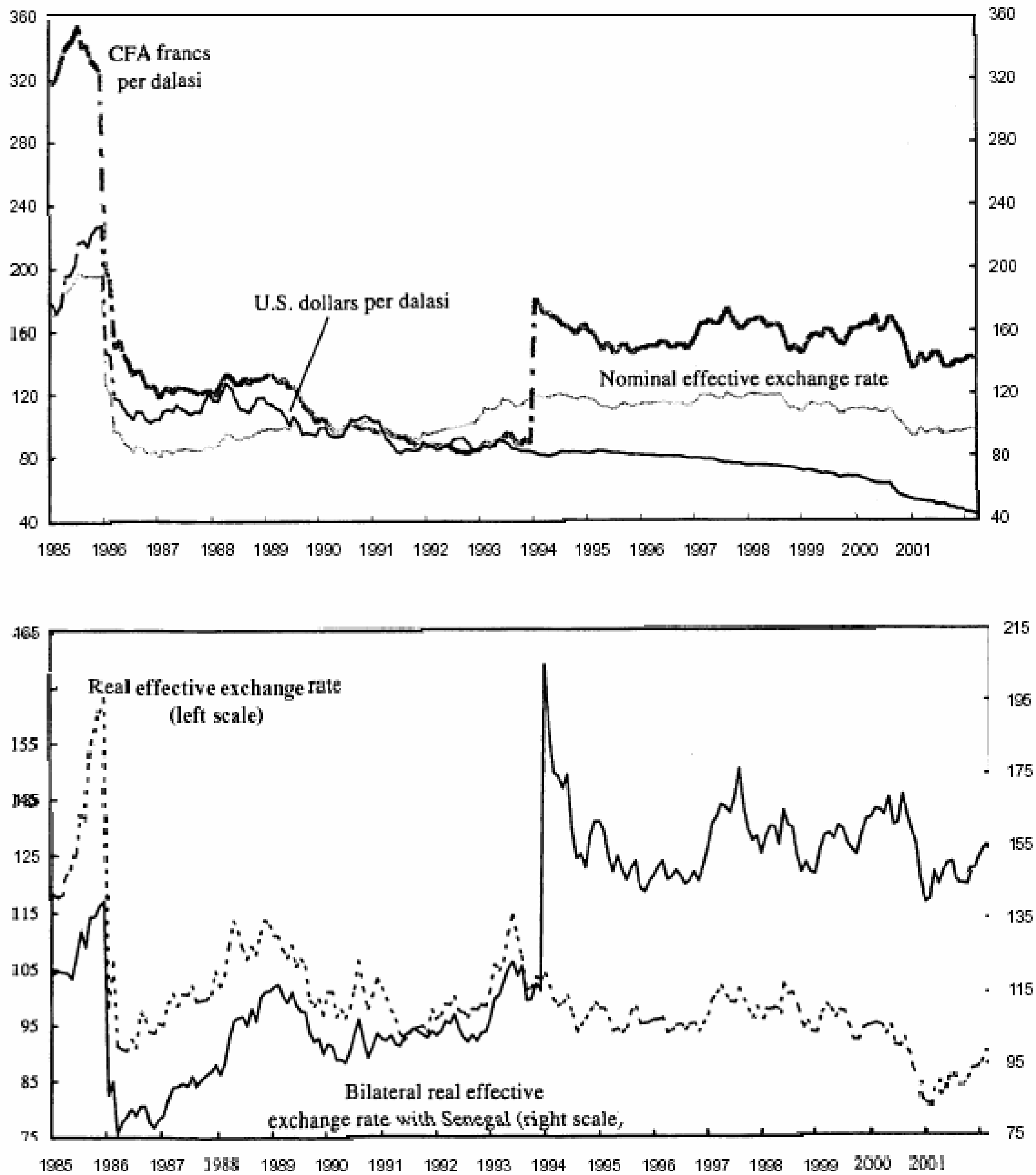
[6] The current account deficit, including official transfers, increased to 6¾ percent of GDP from 4¾ percent in 2000.

Figure 2. The Gambia: Reserve Money and Sources, January 1999-March 2002
(In millions of dalasis)



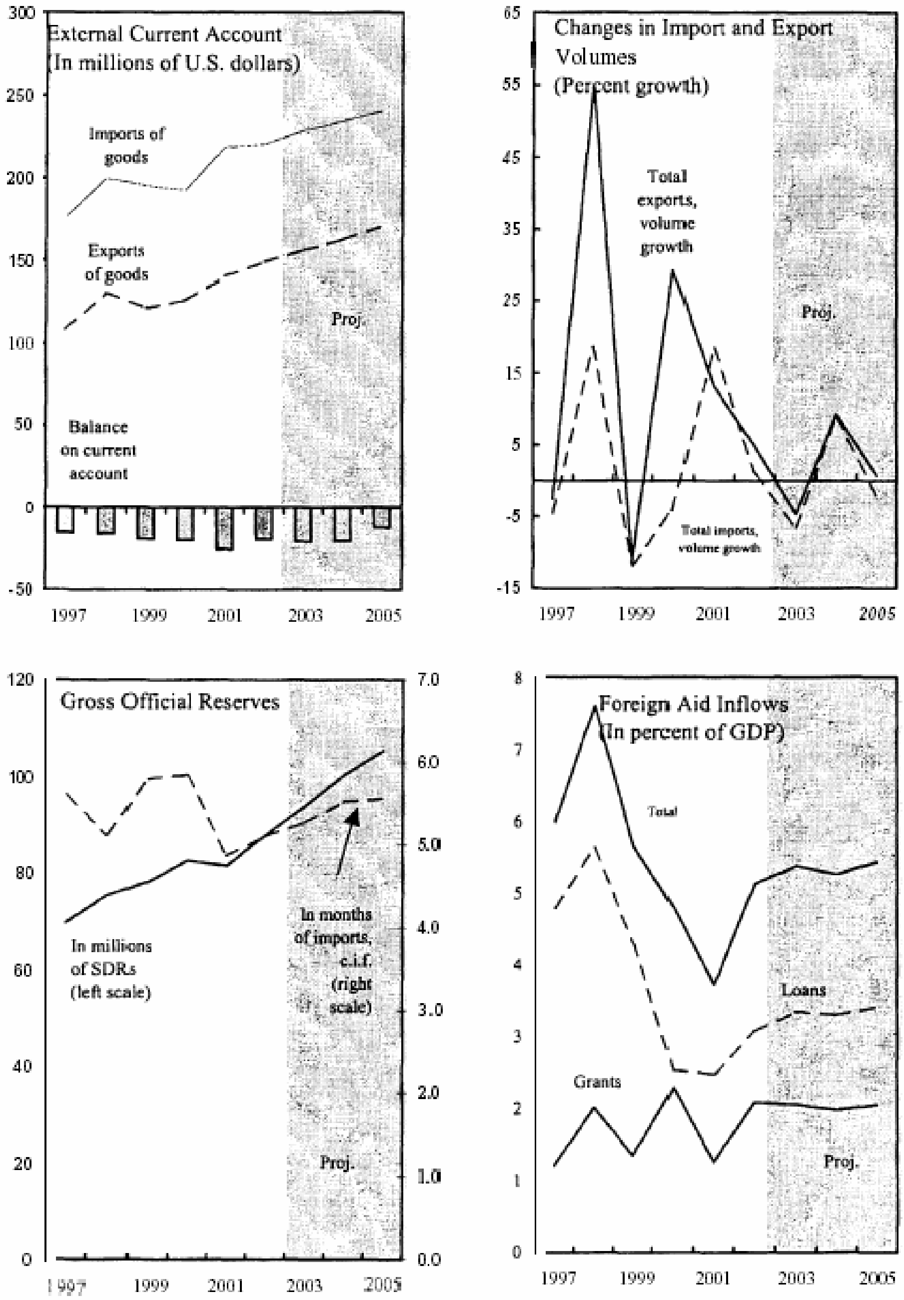
Sources: The Gambian authorities; and IMF staff estimates.

Figure 3. The Gambia: Exchange Rate Developments, January 1985 - March 2002
(Indices, 1990=100)



Source: IMF, **Information Notice System.**

Figure 4. The Gambia: Main **External** Sector Indicators, 1997-2005



Sources: The Gambian authorities; and IMF staff estimates and projections.

Box 1. The Gambia: Public Expenditure Management Reforms

Background and problem identification. A Fund TA mission that conducted an Assessment and Action Plan in July 2001 as part of efforts to strengthen the capacity for tracking poverty-reducing expenditure identified The Gambia as one of the HIPC Initiative countries that needed to substantially upgrade the system in this area. An earlier Fund TA mission on public expenditure management and customs administration had also noted that problems in government accounting were particularly pervasive and needed to be addressed urgently in order to lay the foundation for improving transparency, fiscal reporting, and budget execution. In particular, it highlighted the following problems: (a) weak budgeting preparation, mainly owing to unrealistic costings of policies and lack of control over the BTL accounts—on which little information was available; (b) long delays in producing the general ledger; (c) large discrepancies between fiscal and monetary data in monthly fiscal reports; and (d) no audited annual accounts of government since 1991/92. The antiquated computer system used in the Accountant General's Office (AGO) contributed significantly to these problems. Key problems in **budget preparation** reflected weak capacity for forecasting revenues, the formulation of the budget based on only a one-year-ahead framework, a dual budgeting system for recurrent and development expenditures, and inadequate information on the government financing requirement and the stock of domestic government debt—the reduction of which remains a key policy objective. Furthermore, the lack of reliable data on a timely basis frustrates the authorities' efforts to **execute the budget** and implement an effective cash management system.

Progress in implementing action plans

Structural reforms in public expenditure management have focused on strengthening the AGO, which remains a weak, yet pivotal, link in improving the reporting and reconciliation of expenditure data under the PRGF-supported program:

- With the assistance of the Fund resident budget advisor, (a) public accounts for 1991/92-99 were closed in 2001; (b) an accounting framework to track poverty-reducing expenditure, including outlays funded under the HIPC Initiative, was developed and incorporated in the 2002 budget; (c) a special central bank account was opened to monitor expenditure funded from debt relief under the enhanced HIPC Initiative; (d) a spreadsheet-based framework was developed to facilitate the timely reconciliation of treasury cash books with the accounts of the central bank; and (e) measures were taken to bring a number of BTL accounts under budgetary control and reporting procedures, including setting quarterly ceilings for those funded mainly from the Consolidated Revenue Fund. The budget advisor is conducting a comprehensive study of the BTL accounts that will inform future policy in this area. He is also undertaking a major reclassification of the budget (revenue and expenditure).
- Under the World Bank's Capacity Building for Economic Management Project (CBEMP), a major computerization of government accounts has been initiated, including the development of an integrated financial management information system (IFMIS); an IFMIS resident advisor was posted in Banjul in March 2002. Furthermore, in 2001, the Commonwealth Secretariat posted a resident information technology expert, who assisted the AGO in completing the computerization of the payroll system. The World Bank and United Kingdom also provided assistance for public expenditure reviews (PERs) in key sectors (agriculture, education, and health) to ensure a better linkage of sector policies to budgetary priorities in the PRSP, and to the budget starting in 2002. The PERs are part of efforts to strengthen the multiyear public investment program, while starting the development of other key elements for a medium-term expenditure framework (MTEF).
- The resident Fund macroeconomic advisor (since April 2002) is helping to develop the capacity to project budgetary aggregates in the context of a comprehensive medium-term macroeconomic framework; these projections should help develop better linkages between budget estimates and expenditure policies.
- The United Kingdom and the World Bank are also supporting efforts to strengthen Auditor General's Office, in order to expedite the auditing of public sector accounts. The Gambia is participating in the General Data Dissemination System (GDDS) in an effort to improve its capacity to generate accurate macroeconomic data on a timely basis.

(see Box 1). As part of a joint Fund-World Bank enhanced HIPC Initiative exercise, a July 2001 Fund technical assistance mission assisted the authorities in developing an **Assessment and Action Plan** (AAP) to strengthen the capacity for tracking overall poverty-reducing expenditure, including outlays funded by interim debt relief under the enhanced HIPC Initiative. However, the development of **public expenditure reviews** (PERs) and the costing of their priorities—with technical assistance provided by donors—was delayed. As a result, the **budget for 2002**, which was approved by parliament on December 17, 2001, relied on ad hoc arrangements in allocating expenditures to the key social sectors (agriculture, education, and health) to reflect the PRSP priorities

13. As detailed in the MEFP (Appendix I, Attachment), ongoing or planned **tax and financial sector reforms and a program to strengthen** data have been supported by preparation of the **Technical Cooperation Action Plan** (TCAP), through which Fund technical assistance (TA) is being coordinated to improve macroeconomic policies. Moreover, in July 2001 the World Bank approved the Capacity Building for Economic Management Project (CBEMP) to help strengthen key economic institutions. Preparations are also under way to develop a broader technical assistance program to support PRSP implementation; the program will be presented to donors as part of the planned **roundtable meeting** later in 2002.

14. On the political front, The Gambia completed presidential (October 2001), national assembly (January 2002), and local (April 2002) **elections,** through which democracy has been strengthened. In March 2002, the United States normalized donor relations with The Gambia and lifted the prohibition on economic aid. Around the same time, The Gambia also resolved its differences with the European Union (EU) following request by the government to the EU in late 2001 to replace its representative in Banjul.

15. **The drawn-out electoral process contributed to expansionary fiscal policies during the first quarter of 2002**. Notwithstanding improved tax collections, which brought revenue broadly back as programmed, expenditure overshot the end-March 2002 target by about 2 percent of GDP, as election-related outlays continued and project execution was accelerated, including for the Mandinaba-Soma road, in the amount of US$2.6 million. Although disbursement of project funds (including in respect of the electricity generators) helped limit the adverse impact of the net government credit from the banking system (and contributed to a decline in outstanding treasury bills), the end-March 2002 quantitative indicative targets with respect to the basic primary balance of the central government and the net domestic assets of the central bank were not observed. Delays in receipts of groundnut exports and a recent tightening of border controls, which impeded the reexport trade, added to exchange rate pressures; as a result, the dalasi depreciated by 5 percent vis-à-vis the U.S. dollar, despite sizable sales of foreign exchange by the central bank. The end-March 2002 indicative target on net official international reserves was not observed.

16. In January 2002, the central bank took over the insolvent Continent Bank—one of the smaller banks that caters mainly to middle- and lower-income customers—and thus managed to avoid a potential run on the bank. At end-March 2002, the bank had about 20,000 depositors, and its total deposits amounted to D 71.9 million. The authorities are working on a resolution plan for the bank, and an international accounting firm, KPMG, has been contracted to undertake an audit of the bank. The central bank will discuss the resolution plan with the Fund staff, including the possible need for technical assistance to deal with the issue. Significant progress was achieved in making plans to allow the

acceptance of foreign currency deposits: one bank has already introduced such deposits, while two banks have been licensed to do so and others are applying for licenses

III. Policy Discussions

17. The discussions took place against the background of the reemergence of expansionary fiscal policies through March 2002. On the positive side, the settlement of the Alimenta property dispute, the completion of peaceful national elections, the finalization of the PRSP, and improved donor relations provide a favorable environment for refocusing the authorities' efforts on redressing the recent slippages and consolidating the gains from the previous PRGF-supported program.

18. The discussions focused on the authorities' comprehensive poverty reduction strategy and the design of a PRGF-supported program to support their strategy (see Box 2), as acknowledged by the authorities in the MEFP (para. 40). The authorities expressed renewed determination to move forward, while giving a high priority to addressing the outstanding fiscal policy issues. They also committed themselves to deepening the implementation of structural reforms with the benefit of the increased emphasis by the Fund and donors on the provision of technical assistance to address constraints associated with the limited institutional capacity.

A. The Macroeconomic Framework for 2002/03–2004/05

19. Broadly in line with the PRSP, the **medium-term macroeconomic framework** for 2002/03-2004/05 (April–March) was updated, with the key objectives comprising (a) annual real GDP growth of about 6 percent; (b) average inflation of about 3¾ percent per annum; (c) an external current account deficit (excluding official transfers) of 10¼ percent of GDP by 2005; and (d) gross external reserves equivalent to 5½ months of imports of goods and services. The overall budget deficit (excluding grants) is expected to decline to about 2 percent by 2005. Total investment is envisaged to rise from 17¾ percent of GDP in 2001 to 22 percent in 2005 (and from 4¾ percent to 7 percent over that period for the government investment), and the envisaged increase in the government saving-investment balance of 5 percentage points of GDP would contribute to the improvement in the external current account.

B. The Program for 2002/03

20. **In light of the expenditure overruns during the first quarter of 2002, the discussions on the program for 2002/03 focused on immediate actions that could be taken to contain outlays**. The authorities recognized that the expenditure trend through end-March 2002 was clearly unsustainable, while noting that one-off factors were mainly responsible. To ensure that there is no recurrence of the recent slippages, the authorities have

Box 2. The Gambia: PRSP-PRGF Linkages

Objectives/Priorities/Issues	PRSP	PRGF
Overarching objectives	Achieving long-term sustainable growth and reducing poverty.	Medium-term macro framework for sustainable growth and poverty reduction. Provides monitoring framework for PRSP medium-term macro targets.
Development priorities	**Five pillars**	
	Improving the enabling policy environment to promote growth and poverty reduction.	Direct links to pillars one, two, and three via enabling macro-framework that integrates sector priorities in overall budget to promote growth and provide priority social services to the poor.
	Enhancing the productive capacity and social protection of the poor and the vulnerable.	
	Improving coverage of the essential services provided to the poor.	
	Building the capacity for local development through decentralization.	Indirect links to pillars four and five through work of authorities, donors and NGOs on sectors and cross-cutting issues linked to the budget
	Mainstreaming gender equity, environmental issues, nutrition, governance, and HIV/AIDS awareness in all development programs.	
Specific issues		
Sources of growth	Focusing on agriculture, tourism, reexports, and the development of the free zone area, supported by reforms, increased expenditure allocation, and donor projects.	Collaboration with donors to support sectors. Promote stable macroeconomic environment and external competitiveness via prudent financial and conducive exchange rate and trade policies
Public expenditure management	Promoting accountability, transparency, and expenditure allocation to sectoral priorities. The Gambia has only met five of the benchmark assessments of the public expenditure management system, which implies that substantial upgrading is required.[1]	Close and audit public accounts. Enhance expenditure control and reporting including on below-the-line accounts. Tracking system for poverty-reducing expenditures. Fund budget and macroeconomic advisors posted in Banjul
Financial sector reforms	Developing the financial sector, including targeting the poor via development of small enterprises and the provision of microfinance.	Promote conducive macroeconomic environment, financial intermediation and provide technical assistance to the central bank
Debt sustainability	Promoting external and domestic debt sustainability to support the poverty reduction strategy.	Contain budget deficit to reduce domestic debt. Concessional external borrowing. Fund staff to assist with external debt sustainability analysis
Data (economic/social)	Strengthening the Central Statistics Department to improve macroeconomic, social, and poverty data, partly through household's surveys and a census.	Improvements in macroeconomic data, and enhance participation in the General Dissemination Data System
Technical Assistance	Broadening access to technical assistance to strengthen the implementation of the PRSP, including through improved economic and social data compilation, policy formulation, and implementation.	Technical Cooperation Action Plan (TCAP) to better coordinate and enhance the formulation and implementation of macroeconomic policies
Financial resource mobilization	Mobilizing domestic and external resources through revenue effort, better expenditure management, and donor assistance.	Tax reforms to boost revenue. Provision of concessional IMF resources and enhanced HIPC Initiative debt relief. Framework to support donor roundtable meeting

[1] See "Actions to Strengthen the Tracking of Poverty-Reducing Public Spending in HIPC Countries" (SM/ 02/30; 1/30/02).

Box 3. The Gambia: Tax Reforms

Against the background of weakened revenue performance and preparations for the PRSP and the new PRGF-supported program, the authorities requested for Fund technical assistance in late 2001 to review and propose reforms for the tax system. These reviews indicate that tax revenue outlook faces constraints as the potential to introduce new taxes is limited, and that improvements in this area will rely mainly on administrative and institutional capacity actions. The Fund tax policy mission report, in particular, noted The Gambia's already high "tax effort" by regional standards. For 2001, tax revenue in The Gambia was 15.8 percent of GDP, which is higher than most countries in the region except Senegal and Cote d'Ivoire. If one takes into account The Gambia's low-level per capita income, its "tax effort" is even higher than these two countries. At the same time, the report pointed to the need to replace revenue lost as a result of recent trade liberalization. In view of the limited domestic manufacturing, the importance of the re-export trade sector in government revenue (accounting for 40 percent of customs and 70 percent of sales tax revenue), as well as the authorities limited institutional capacity, the mission advised against the introduction of a value added tax (VAT—the most commonly used consumption tax). The mission indicated that since a fully functioning VAT would have to exempt re-exports, its introduction would end up substantially reducing tax revenue. Instead, tax policy proposals emphasize incremental changes to improve efficiency and a broader application of excise taxes, including on services (e.g., on electricity), which are consumed by the relatively higher income groups.

During the mission, the authorities and the mission worked on a two-phased approach to enhance revenue collection. The first phase focused on quick fix measures designed to stem revenue losses. These measure included improved customs valuation based on timely adjustments in the exchange rates, improved access to data on oil imports (prices and volume) to provide a more realistic tax assessment, closure of loopholes that had permitted tax payers, notably public enterprises, to build up tax arrears, and enhanced surveillance of the tax departments in part to reduce discretionary tax exemptions. As a result, revenue performance through the first quarter of 2002 was broadly on target. The second phase focuses on longer-term measures such as collection of tax arrears, which have accumulated to substantial levels, especially by public enterprises. In this regard, the authorities prepared a cabinet paper, which was approved in early May 2002, providing a basis for enhanced ministerial discipline on the various public enterprises, inter alia, to enforce their payment of tax and other arrears owed to government. Other measures include (a) the transfer of the domestic sales tax unit from the Customs and Excise Department to the Inland Revenue Department; (b) continued efforts to improve computerization, including upgrading ASYCUDA; and (c) redrafting the Income Tax Act with Fund technical assistance. As part of the envisaged second phase of reforms, the authorities have increased their collaboration with the Fund, the World Bank and DFID in trying to develop a comprehensive tax reform to strengthen tax administration and institutional capacity. This approach informed the June 2002 joint Fund/World Bank tax mission, which worked closely with local donors and the authorities in developing such a reform package, details of which were not available at the time of the finalization of this report.

taken several steps, including maintaining tighter controls on BTL accounts[7], and slowing project execution. The authorities redoubled their efforts to seek grants to finance a major project—Mandinaba Soma road construction (see details in para 23 of the MEFP—Appendix I, Attachment II), as of early June 2002, US $1.6 million in grants has been disbursed to mitigate the pressure on budgetary resources. The authorities are now undertaking a comprehensive mid-year review of the budget with a view to curtail expenditure and disbursements in the second half of 2002, especially in areas where expenditure overruns have occurred. On the revenue side, urgent action was taken to implement phase one measures that have significantly enhanced revenue performance in the first quarter of 2002, an out come the authorities intend to improve upon with longer-term phase two reform measures (Box 3). With respect to export receipts, groundnut export

[7] Effective May 2002, all expenditure from BTL accounts require proper documentation and reporting.

earnings are recovering, while high-level discussions are being held with the aim of lifting impediments to border trade (reexports).

21. For 2002, **real GDP** growth is projected at 6 percent, an outcome that is supported by the expected privatization and reforms in groundnut marketing, the continued recovery in the reexport and fishing sectors, improved confidence, and the augmented supply of foreign exchange, infrastructure, and utilities. After a surge from end-2001 through early 2002, annual average **inflation** is expected to stabilize at 5½ percent, as measures will be taken to tighten financial policies.

Fiscal policy

22. The discussions on **fiscal policy** focused on the review of the 2002 budget and developments since it was approved, with a view to reducing the overall deficit (excluding grants) to 5 percent of GDP, compared with the 4 percent in the original budget, and to containing government access to domestic bank financing. This revised budget target is based on an expected recovery in revenue performance, the nonrecurrence of previous exceptional outlays in 2001, and measures to specifically control expenditure from the BTL accounts and slow project execution. The revised **budget reflects an emphasis on key sector priorities** (agricultural, education, and health) via ad hoc arrangements, but better integration based on timely,[8] improved PERs is planned in the context of the 2003 budget and beyond. The budget also provides for a 6 percent across-the-board increase in the wage bill to help retain skilled staff. As is customary, the government provided salary advances, payable over a six-month period, to all civil servants (0.3 percent of GDP) in February 2002 for the Tobaski festival. Capital expenditure is projected to increase to 5¾ percent of GDP in 2002 (from 4.7 percent in 2001) (Table5). The budget also incorporated interim debt relief of about US$4.4 million under the enhanced HIPC Initiative; including HIPC-supported expenditure, the deficit is projected at 6¼ percent of GDP.

23. **Discussions on revenue measures and reforms were influenced by the recognition that revenue performance will recover more gradually than had been envisaged in the past**. As detailed in the MEFP, the planned actions should improve domestic revenue to about 17½ percent of GDP (against 16.2 percent in 2001). Improvements in the outer years are envisaged to be moderate, with a target of about 18½ percent of GDP in 2005. The revenue projections for 2002 incorporate recent measures to eliminate tax and other arrears to the government for a number of public enterprises by mid-2003 (about D 32 million, or 0.5 percent of GDP, is to be repaid in 2002). Revenue reforms focus on implementing the recommendations of recent Fund TA missions supported by the CBEMP. A joint World Bank/Fund mission visited Banjul in June to assist the authorities in formulating a tax reform program that incorporates the recommendations of the audit of the

[8] The budget preparation cycle begins in June, and new or updated PERs will henceforth be prepared and costed well ahead of this month.

2001 operations of the Customs and Excise Department; the audit was carried out in May 2002 (with assistance of the U.K. Department for International Development—DFID) in fulfillment of a **program prior action**. The mission's recommendations will become available shortly.

24. The reforms in **public expenditure management** that were outlined in the September 2001 cabinet paper aim at improving human resources, equipment, procedures, and systems in the Accountant General's Office, in order to enhance the reporting and control of expenditure. The cabinet paper also included measures to strengthen the office of the Auditor General, in order to facilitate the auditing of public accounts. Following the review of the report of inquiry of the former Auditor General, her replacement will be appointed—an action that will be critical for the timely audit of government accounts. The new expenditure system should also subsequently facilitate conversions to program budgeting in line with the objectives of the PERs (and, eventually, of the medium-term expenditure framework—MTEF) and improve expenditure classification to reflect the PRSP and enhanced HIPC Initiative priorities. Fund and donor TA is expected to play a key role in implementing these reforms.

Monetary policy and financial sector reforms

25. The key objectives of **monetary policy** during 2002 are to maintain low inflation and strengthen external reserves. **The monetary program in 2002** targets a reduction in end-period inflation to 3¾ percent and the maintenance of adequate gross official external reserves. In this context, the government will maintain a tight monetary (and fiscal) policy, while providing adequate credit to the private sector, and will continue to promote exchange rate flexibility. The central bank will seek to moderate the growth of broad money to about 13 percent by end-2002. As detailed in the MEFP, the central bank has already implemented two **prior program actions:** (a) the central bank board approval of the reforms discussed with the December 2001 Fund technical assistance mission, and (b) the initiation of the review and redraft of the Central Bank Act, as well as a number of supporting actions associated with the provision of future Fund technical assistance to the central bank. Fund technical assistance support is intended to deepen financial sector reform, improve the operation of the money market, promote flexibility in interest rates, and enhance the soundness and efficiency of the financial system. Some of the planned measures include the expansion of the use of the book-entry system, steps to promote the use of longer-maturity treasury bills and foreign currency deposits, and the development of a liquidity forecasting framework. Work on the latter would be supported by the Fund macroeconomic advisor at the Department of State for Finance and Economic Affairs (DOSFEA), via efforts to improve the timely reporting of data on net government borrowing requirements. The CBG will also be implementing measures to improve the supervision of the financial system (see Box 4). The Financial Institutions Bill, the Insurance Bill, and the Money Laundering Bill are expected to be approved by the National Assembly in 2002.

Box 4. The Gambia: Financial Sector Reforms

The **Central Bank of the Gambia** (CBG) operates under the legal framework of the **Central Bank Act of 1972** to supervise and regulate financial institutions. Over the years, the supervisory activities of the central bank have grown to encompass insurance companies and microfinance institutions. Currently, the central bank is involved in regional efforts under the **West African Monetary Zone** (WAMZ).

To review the broad mandate of the CBG and the use of Fund technical assistance, a Fund mission visited Banjul in December 2001. The mission made recommendations in the areas of monetary policy formulation and implementation, the deepening of the domestic money market, supervision of banks and other financial institutions, and human resource development. Additionally, it reviewed the central bank's record in implementing the recommendations of previous Fund technical assistance missions.

To improve its ability to effectively conduct monetary policy, and to move toward the statutes of the proposed West African Central Bank, the CBG is seeking a **review of the Central Bank Act** of 1972. In addition to amendments to define its mandate more clearly, the proposed changes would result in a more independent central bank. In early June, a cabinet sub-committee approved a draft **money laundering Bill**, shifting overall responsibility to the Department of State for Finance and Economic Affairs (DOSFEA), which will, in turn, designate the central bank as the supervisory agency. The Bill will be forwarded shortly to the Fund for review.

In order to improve **monetary policy formulation**, the CBG has created an Open Market Committee, which will be responsible for the basic monetary policy decisions. To strengthen policy coordination between the CBG and the DOSFEA, this committee will include a representative from DOSFEA.

To improve the effectiveness of its monetary policy operations, the CBG is developing a **liquidity forecasting framework**. This framework links changes in commercial banks' reserves to anticipated changes in the government's accounts at the central bank and various central bank operations. Thus, by adopting a more forward-looking stance, and through improved communication with DOSFEA, the CBG hopes to smooth commercial banks' liquidity, and, by reducing excess reserves held by the banks, to improve the response of banks to changes in monetary policy. So far, however, the use of this framework is limited by data coverage of government transactions. Other measures in this area include the implementation of a **book-entry system** for treasury bill auctions and the use of longer-term securities.

The Fund mission made several recommendations to **deepen the domestic money market**. As a first step toward introducing repurchase facilities, the central bank is working with commercial banks to develop a master repurchase agreement. Further recommendations include setting bank-by-bank limits on the use of standing facilities, shortening the reserve averaging period, and, in conjunction with improvements in the liquidity forecasting framework, conducting open market operations to reduce daily variations in overall reserve positions.

The central bank's **supervisory functions** are hampered by a scarcity of trained staff, in particular in the area of insurance supervision, and a lack of explicit examination policies and procedures. The authorities are revising two key financial sector laws (the **Financial Institutions Bill**, and the **Insurance Bill**), which will provide an improved legal framework for the supervision of the banking and insurance sectors. Additionally, the central bank is developing manuals of examination procedures for banking, insurance, and microfinance institutions. The authorities have requested (and are receiving) Fund technical assistance in drafting these laws; it is expected that both will be submitted to the cabinet and for parliamentary approval soon. While some progress has been made in filling vacant positions in the central bank's banking supervision department, several senior staff have been seconded to manage the Continent Bank, which was seized by the central bank in January 2002.

In addition to making the recommendations discussed above, the December 2001 Fund mission observed that the central bank's implementation record regarding Fund TA could be improved. It recommended that further Fund technical assistance be contingent on a number of prior actions on the part of the central bank, such as a CBG board resolution approving the proposed action plan, the passing of the Financial Institutions and the Insurance Bills, the filling of vacant staff positions, the preparation of a resolution plan for the insolvent banks and insurance companies, and efforts to improve the coordination and implementation of technical assistance. The central bank has made good progress in implementing these recommendations.

In the context of the **PRSP**, interventions will be focused on the village savings and credit association (VISACA) and will relate to capacity building, product development, improvements of the regulatory framework, better linkages among microfinance institutions, the setting up of a credit guarantee fund, and incentive schemes for private sector investment in agriculture. Formal financial sector reforms in the PRGF are being coordinated with the PRSP's activities, which focus on the informal sector, in order to provide better support to the private sector, including the poor.

26. Nonperforming bank loans (NPL) had declined to 7.9 percent of total outstanding loans by end-March 2002 from 13.6 percent in June 2000,[9] and provisioning for nonperforming loans has remained above 90 percent of the level of such loans in 2001. The authorities will encourage banks to maintain their capital adequacy ratios above the legal requirement level of 8 percent. They have also taken steps to strengthen the management capacity of the Continent Bank, which has not been meeting some of these standards. Addressing the full extent of the Continent Bank's problems however, requires completion of the resolution plan, which will also establish the cost to the budget of either its recapitalization or liquidation.

Other structural reforms

27. As detailed in paragraph 34 of the MEFP, the authorities are pursuing **other structural reforms to**, inter alia, promote a macroeconomic environment conducive to private sector activity, in line with the PRSP objectives. The areas covered include (a) modernization of business-related legislation; (b) regulation and public procurement (the Regulation and Procurement Acts were enacted in 2001); (c) competition policy (a draft was prepared with technical assistance from the Commonwealth Secretariat in 2000); and (d) public enterprise divestiture. The divestiture program was given a boost following the 2001 cabinet approval of the privatization of Track I public enterprises—defined as enterprises that can be sold without the need for legislative and regulatory support, and which include the former Alimenta assets. Privatization of the remaining public enterprises (mainly utilities) would be informed by a number of studies planned for 2002. The Gambia Divestiture Agency (GDA) will channel part of the privatization proceeds into the divestiture account at the central bank. In 2002, up to D 25 million will be transferred from the divestiture account to reduce the government's domestic debt. As detailed in paragraph 38 of the MEFP, the government is also implementing a governance program to, inter alia, improve transparency and governance in all public institutions, as well as in the legal and judicial processes.

28. The mission urged the authorities to follow through with a **transparent privatization** of Alimenta's former assets to competing firms, in order to improve **groundnut marketing** and reduce the role of government. These measures are critical to the success of the broader reforms envisaged for the agricultural sector—reforms aimed at enhancing the provision of extension, research, and credit services to farmers in order to promote **rural income-generating activities.**

External Policies and Balance of Payments Outlook, and Ability to Repay the Fund

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[9] The decline in the NPL reflects the government's payment of D 64 million in respect of nonperforming crop loans in February 2001, as well as an improvement in crop-marketing arrangements during 2001/02.

29. The Gambia's balance of payments position is expected to strengthen over the medium term, with the **external current account deficit** (excluding official transfers) projected to narrow from 14¾ percent of GDP in 2001 to 13¼ percent in 2002 and further to 10¼ percent by 2005. During this period, the volume of total exports (excluding reexports) is expected to increase by nearly 6¾ percent, reflecting a further expansion in groundnut, fruit, and fish exports, while reexports should benefit from improved cross-border relations, a depreciated dalasi, and the introduction (in January 2002) of foreign currency deposits. In particular, fish products will benefit from favorable world prices and an expansion in processing capacity. Receipts from tourism are projected to increase significantly following peaceful elections and the efforts to promote the sector. The terms of trade are forecast to remain stable during 2003-05. Private transfers and the prospects of private inflows of direct investment are expected to improve as the economy grows and the reform process is deepened. Meanwhile, import growth is envisaged to moderate, starting in 2002, after a one-off increase in 2001 related to the importation of three electricity generators. Gross official reserves are projected to reach SDR 87.7 million by end-2002, equivalent to about five months of import cover. A **financing gap** of SDR 10.3 million is estimated for 2002 and is expected to be filled by recourse to Fund (SDR 5.8 million) and donor assistance (including a minimum of € 3.7 million from the EU). A donor roundtable meeting planned for September 2002 is expected to raise funding for the PRSP-related spending and the associated financing gap starting in 2003. Key external sector reforms are summarized in Box 5.

30. The authorities reiterated their **commitment to a liberal trade and exchange system**. They will continue to explore further measures to rationalize and reduce external tariffs, which, together with the pursuit of a market-based flexible exchange rate, should significantly benefit The Gambia's external competitiveness. The mission concurred with the authorities' assessment and considered the prevailing exchange rate, in conjunction with the pursuit of prudent financial policies, to be broadly appropriate in maintaining the country's external competitiveness.

31. Over the medium term, the debt-service ratio, after accounting for the enhanced HIPC Initiative assistance, will fall from about 13¼ percent of exports of goods and nonfactor services in 2002 to 8¼ percent by 2005 (Table 9).[10] The share of repayments to the Fund in relation to total debt service is expected to increase from 1.6 percent in 2001 to 8¾ percent in 2005. In 2001, the Fund approved interim assistance under the enhanced HIPC Initiative of SDR 0.8 million, covering 9.6 percent of each repayment obligation falling due until December 31, 2001. The government intends to use the remaining proceeds of the Fund

[10] The nominal present values (NPV) and debt-service statistics (Tables 3 and 9) are slightly higher than those envisaged in the Decision Point Document (www.imf.org), reflecting higher-than-anticipated new multilateral loans and one concessional loan from a bilateral donor in 2001. Moreover, the growth rates for exports and government revenue were moderated in light of developments in 2001.

Box 5. The Gambia: External Sector Reforms

The strategic location of The Gambia, controlling a navigable river into the hinterland and possessing an efficient port, as well as its long history of liberal trade and exchange rate policy, has enabled the country to develop into a **regional entrepôt**.

The Gambia accepted Article VIII sections, 2, 3 and 4 of the Funds' Articles of Agreement in 1993. **External tariff reforms** have been implemented recently. In 1998, the maximum tariff rate was lowered from 90 percent to 25 percent for all items except tobacco, alcohol, and vehicles. Further tariff reforms were implemented in 1999, with the rates on tobacco, alcohol, and vehicles reduced from 87 percent to 20 percent as well. The latest reforms took place in 2000, when the top maximum external tariff was reduced to 18 percent and the number of tariff bands was further lowered to three nonzero bands. The current tariff rates are 0, 5, 10, and 18 percent.

The **nominal exchange rate** depreciated by about 20 percent against the U.S. dollar in 2001. The **real effective exchange rate** depreciated by 8 percent between January 2001 and January 2002. **External debt** is quite high, at about 125 percent of GDP. A debt sustainability analysis was undertaken in 2000, leading to The Gambia's becoming eligible under the **enhanced HIPC Initiative**. The Gambia enjoys relatively low **interest payments-on external debt,** averaging 4 percent of total exports and nonfactor services or, 1.2 percent of GDP, and it has been granted debt relief to ensure that the long-run path of external debt is sustainable. The country has a comfortable foreign exchange position, with **gross international reserves (GIR)** equivalent to five months of imports and 21 percent of the nominal debt stock. Additionally, the **ratio of GIR to quasi money** has been stable at around 80 percent during the program years.

Export performance has been favorable. The ratio of the exports of goods and services to GDP increased to around 54 percent in 2001. However, there has not been a qualitative transformation in the export base. **Reexports** still account for about 80 percent of total exports, benefiting particularly from the country's recent trade reforms. However, vulnerabilities arise from the threat of border closures and the trade reforms that are taking place in neighboring countries.

The new PRGF arrangement provides a framework for prudent financial policies and reforms to improve The Gambia's external competitiveness and promote foreign investment.

The Gambia River and the country's 200-nautical-mile-exclusive economic zone contain abundant ocean and river fish and crustaceans, and remain largely underexploited. An estimated fish yield of around 75,000 tons, and a current annual offtake of around 29,000 tons provide a wide scope for increased levels of both foreign and domestic investment in the sector. **Fish exports** have benefited from investments in cold storage, shrimp and fish processing, and fish farming, as well as increases in the number of oceanfishing trawlers and artisanal canoes. An Artisanal Fisheries Development Project is under way, with a plan to establish the Industrial Fisheries Port in Banjul, funded by the African Development Bank. It aims to (a) establish a fisheries port, (b) establish a central fisheries market, (c) support the Ministry's Control and Surveillance (MCS) Department, (d) promote the credit program for financing small-scale fishermen, and (e) establish a Human Resource Development Department.

Tourism is one of the main foreign exchange earners, contributing over 12 percent to GDP. The sector is facing a number of constraints, including a continued fall in spending by tourists and environmental degradation in some areas. The African Development Bank has started a US$10 million project for beach rehabilitation. The newly created, private-sector-directed **Tourism Promotion Agency** has increased the promotion budget by a factor of 20. Moreover, the government is undertaking a **Tourism Development Master Plan Study** for 2002–2020, which should inform a long-term strategy for growth and employment consistent with the **PRSP**.

The **groundnut sector** accounts for about 25 percent of the value added in agriculture, about 8 percent of GDP, and 10 percent of exports (about 70 percent of domestically produced exports). Production recovered from 78,000 tons in 1997 to 152,000 tons in 2001. The emphasis has now shifted to improve processing and marketing. The rehabilitation of barges and a processing plant are under way, while a new oil-crushing plant has been established. A settlement with Alimenta, a Swiss marketing monopoly, was completed in 2001, and there is a proposal to privatize the former Alimenta assets. There is donor support for the provision of fertilizer, better seeds, and credit to farmers.

The enactment of the **Investment Promotion and Free Zones Act** in 2001 sets the stage for the establishment of The Gambia Investment Promotion and Free Zones Agency (GIPFZA) and is expected to promote private investment. **Foreign direct investment** picked up slightly in 2001 with new investments concentrated in the tourism sector, roads, and utilities (electricity and telephones). Within the framework of the US$25 million Trade Gateway Project, the government has established free economic zones administered and managed by GIPFZA. These zones utilize land around the Banjul airport to facilitate access to easy transportation and related infrastructure development and are aimed at stimulating private investment in light manufacturing and export-oriented activities. Commercial banks have been licensed to operate and some have opened foreign currency deposits, which should facilitate the transfer of funds to promote remittances; the latter are increasingly channeled to investment projects. Following elections and improved relations, the United States is expected to review The Gambia's eligibility under the **African Growth and Opportunity Act (AGOA),** and a positive outcome to this review would further encourage investments.

interim assistance under the enhanced HIPC Initiative, approved on December 15, 2000, to meet debt service payments on its existing debt to the Fund as they fall due during 2002. The Gambia has a good record in meeting its debt service to the Fund, and, given the authorities' ongoing commitment to implement a strong adjustment program, it is expected to continue to meet its financial obligations to the Fund on a timely basis.

C. The PRSP Process and Enhanced HIPC Initiative

32. The **full PRSP,** prepared through a participatory process, was presented to the management of the Fund and World Bank in May 2002; it is assessed separately in the joint staff assessment (www.imf.org), which is being presented to the Executive Board with the PRSP (www.imf.org) in support of the request for the three-year arrangement under the PRGF.

Poverty and social impact analysis (PSIA) issues

The PRGF arrangement is underpinned by macroeconomic adjustments, including fiscal measures and reforms to strengthen the financial sector that will have an impact on the poor. Reforms envisaged for the Central Statistics Department (CSD) are likely to significantly improve information about the poor; the effect of these reforms on the poor is discussed below.

33. The program adjustment focuses on containing the overall fiscal deficit[11] and eventually bringing it down to a sustainable level. The resulting impact would be to release resources (up to 20 percent of the revenue that is currently absorbed by domestic debt servicing) to augment poverty-reducing expenditure. Achieving this target requires mobilizing domestic resources and strengthening public expenditure management.

34. The revenue effort calls mainly for a reduction in discretionary customs tax exemptions and better enforcement of sales taxes, especially those collected by hotels and public enterprises (e.g., The Gambia Telecommunications Company (GAMTEL)) that have accumulated tax arrears. The sizable revenue recovery would be an immediate cost to individuals who have hitherto had the means to avoid taxes and, therefore, are not likely to be among the poor. To the extent that better tax enforcement marks up the prices on taxed goods and services, the tax incidence would fall on higher-income groups and foreigners who consume taxable imported or reexported items or those subject to sales tax.[12] Since items like rice, medicine, and fertilizer attract a zero import duty rate and the latter two are not subject to sales tax, consumption of these items by the poor would be largely unaffected. The

[11] The fiscal deficit for program purposes is narrowly defined to exclude the poverty-reducing expenditure funded under the enhanced HIPC Initiative and incremental PRSP expenditure. These programs are, in any case, fully funded and would not have an impact on budget financing.

[12] The Fund tax policy mission estimates that nearly 40 percent of customs revenue and 70 percent of sales tax revenue come directly from goods imported for reexport.

proposed higher excise taxes on cigarettes, liquor, and electricity would also fall mainly on higher-income groups and foreigners (the latter via reexports), who consume these items. The expenditure measures taken to improve allocation, accountability, and transparency would likely reduce corruption and waste and increase resources to priority sectors. The poor are thus not likely to be adversely affected by these measures and could well benefit from the programmed fiscal reforms. Moreover, the resulting salutary impact on inflation[13] would over time also increase welfare, especially for the poor.

35. The most recent household survey (1998) reveals that the incidence of poverty increased substantially in recent years and that the majority (about 91 percent) of the extremely poor households in the rural areas are engaged in agriculture. The narrow resource base of the economy is a major inhibiting factor to economic resilience, aggravated by an influx of refugees from the region, which has put pressure on the limited social services. In this context, the PRSP has identified a number of priority actions, including increased budgetary allocations to key social sectors (agriculture, education, and health) as part of the effort to alleviate poverty (Table 5b). Excluding the enhanced HIPC Initiative spending, budgetary allocations to these sectors increased from 38 percent of non-interest current spending in 2000 to about 43 percent in 2002.

36. The financial sector reforms focus on strengthening the legal and institutional framework, so as to broaden and deepen the financial system and promote private sector access to credit. To the extent that the emerging dynamic private sector generate employment while the PRGF reforms in the formal financial sector complement the expansion of credit facilities to small enterprises and microenterprises (envisaged under the PRSP), the poor would benefit. On a related issue, the mission argued for the closure of Continent Bank since, as a small bank, it does not pose a systemic risk to the rest of the banking system; such an action would also send a strong signal of the authorities' commitment to promote sound banking practices. The authorities argued strongly against the immediate closure of the bank, pointing out that its services were mainly geared to the low-income households. However, agreement in this area is dependent on finalizing the resolution plan for the bank.

37. The proposed reform of the CSD (para. 43 of the MEFP) would substantially enhance macroeconomic, social, and, especially, poverty data, thereby strengthening the design and implementation of the PRSP and benefiting the poor considerably in the medium to long run.

The enhanced HIPC Initiative

38. The government has achieved significant progress in implementing the enhanced **HIPC Initiative completion point triggers**. The first six-monthly report on tracking poverty-reducing expenditure, including HIPC Initiative-funded expenditure for 2001, will

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[13] The current consumer price index, based on a low-income urban household consumption basket, understates measured inflation.

be presented to the High-Level Economic Committee shortly. Regarding education triggers, the number of teachers (lower basic education) graduating from The Gambia College reached 361 in 2001 (compared with 192 in 2000), thus exceeded the annual growth target of 45 percent. The girls' scholarship fund was also successfully implemented, and the number of participants in the four poorest regions rose to over 7,800 at end-2001 (against the annual target of 2,000). Progress in implementing the health triggers (the number of births attended by trained antenatal personnel and the share of expenditure on primary and secondary health care) is broadly on target.[14] Notable progress has been achieved regarding other triggers. The Regulatory Act was enacted in 2001, paving the way for the establishment of a regulatory agency, while the privatization of the former Alimenta assets is under way. The Gambia is expected to reach the enhanced HIPC Initiative Completion Point by mid-2003.

D. Technical Assistance and Statistical Issues

39. **The Fund staff has made substantial progress in the preparation of a comprehensive TCAP aimed at promoting performance under the PRGF arrangement** (MEFP, para. 44). The TCAP focuses on key reforms in public expenditure management, tax policy and administration, monetary and foreign exchange operations and financial sector supervision, and macroeconomic data. The UK-DFID has expressed interest in providing support, including possible financing of Fund technical assistance in support of the macroeconomic reforms under the TCAP.

40. The Gambia's **economic and financial statistics** remain in need of improvement, especially with regard to the balance of payments, national accounts and prices, public investment, the public enterprise sector, and employment. Although the comprehensive balance of payments data are still compiled on an annual basis, detailed key external indicators on international reserves and government debt service are provided on a timely basis, and thus the country meets the minimum reporting requirements for surveillance on external debt and reserves. Data on the social sectors and poverty need to be substantially improved and better integrated with mainstream economic data. The authorities have taken steps to strengthen the statistical base, including through efforts to improve the staffing of the CSD. The country is also participating in the Fund's General Data Dissemination System to improve the quality, timeliness, and transparency of data provision. The Gambia's metadata are now available on the Fund's Dissemination Standards Bulletin Board.

E. Prior Actions and Economic and Financial Performance Monitoring

[14] Preliminary budget data for 2001 indicate that allocations for primary and secondary health care increased to 27.3 percent of total recurrent expenditure in health from 26 percent in 2000. The number of trained antenatal personnel is derived indirectly from the estimated stock figure in 2000 and the number of trainees completing the courses each year in this area.

41. To help ensure successful implementation of the program, the government has implemented the following **prior actions**: (a) a CBG Board resolution in support of the reforms, as recommended by the December 2001 Fund technical mission; (b) initiation of a review of the Central Bank Act; and (c) an audit of the 2001 operations of the Customs and Excise Department (Appendix I, Table 2). Items (a) and (b), together with other measures, will trigger Fund technical assistance to the central bank under the TCAP.

42. The program will be monitored through the quantitative benchmarks and quantitative performance criteria specified in Tables 1 and 2 of Appendix I. Seven benchmarks have been set for end-June 2002, and these will also serve as quantitative performance criteria for end-September 2002. Indicative targets on the same variables have been established for end-December 2002. Five structural benchmarks have been set for specific dates through end-November 2002, and a continuous performance criterion on the avoidance of external payments arrears has also been set. Program implementation will be assessed during a first review, to be completed by end-December 2002. Structural conditionality is also covered in Box 6.

IV. Staff Appraisal

43. During the last four years, The Gambia overall has achieved a measure of macroeconomic and structural adjustment, with a considerable fiscal retrenchment and external sector adjustment, including substantial trade liberalization. However, this achievement was undermined by fiscal slippages in 2001 that continued through the first quarter of 2002.

44. The new PRGF-supported program represents a consolidation phase for The Gambia, and the authorities plan to intensify efforts to build on the gains achieved so far to ensure fiscal prudence, strengthen governance, and institute broad-based economic and financial reforms to reduce poverty. These reforms should benefit from better coordination of donor technical assistance, as a program with that objective will be presented at a donor roundtable meeting to support implementation of the PRSP. The staff has played a role in this process through its preparation of a comprehensive TCAP to enhance the formulation and implementation of macroeconomic policies. The authorities' efforts come on the heels of peaceful national elections, the preparation of a full PRSP, improved donor relations, and the settlement of the Alimenta property dispute. The authorities are to be commended for these achievements, which provide auspicious conditions to move ahead. The staff welcomes the authorities' policy response, including the actions taken to reverse recent financial slippages. The challenge is for them to fully implement the strategy and the supporting measures and reforms on a timely basis.

The revised budget for 2002 provides for an appropriate strengthening of fiscal performance, in line with the medium-term macroeconomic framework and with the goal of maintaining a sustainable level of government domestic debt. On the revenue side, it is recognized that recovery will take time and will depend largely on a gradual improvement in institutional capacity, including a sustained improvement in customs administration. The staff also urges

Box 6. The Gambia: Structural Conditionality in the Proposed PRGF Arrangement for The Gambia

Coverage of structural conditionality in the proposed program

As detailed in Table 2 of Appendix I, structural conditionality in the proposed PRGF arrangement for The Gambia covers five areas. First, the completion of Stage I of the Household Survey (dry season) will provide further data for the analysis of poverty and form a basis for constructing an updated and comprehensive consumer price index (CPI). An updated CPI will also be helpful in the formulation of monetary policy. Second, the measures envisaged to expand the automated system for customs data (ASYCUDA) by networking the customs administration and using the system to automatically generate trade data, will improve the efficiency of the customs administration and the timeliness of trade data. Third, structural conditionality covers the completion of a second report on poverty-reducing expenditure (the first report was completed in May 2002). Fourth, the quarterly schedule for eliminating government-public enterprise cross arrears based on a review of a public enterprise study and cabinet paper was completed at end-May 2002. Fifth, the completion of the enterprise survey will form the basis for the compilation of data on the international investment position in the balance of payments. Three prior actions, all on structural reform issues, have been incorporated in the program. The audit of the Customs and Excise Department was carried out to strengthen revenue performance while the actions relating to the central bank would significantly improve its institutional capacity.

Change of status of structural conditionality from earlier programs

The proposed PRGF arrangement does not include structural conditionality on (a) the restructuring and privatization of public enterprises; (b) the procurement code; (c) the investment code; and (d) the public investment program (PIP), all of which were covered by structural benchmarks in the earlier PRGF annual arrangements. The World Bank has the lead role in all these areas, and, except for item (a), they have been addressed through legislation, interim codes, and an initial review of the PIP. The conditionality on privatization was not fully met, but the emphasis was shifted to providing legal frameworks for privatization and regulation, both of which were approved by parliament in the 2000/01 sessions. Meanwhile, to deal with financial problems of public enterprises, the current PRGF-supported program has incorporated quarterly budget targets to eliminate government-public enterprise cross arrears. More generally, the third annual PRGF arrangement was and the perspective thee-year arrangement has been refocused to include structural conditionality that is more in the areas where the Fund takes a lead role and that has a more direct bearing on macroeconomic issues.

Structural areas covered by World Bank lending and conditionality

All existing and prospective (in fiscal-year FY 2003) World Bank lending is in projects, of which those in education and health have conditionality that is reflected also in the HIPC Initiative floating completion triggers. The World Bank has not scheduled any credit or structural adjustment lending in FY 2003.

Structural areas covered by HIPC Initiative completion point conditionality

Explicit structural reforms covered by the triggers include (a) improving the capacity to generate poverty data; (b) strengthening the regulation of private and public enterprises; (c) improving public expenditure tracking; and (d) bringing to the point of sale the former Alimenta groundnut-processing plants. The latter complements the broader groundnut-marketing and production reforms, which are covered by agreements and arrangements with the European Union—the lead donor in the sector.

Other relevant structural conditionality not included in the current program

This applies to three main areas. First, governance issues have been explicitly raised by donors, notably reforms in the Auditor General's Office. These are issues monitored by the relevant donors. Second, the PRSP process, including participatory programs, sector policies, public expenditure reviews, the medium-term expenditure framework, and social impact analysis, is supported by various donors and nongovernmental organizations; however; it has not been covered by specific conditionality in the PRGF-supported program. Finally, liquidity forecasting by the central bank has been developed to a certain extent by the monetary authority, acting on its own. Additional conditionality in this area is now dependent on ongoing reforms in the accounts of the central government, which would provide timely inputs into the formulation of monetary policy.

the authorities to ensure a strict adherence to the repayment plan agreed between a number of public enterprises and the government and to persevere with reforms in the tax system. Budgetary reforms to enhance the transparency and accountability of public expenditure are also crucial to the PRSP and HIPC Initiative process. The authorities are encouraged to press ahead with these reforms, including the appointment of as Auditor General with substantive responsibilities so as to strengthen the office, and to resume the auditing of public accounts on a timely basis. The authorities should also collaborate effectively with donors in improving and broadening the PER exercise to cover other sectors, with a view to developing a medium-term expenditure framework encompassing all major expenditure programs.

45. The authorities need to continue to be vigilant in implementing a prudent monetary policy, so as to maintain low inflation while providing adequate private sector credit growth. Supporting reforms should emphasize the expanded use of indirect monetary policy instruments, taking advantage of Fund technical assistance. The staff urges the authorities to act resolutely and expeditiously to resolve the Continent Bank issue, including completing a resolution plan to establish the full cost to the budget of either recapitalization or liquidation of the bank.

46. The consolidation and broadening of other structural reforms remains key to stimulating private sector activity and accelerating a reduction in poverty. Key reforms include measures to improve business legislation, establish a framework for the regulation of public enterprises, and continue with privatization. Also, reforms to establish a sustainable marketing arrangement for groundnuts with minimal government involvement should be put in place.

47. The mission concurred with the authorities' assessment of the trade and exchange system, and it considered the prevailing exchange rate, in the context of the implementation of prudent financial policies, to be broadly appropriate in maintaining The Gambia's external competitiveness.

48. The staff welcomes the full PRSP, which has provided the essential building blocks for poverty-reducing adjustment and the reforms incorporated in the PRGF-supported program. In order to strengthen the links between the PRSP and the PRGF-supported program, further work is needed to refine sector priorities and improve the macroeconomic and social data that will help to assess the impact of adjustment and reform on the poor. The staff urges the authorities to strengthen these efforts to solicit the views of the poor, including through the governance program, which seeks to empower the civic society.

49. Notwithstanding the progress that the authorities have made in improving economic and financial data, the staff urges them to continue their efforts to enhance the timeliness and quality of data, especially in the national accounts and prices, and the fiscal and external sectors. Furthermore, the social and poverty database should be strengthened in light of the objectives outlined in the PRSP. While the provision of data to the Fund does not prevent effective surveillance or program monitoring, the delays in reporting need to be reduced and the quality of data upgraded to improve the analysis of economic developments.

50. Possible risks to the implementation of the proposed policies and reforms include delays in dealing with, or the reemergence of, governance issues (including avoidance of unprogrammed expenses and revenue leakages), and delays in effectively using technical assistance, especially in the fiscal area. Moreover, the heavy burden of implementing a broad range of measures and reforms, including those related to the PRSP and the enhanced HIPC Initiative, will be a major test of the constraints on institutional and human resource capacity. Thus, the staff welcomes the authorities' efforts in intensifying their collaboration with donors and the Fund to ensure timely access to, and effective use, of technical assistance.

51. On the basis of the broadly encouraging economic and financial developments, the authorities' efforts to address the slippages that have emerged, and their adoption of an appropriate macroeconomic framework (and supporting policies, including prior actions) for 2002–05, the staff recommends that the Executive Board approve The Gambia' request for a new three-year PRGF arrangement.

52. It is recommended that the next Article IV Consultation with The Gambia be held on a standard 12-month cycle.

Table 1. The Gambia: Three-Year PRGF Arrangement, 2002-05

Dates	Event	Disbursement	
		(In millions of SDRs)	(In percent of quota)
July 10, 2002	Executive Board Approval	2.89	9.3
September 30, 2002	Test date		
December 31, 2002	First review completed	2.89	9.3
March 31, 2003	Test date		
June 30, 2003	Second review completed	2.89	9.3
September 30, 2003	Test date		
December 31, 2003	Third review completed	2.89	9.3
March 31, 2004	Test date		
June 30, 2004	Fourth review completed	2.89	9.3
September 30, 2004	Test date		
December 31, 2004	Fifth review completed	2.89	9.3
March 31, 2005	Test date		
June 30, 2005	[illegible]eview completed	2.88	9.3

Table 2. The Gambia: Fund Position During the Period of the Three-Year PRGF Arrangement, 2002-05

	Outstanding December 31, 2001	2002 Jan.-Mar.	2002 Apr.-Jun. Proj.	2002 Jul.-Sep. Proj.	2002 Oct.-Dec. Proj.	2003 Jan.-Mar. Proj.	2003 Apr.-Jun. Proj.	2003 Jul.-Sep. Proj.	2003 Oct.-Dec. Proj.	2004 Jan.-Dec. Proj.	2005 Jan.-Dec. Proj.
					(In millions of SDRs)						
Net use of Fund credit		0.0	0.0	2.9	2.9	0.0	0.0	2.9	2.9	5.1	1.5
Transactions under tranche policies		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchases		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ordinary resources		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowed resources		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ordinary resources		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowed resources		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transactions under special facilities		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans under:		0.0	0.0	2.9	2.9	0.0	0.0	2.9	2.9	5.1	1.5
Structural Adjustment Facility		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Drawings		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enhanced Structural Adjustment Facility		0.0	0.0	2.9	2.9	0.0	0.0	2.9	2.9	5.1	1.5
Drawings		0.0	0.0	2.9	2.9	0.0	0.0	2.9	2.9	5.8	2.9
Repayments		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	1.4
HIPC Initiative debt relief		...	...	...	...	...	...	...	...	...	...
Total Fund credit outstanding	20.6	20.6	20.6	23.5	26.4	26.4	26.4	29.3	32.2	31.3	38.7
Under tranche policies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Under special facilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Under Structural Adjustment Facility	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Under Enhanced Structural Adjustment Facility	20.6	20.6	20.6	23.5	26.4	26.4	26.4	29.3	32.2	37.3	38.7
					(In percent of quota)						
Total Fund credit outstanding	66.3	66.3	66.3	75.6	84.8	84.8	84.8	94.1	103.5	119.8	124.6
Under tranche policies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Under special facilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Under Structural Adjustment Facility	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Under Enhanced Structural Adjustment Facility	66.3	66.3	66.3	75.6	84.8	84.8	84.8	94.1	103.5	119.8	124.6

Source: IMF, Treasurer's Department.

Table 3. The Gambia: Selected Economic and Financial Indicators. 1999-2005

	1999	2000	2001		2002	2003	2004	2005
	Prel.	Prel.	Rev. Prog.	Prel.	Prog.	Proj.	Proj.	Proj.
	(Annual percentage changes, unless otherwise indicated)							
National income and prices								
GDP at constant prices	6.4	5.6	5.7	6.0	6.0	6.0	6.0	6.2
GDP deflator	4.4	3.8	4.0	7.4	6.7	3.6	3.4	3.4
Consumer price index (period average)	3.8	0.9	4.0	4.5	5.5	4.0	3.0	3.0
Consumer price index (end of period)	1.7	0.2	3.5	8.1	3.8	3.5	3.0	3.0
External sector								
Exports, f.o.b. (in SDRs)	-8.3	9.0	13.8	15.1	8.2	4.5	3.5	5.0
Imports, f.o.b. (in SDRs)	-7.4	3.1	7.7	17.9	2.7	3.6	1.9	3.5
Export volume (excluding reexports)	-10.7	29.5	1.5	6.7	5.5	5.1	3.9	3.0
Import volume (excluding imports for reexp	-11.9	-4.1	0.2	20.7	-1.4	8.2	7.5	6.7
Terms of trade 1/	-19.8	-2.0	6.2	1.8	1.4	1.3	1.2	0.1
Nominal effective exchange rate (period aver	-5.0	-2.6	...	-11.6	...		...	
Real effective exchange rate (period average)	-2.3	-4.3	...	-7.3	...		...	...
Government budget								
Domestic revenue	5.7	13.3	14.1	-0.6	22.4	12.9	11.2	9.1
Total expenditure and net lending	8.7	6.6	20.2	33.4	3.3	18.9	10.6	7.7
Current expenditure	10.9	11.1	20.7	25.5	-1.2	-2.5	6.3	6.0
Development expenditure and net lending	1.1	-5.9	17.2	16.2	57.0	76.3	16.8	10.7
Money and credit								
Net domestic assets 2/	8.7	14.8	-0.9	28.3	-5.1	1.3	0.3	0.5
Credit to the government 2/	5.4	117.4	4.0	25.5	-12.8	-5.1	4.3	-4.6
Credit to the private sector 2/ 3/	8.2	10.3	8.0	1.2	12.4	9.2	7.8	8.6
Broad money	12.1	34.8	7.9	19.4	13.2	9.9	9.6	9.3
Velocity (GDP relative to broad money)	3.3	2.7	2.8	2.6	2.6	2.6	2.6	2.6
Treasury bill rate (in percent; end of period)	12.5	12.0	...	15.0	...		...	
	(In percent of GDP)							
Gross domestic investment and savings								
Gross investment	17.8	17.3	17.9	17.7	19.4	19.7	20.1	22.1
Government 4/	5.3	4.6	4.9	4.7	5.7	5.8	6.0	7.1
Private 3/	12.5	12.7	13.0	13.0	13.7	13.9	14.1	15.0
Gross domestic savings	7.9	4.9	5.6	1.5	4.8	6.1	7.1	9.9
Gross national savings	13.5	12.6	15.3	10.9	14.4	14.7	15.4	19.4
Central government budget								
Balance, excluding grants 5/	-4.8	-3.6	-5.9	-8.7	-5.0	-2.7	-2.3	-2.1
Balance, including grants 5/	-3.5	-1.4	-3.1	-7.6	-2.2	-3.4	-3.6	-3.9
Basic primary balance	4.6	4.6	1.5	-1.3	3.3	0.9	0.6	1.2
Current balance	-0.2	0.2	-1.6	4.0	-0.2	2.3	3.0	4.4
Total expenditure and net lending	22.7	22.1	25.2	26.0	23.7	25.6	25.9	26.2
Domestic revenue	17.9	18.5	18.2	16.2	17.5	18.0	18.2	18.6
Net foreign financing	0.6	-0.8	-0.4	-0.8	-0.4	-0.4	0.9	0.6
Net domestic financing	4.9	2.6	3.5	8.5	2.3	-1.0	-1.0	-1.3
Stock of domestic debt	27.0	31.4	31.8	33.5	31.0	28.2	25.7	20.0
External sector								
Current account balance								
Excluding official transfers	-11.7	-12.1	-11.8	-14.8	-13.2	-12.1	-11.6	-10.2
Including official transfers	4.4	4.7	-2.6	-6.7	-5.0	-5.0	-4.8	-2.6
	(In percent of exports and travel income)							
External debt service 6/								
Including Fund	11.4	8.5	15.6	16.0	11.9	10.7	10.7	10.5
Excluding Fund	8.8	7.0	15.1	15.5	11.5	10.4	10.1	9.3
	(In millions of SDRs, unless otherwise indicated)							
Current account balance								
Excluding official transfers	-36.4	-38.7	-36.5	-44.0	-40.6	-39.9	-39.5	-37.0
Including official transfers	-13.5	-14.9	-15.8	-20.0	-15.2	-16.5	-16.2	-9.6
Overall balance of payments	2.3	1.0	-14.8	-10.3	-13.8	-14.2	-13.2	-5.3
Gross official reserves (end of period)	78.1	85.3	86.4	81.4	87.7	93.8	100.2	105.1
In months of imports, c.i.f.	5.8	6.1	5.2	4.9	5.1	5.3	5.5	5.6
	(In millions of SDR)							
Use of Fund resources								
Purchases/disbursements	3.4	6.9	6.9	6.9	...	...	...	...
Repurchases/repayments	2.6	1.2	1.1	1.1	...	...	...	...
Credit outstanding	8.3	13.9	20.6	20.6	...	...	...	...
	(In percent)							
NPV of debt-to-exports ratio 7/	206.1	207.0	205.8	224.7	197.8	222.0	232.4	234.2
NPV of debt-to-revenues ratio 7/	314.9	297.7	287.3	436.8	353.1	367.4	382.2	372.4

Sources: The Gambian authorities; and Fund staff estimates and projections.

1/ Excluding reexports and imports for reexport.

2/ In percent of broad money at the beginning of the period.

3/ Includes public enterprises.

4/ Excluding investment outlays funded from debt relief under the enhanced HIPC Initiative and incremental PRSP resources.

5/ On a commitment basis, excluding HIPC Initiative-supported expenditure.

6/ In 2001, the increase in debt service mainly reflects payments to Alimenta (the last payment was in August).

7/ This series has been revised to reflect new loans contracted since the debt sustainability analysis was completed in 2000. These are preliminary results and further adjustment are expected. From 2002, note that the net present value (NPV) figure is before the application of traditional debt-relief mechanisms.

Table 4. The Gambia: Selected National Accounts Indicators, 1999-05
(Annual percentage changes)

	1999	2000	2001		2002	2003	2004	2005
	Est.	Est.	Prog.	Prel.	Proj.	Proj.	Proj.	Proj.
Gross domestic product at constant market prices								
Agriculture	29.4	10.5	6.9	10.1	5.8	6.3	6.3	7.0
Groundnuts	67.3	12.3	7.0	12.0	6.0	6.5	7.0	8.0
Other crops	31.1	14.2	7.0	10.0	5.0	6.0	6.0	7.0
Livestock	4.0	3.0	4.0	6.0	5.0	5.0	5.0	5.0
Forestry	4.1	3.9	4.0	5.0	5.0	5.0	5.0	5.0
Fishing	6.0	2.9	18.0	18.0	16.0	12.0	8.0	9.0
Industry	2.4	5.1	8.1	7.5	6.6	6.2	7.2	7.7
Manufacturing	1.5	2.0	3.0	4.7	4.7	5.0	7.0	7.0
Large and medium-sized manufacturing	1.5	2.0	3.0	5.0	5.0	5.0	7.0	7.0
Small manufacturing	1.5	2.0	3.0	4.0	4.0	5.0	7.0	7.0
Construction and mining	3.3	10.0	12.0	11.0	8.9	8.0	8.0	9.0
Electricity and water supply	2.9	-3.0	17.0	4.0	4.0	2.0	2.0	2.0
Services	1.9	3.4	5.8	7.4	4.0	4.1	4.7	5.1
Trade	-4.4	6.8	3.0	5.0	4.0	4.0	7.0	8.0
Groundnuts	3.6	12.3	3.0	5.0	4.0	4.0	7.0	8.0
Others	-5.5	6.0	3.0	5.0	4.0	4.0	7.0	8.0
Hotels and restaurants	3.4	-12.8	0.7	2.5	4.0	5.0	5.0	6.0
Transport and communications	4.9	5.2	10.4	12.4	4.8	4.8	4.9	4.9
Transport	0.0	4.0	4.0	7.2	3.0	3.0	3.0	3.0
Communications	8.8	6.1	15.0	16.0	6.0	6.0	6.0	6.0
Real estate and business services	0.5	2.2	3.0	4.0	3.0	3.0	3.0	4.0
Public administration	2.8	4.6	3.0	4.0	3.0	3.0	3.0	3.0
Other services	1.0	3.0	3.0	4.0	3.0	3.0	3.0	3.0
GDP at factor costs	7.7	5.4	6.3	8.1	4.8	5.0	5.4	5.9
Indirect tax (net)	-2.7	6.7	3.6	-10.3	17.1	14.7	10.4	7.6
GDP at market prices	6.4	5.6	5.8	6.0	6.0	6.0	6.0	6.2
GDP deflator	4.3	3.6	6.4	7.4	6.7	3.6	3.4	3.0

Sources: The Gambian authorities; and staff estimates and projections.

Table 5 The Gambia: Central Government Financial Operations, 1998 - 2005

	1998	1999	2000	2001		2002			2003	2004	2005
						Q1		Q1-Q4			
	Est.	Prel.	Prel.	Prog.	Prel.	Prog.	Prel.	Prog.	Proj.	Proj.	Proj.
	(In millions of dalasis)										
Revenue and grants	919.9	944.5	1,117.2	1,339.3	1,125.7	314.8	313.4	1,489.8	1,692.4	1,862.0	2,039.4
Domestic revenue	831.5	878.7	995.4	1,100.8	989.9	285.3	286.0	1,211.4	1,367.4	1,520.2	1,696.0
Tax revenue	751.1	773.7	869.9	933.9	853.8	269.8	257.3	1,067.2	1,196.5	1,334.3	1,495.0
Direct tax	185.1	201.8	223.6	250.7	251.0	80.1	86.1	275.8	308.9	339.8	380.3
Personal	76.4	81.3	90.4	101.6	102.6	31.5	31.7	112.8	126.4	139.0	155.7
Corporate	93.7	102.2	115.0	128.4	132.7	40.0	46.6	146.0	163.5	179.8	201.4
Capital gains	8.7	5.3	5.8	7.7	6.4	1.9	3.5	8.0	9.0	9.9	11.0
Payroll	6.3	13.1	12.4	13.0	9.4	6.8	4.2	9.0	10.1	11.1	12.2
Indirect tax	566.0	571.8	646.3	683.2	602.8	189.7	171.2	791.3	887.6	994.5	1,114.6
Domestic tax on goods and services	65.3	77.3	72.8	84.9	73.9	22.2	23.2	117.2	125.8	141.3	159.1
Tax on international trade	500.7	494.5	573.5	598.3	528.9	167.5	148.0	674.2	761.8	853.2	355.6
Nontax revenue	80.4	105.0	125.4	166.9	136.0	15.5	28.7	144.3	170.9	185.9	201.0
Grants	88.5	65.8	121.8	238.5	135.9	29.5	27.5	278.4	325.0	341.8	343.4
Program	25.6	11.3	60.3	94.2	0.0	10.0	0.0	90.0	100.0	110.0	110.0
Projects	62.9	54.5	61.5	76.3	67.9	10.1	27.5	107.0	115.0	119.0	120.6
HIPC Initiative assistance	0.0	0.0	0.0	68.0	68.0	0.0	0.0	81.4	110.0	112.8	112.8
Expenditure and net lending	1,028.4	1,118.2	1,192.1	1,528.0	1,590.3	348.6	510.2	1,642.3	1,953.4	2,160.9	2,391.4
Current expenditure	799.8	887.0	985.8	1,197.6	1,237.1	296.5	377.7	1,222.3	1,191.5	1,266.6	1,295.4
Wages and salaries	282.9	301.7	341.2	342.8	342.0	112.9	107.0	371.6	390.1	413.6	430.1
Other charges	279.9	336.9	397.4	496.8	533.4	100.2	199.9	494.7	482.2	535.2	572.7
Interest	236.9	248.3	247.3	290.0	293.8	79.1	70.9	329.5	292.0	290.0	264.7
External	56.4	60.9	60.2	58.0	68.7	23.1	18.3	71.4	62.0	65.0	64.7
Domestic	180.4	187.5	187.1	232.0	225.0	56.0	52.6	258.2	230.0	225.0	200.0
HIPC Initiative funded	0.0	0.0	0.0	68.0	68.0	4.3	0.0	26.6	27.2	27.9	27.9
Capital expenditure and net lending	228.7	231.2	206.3	330.4	353.2	52.1	132.5	420.0	761.9	894.3	1,096.0
Capital expenditure	259.9	261.0	245.6	287.9	285.4	53.6	133.7	448.0	789.9	922.3	1,124.0
External	211.2	221.0	196.7	226.9	224.5	43.5	114.4	327.0	365.5	403.5	538.9
Loans	148.3	155.2	135.2	150.6	156.6	33.4	86.9	220.0	250.5	284.5	418.2
Grants	62.9	65.8	61.5	76.3	67.9	10.1	27.5	107.0	115.0	119.0	120.6
The Gambia Local Fund	48.7	40.1	48.9	61.0	60.9	5.0	19.3	66.1	75.0	100.0	107.8
HIPC Initiative funded	0.0	0.0	0.0	0.0	0.0	5.1	0.0	54.9	82.8	84.9	84.9
PRSP-related expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	266.6	333.9	392.5
Net lending	-31.2	-29.8	-39.3	42.5	67.8	-1.5	-1.2	-28.0	-28.0	-28.0	-28.0
Overall balance (commitment basis)											
Excluding grants 1/	-197.0	-239.5	-196.8	-359.2	-532.4	-53.9	-224.3	-349.4	-209.4	-194.0	-190.1
Excluding grants	-197.0	-239.5	-196.8	-427.2	-600.4	-63.3	-224.3	-430.9	-586.0	-640.7	-695.4
Including grants	-108.5	-173.7	-75.0	-188.8	-464.5	-33.8	-196.8	-152.5	-261.0	-298.9	-352.0
Adjustment to cash basis (float)	6.1	-34.5	-23.7	0.0	-34.7	0.0	-40.4	0.0	0.0	0.0	0.0
Errors and omissions	-30.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis) including grants	-133.0	-208.2	-98.7	-188.8	-499.2	-33.8	-237.2	-152.5	-261.0	-298.9	-352.0

Table 5. The Gambia: Central Government Financial Operations, 1998 - 2005 (concluded)

	1998	1999	2000	2001		2002			2003	2004	2005
						Q1		Q1-Q4			
	Est.	Prel.	Prel.	Prog.	Prel.	Prog.	Prel.	Prog.	Proj.	Proj.	Proj.
					(In millions of dalasis)						
Financing	133.0	208.2	98.7	188.8	499.2	-33.8	237.2	132.4	-5.6	-35.0	62.8
External (net)	54.5	30.0	-45.6	-23.0	-23.6	-86.0	199.9	-25.5	68.5	51.4	177.2
Borrowing	148.3	155.2	135.2	227.6	233.6	0.0	374.7	591.1	250.5	284.5	418.2
Project	148.3	155.2	135.2	227.6	156.6	0.0	86.9	220.0	250.5	284.5	418.2
Program	...	...	...	...	...	...	...	...	...	...	...
Other loans 2/	...	...	...	...	77.0	0.0	287.8	371.1	...	...	...
Amortization 2/	-93.8	-125.2	-180.8	-250.6	-257.2	-86.0	-174.8	-616.6	-182.0	-233.1	-241.0
Of which: payment to Alimenta	...	...	-44.8	-115.0	-110.7	0.0	0.0	0.0	0.0	0.0	
Domestic	78.5	178.2	144.3	211.8	522.9	52.2	37.3	157.9	-74.1	-86.4	-114.4
Bank	-20.0	71.2	45.0	158.8	505.8	30.0	-30.1	19.9	-136.0	-126.0	-150.0
Nonbank	86.5	93.2	139.5	23.1	68.1	22.2	76.7	122.3	61.9	39.6	35.6
Accumulation of arrears	12.0	13.9	-40.2	0.0	-51.0	0.0	-9.3	-9.3	0.0	0.0	0.0
Repayment of domestic debt	...	0.0	0.0	9.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	0.0	0.0	0.0	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap 3/	0	0.0	0.0	0.0	0.0	0.0	0.0	20.0	266.6	333.9	289.2
Memorandum items:					(In percent of GDP, unless otherwise indicated)						
Domestic revenue	18.8	17.9	18.5	18.2	16.2	4.1	4.1	17.5	18.0	18.2	18.6
Total expenditure and net lending	23.2	22.7	22.1	25.2	26.0	5.0	7.4	23.7	25.6	25.9	26.2
Current expenditure	18.0	18.0	18.3	19.8	20.2	4.3	5.4	17.6	15.6	15.2	14.2
primary current expenditure	12.7	13.0	13.7	13.9	14.3	3.1	4.4	12.5	11.5	11.4	11.0
Capital expenditure	5.9	5.3	4.6	4.8	4.7	0.8	1.9	6.5	10.4	11.0	12.3
Overall fiscal deficit											
Excluding grants 1/	-4.4	-4.9	-3.6	-5.9	-8.7	-0.8	-3.2	-5.0	-2.7	-2.3	-2.1
Excluding grants	-4.4	-4.9	-3.7	-7.1	-9.8	-0.9	-3.2	-6.2	-7.7	-7.7	-7.6
Including grants	-2.4	-3.5	-1.4	-3.1	-7.6	-0.5	-2.8	-2.2	-3.4	-3.6	-3.9
Primary balance, excluding grants											
Basic primary balance 4/	5.7	4.7	4.6	1.5	-1.3	0.9	-0.6	3.3	0.9	0.6	1.2
Basic primary balance (in millions of dalasis) 4/	251.1	229.8	247.2	89.7	-82.1	59.3	-39.0	225.7	71.5	52.8	108.2
Current balance	0.7	-0.2	0.2	-1.6	-4.0	-0.2	-1.3	-0.2	2.3	3.0	4.4
Augumented current balance	0.7	-0.2	0.2	-0.5	-2.9	0.9	-0.6	0.2	2.7	3.4	4.7
Stock of domestic debt	25.9	27.0	31.5	31.8	33.5	29.1	28.5	31.0	28.2	25.7	20.0
					(In millions of dalasis)						
Treasury bills outstanding	1,020.8	1,201.6	1,564.0	1,800.0	1,919.5	2,020.0	1,843.6	2,020.0	2,020.0	2,020.0	2,020.0

Sources: The Gambian authorities; and Fund staff estimates and projections.

1/ Excludes HIPC Initiative-supported and PRSP-related expenditures.

2/ For 2002 Q1 includes a loan disbursement of D 287.8 million from Taiwan Province of China for electricity generators and improvement of distribution network. The generators were delivered to the National Water and Electricity Corporation in October 2001. The inflows were used to pay the suppliers.

3/ Financing gap from 2003 reflects PRSP indicative financing gap.

4/ Domestic revenue minus total expenditure and net lending, excluding interest payments and externally financed capital expenditure.

Table 5b. The Gambia: Budget Allocations to Selected Key Sectors, 1999-2005

	1999	2000	2001	2002	2003 1/	2004 1/	2005 1/
			Approved				
	Actuals		Est.	Prog.	Proj.	Proj.	Proj.
	(in millions of dalasis, unless otherwise specified)						
Education	146.0	166.4	195.1	211.5	262.2	304.2	340.7
Current expenditure	...	158.9	173.3	182.6 2/	...	...	
Gambia Local Fund (development expenditure)	...	7.5	7.1	7.1	...	...	
HIPC	...	...	14.8	21.8	...	...	
Total education allocation in percent of							
Noninterest current spending	22.9	22.5	22.3	24.4	30.1	32.1	34.0
Total expenditure	13.1	14.0	12.3	12.9	13.4	14.1	14.2
GDP	3.0	3.1	3.2	3.1	3.4	3.6	3.7
Health	88.7	91.3	127.8	151.4	181.7	214.4	240.2
Current expenditure	...	91.3	110.4	133.4	...	...	...
Gambia Local Fund (development expenditure)	...	...	6.4	4.7	...	...	...
HIPC	...	...	11.0	13.4	...	...	...
Total health allocation in percent of:							
Noninterest current spending	13.9	12.4	14.6	17.5	20.8	22.6	23.9
Total expenditure	7.9	7.7	8.0	9.2	9.3	9.9	10.0
GDP	1.8	1.7	2.1	2.2	2.4	2.6	2.6
Agriculture	22.1	23.2	38.4	54.9	74.1	96.3	107.8
Current expenditure	22.1	23.2	24.6	30.5	...	...	...
Gambia Local Fund (development expenditure)	...	...	4.4	10.6	...	...	...
HIPC	...	...	9.4	13.8	...	...	...
Total agricultural allocation in percent of:							
Noninterest current spending	3.5	3.1	4.4	6.3	8.5	10.1	10.8
Total expenditure	2.0	1.9	2.4	3.3	3.8	4.5	4.5
GDP	0.4	0.4	0.6	0.8	1.0	1.2	1.2
Memorandum items:							
Budgetary allocations for defence	40.1	42.5	44.6	44.6	45.0	45.1	45.3
(in percent of GDP)	0.8	0.8	0.7	0.6	0.6	0.5	0.5
(in percent of total expenditure)	3.6	3.6	2.8	2.7	2.3	2.1	1.9
Budgetary allocations for priority social sectors	256.8	280.9	361.3	417.7	518.0	614.9	688.7
(in percent of GDP)	5.2	5.2	5.9	6.0	6.8	7.4	7.5
(in percent of total expenditure)	23.0	23.6	22.7	25.4	26.5	28.5	28.8
Indicative Funding gap for SPA II Priority Actions 2/	...	...	...	207.7	266.6	333.9	392.5
Basic social services	...	...	...	82.9	106.4	133.3	156.7
Infrastructure development	...	...	...	116.1	149.0	186.6	219.4
Poverty Reduction Dialogue Forum	...	...	...	1.5	1.9	2.3	2.7
Implementation and monitoring of SPA II	...	...	...	7.3	9.3	11.7	13.7
Total Required Expenditure in Priority Areas	...	...	...	625.4	784.6	948.8	1081.2
(in percent of GDP)	...	...	...	9.0	10.3	11.4	11.8
PRSP-related financing gap in percent of GDP	...	...	...	3.0	3.5	4.0	4.3
PRSP-related financing gap in US$ millions	...	...	...	11.4	14.0	16.9	19.1
Total expenditure and net-lending	1,118.2	1,192.1	1,590.3	1,642.3	1,953.4	2,160.9	2,391.4
Non-interest current spending	638.6	738.6	875.4	866.2	872.3	948.8	1,002.8
GDP	4,922.1	5,391.4	6,124.7	6,931.9	7,616.8	8,348.3	9,128.3
Allocation of HIPC to social sectors	...	...	35.2	49.0	...	...	...
Total HIPC resources	...	...	68.0	81.4	...	...	...

Source: The Gambian authorities.

1/ Subject to revision following more detailed work on public expenditure review costings.

2/ Details contained in Table 7.1 of the PRSP.

Table 6. The Gambia: Monetary Survey, December 2000-December 2005
(In millions of dalasis, unless otherwise indicated; end of period)

	2000	2001	2002					2003	2004	2005
	Dec.	Dec.	Mar	Mar	Jun.	Sep.	Dec.	Dec.	Dec.	Dec.
	Prel.	Prel.	Proj.	Prel.	Prog.	Prog.	Prog.	Proj.	Proj.	Proj.
Monetary survey										
Net foreign assets	1,098.1	1,114.4	1,283.8	1,385.2	1,308.4	1,419.4	1,546.6	1,776.3	2,050.9	2,335.0
Net domestic assets	884.3	1.252.9	1,228.6	1,132.7	1,174.3	1.137.3	1,132.8	1,167.8	1,176.0	1,193.4
Domestic credit	770.1	1,363.9	1,465.4	1414.6	1,366.9	1,357.4	1,384.5	1,524.5	1,654.5	1,811.3
Claims on government (net)	83.4	589.2	595.7	559.0	539.1	574.1	609.1	473.1	347.1	197.1
Claims on private sector 1/	686.8	774.8	869.7	855.6	827.9	783.4	775.4	1.051.4	1,307.4	1,614.3
Other items (net)	114.2	-111.0	-236.8	-281.9	-192.6	-220.1	-251.7	-356.6	-478.5	-618.0
Broad money	1,982.4	2,367.4	2512.4	2,517.9	2,482.7	2,556.7	2,679.4	2,944.1	3,226.9	3,528.4
Currency outside banks	540.3	600.8	575.1	679.9	643.2	647.8	750.2	824.4	903.5	987.9
Deposits	1,442.1	1,766.5	1,937.3	1,838.0	1.8395	1,908.9	1,929.2	2,119.8	2,323.3	2,540.4
Memorandum items:										
Nominal GDP	5,382.4	6,124.7	6.931.9	6.931.9	6,931.9	6,931.9	6,931.9	7.616.8	8,348.3	9,128.3
(percentage change)	9.4	13.8					13.2	9.9	9.6	9.3
Velocity (GDP/broad money)	2.7	2.6					2.6	2.6	2.6	2.6
Reserve money multiplier	2.8	2.8					2.5	2.5	2.5	2.5
Credit to the private sector (rate of growth in percent)	10.3	12.8	32.6	30.5	24.5	10.7	0.1	35.6	24.3	23.5
Percent ratios										
Currency/broad money	27.3	25.4	22.9	27.0	25.9	25.3	28.0	28.0	28.0	28.0
Currency/deposits	37.5	34.0	29.7	37.0	35.0	33.9	38.9	38.9	38.9	38.9
Deposits/broad money	72.7	74.6	72.1	73.0	74.1	74.7	72.0	72.0	72.0	72.0
Excess reserves/total liabilities	-2.7	0.1	1.4	-1.2	2.1	2.5	2.8	2.8	2.8	2.8
Required reserves	201.9	247.3	271.2	257.3	257.5	267.2	270.1	296.8	325.3	355.7
Net foreign assets of monetary authorities										
(in millions of SDRs)	66.3	60.2	61.4	56.5	60.4	64.2	68.6	74.8	82.0	88.7
Memorandum items (using TMU exchange rates):										
Technical Memorandum of Understanding										
exchange rate (dalasis per SDR)		21.3	21.3	21.3	22.2	22.2	22.2	22.2	22.2	22.2
Monetary survey										
Net foreign assets		1.234.2	1,252.3	1,293.9	1,285.2	1,369.6	1,465.3	1,600.2	1,757.1	2,335.0
Net domestic assets		1,133.2	1,260.1	1.224.0	1,197.5	1,187.1	1.214.1	1,344.0	1,469.8	1,193.4
Domestic credit		1,363.9	1,465.4	1,414.6	1,366.9	1,357.4	1.3845	1,524.5	1,654.5	1,811.3

Sources: The Gambian authorities; and staff estimates and projections.

1/ From beginning of respective year.

Table 7. The Gambia: Summary Accounts of the Central Bank and Commercial Banks, December 2000 – December 2005
(in millions of dalasis, unless otherwise indicated; end of period)

	2000	2001	2002					2003	2004	2005
	Dec.	Dec.	Mar	Mar	Jun.	Sep.	Dec.	Dec.	Dec.	Dec.
	Prel.	Prel.	Rag.	Prel.	Prog.	Prog.	Prog.	Proj.	Proj.	Proj.
Central Bank of The Gambia										
Net foreign assets	1,093.5	1162.2	1337.8	1254.3	1364.5	1476.4	1604.6	1837.2	2114.9	2402.2
(in millions of SDRs)	66.3	60.2	61.4	56.5	60.4	64.2	68.6	74.8	82.0	88.7
Foreign assets	1,259.8	1561.7	1804.2	1679.1	1791.7	1911.1	2042.3	2294.4	2574.2	2835.7
(in millions of SDRs)	82.4	81.0	82.8	75.6	79.3	83.1	87.3	93.4	99.8	104.7
Foreign liabilities	-265.5	-399.5	466.3	424.7	427.2	434.6	-437.7	457.1	459.3	433.5
(in millions of SDRs)	-16.1	-20.7	-21.4	-19.1	-18.9	-18.9	-18.7	-18.6	-17.8	-16.0
Net domestic assets	-390.8	-311.7	464.4	-339.7	425.2	-514.6	-530.3	456.8	-821.1	-987.4
Domestic credit	-778.1	-517.6	-494.8	432.6	494.5	-558.3	-545.5	-580.0	438.6	-684.9
Claims on the government (net)	-732.4	485.8	-462.9	-387.7	-449.8	-513.7	-500.8	-535.4	-593.9	-640.2
Claims	252.0	282.0	...	254.5	...	...	...	...	...	...
Deposits	-984.4	-767.8	...	-642.2	...	...	...	...	...	...
Claims on private sector	22.7	24.0	24.0	23.8	24.0	24.0	24.0	24.0	24.0	24.0
Claims on banks (net) 1/	-68.4	-55.9	-55.9	-60.7	48.7	-68.7	-68.7	-68.7	-68.7	-68.7
Of which: central bank bills	-68.4	-55.9	-55.9	-68.7	48.7	-68.7	-68.7	-68.7	-68.7	-68.7
Other item (net)	387.2	206.0	30.4	92.9	69.3	43.8	15.8	-76.7	-182.5	-302.6
Of which: Revaluation account	130.3	105.1	-70.4	-210.1	-233.8	-259.3	-287.9	-379.8	485.5	-605.6
Reserve money	702.7	850.5	873.4	914.7	939.3	901.8	1074.3	1180.5	1293.8	1414.7
Currency outside banks	540.3	600.8	575.1	679.9	643.2	647.8	750.2	824.4	903.5	987.9
Bank reserves	162.4	249.7	298.3	234.7	296.2	314.0	324.1	356.1	390.3	426.8
Cash	35.2	55.1	60.4	52.3	52.3	54.3	54.8	60.3	66.0	72.2
Deposits at the central bank	127.3	194.6	238.0	182.5	243.9	259.7	269.3	295.9	324.3	354.6
Required reserves	201.9	247.3	278.2	257.3	257.5	267.2	270.1	296.8	325.3	355.7
Excess reserves	-39.5	2.4	27.1	-22.6	38.6	46.8	54.0	59.4	65.8	71.1
Commercial banks										
Net foreign assets	4.5	47.8	-54.0	130.9	-56.1	-57.0	-58.0	-60.9	-64.0	-67.2
Foreign assets	117.0	128.1	...	210.4	...	...	...	...	...	...
Foreign liabilities	-112.5	-175.8		-79.5						
Net domestic assets	1,437.6	1814.3	1991.4	1707.2	1895.6	1965.9	1987.2	2180.7	2387.3	2607.6
Domestic credit	1,479.8	1825.6	1904.3	1778.5	1792.7	1947.1	1861.2	2035.8	2224.4	2427.5
Claims on government (net)	815.8	1074.9	1058.7	946.7	988.9	1087.7	1109.8	1008.4	941.0	837.3
Claim	819.7	1078.9		950.6	...			...		...
Deposits	4.0	-4.0		-4.0						
Claims on private sector	652.2	674.9	760.3	751.1	723.5	683.4	676.2	924.7	1155.0	1431.2
Of which: in foreign currency	72.7	94.8		94.6						
Claims on public enterprises	11.9	75.8	85.4	80.7	80.4	75.9	75.1	102.7	128.3	159.0
Reserves	162.4	249.7	298.3	234.7	296.2	314.0	324.1	356.1	390.3	426.8
Net claims on central bank	68.4	55.9	55.9	68.7	68.7	68.7	68.7	68.7	68.7	68.7
Other items (net)	-273.1	-316.9	-267.2	-374.8	-262.0	-263.9	-266.8	-279.9	-296.0	-315.4
Of which: revaluation account		0.0	-6.2		-1.0	-1.9	-2.9	-13.1	-16.1	-19.3
Total deposit liabilities	1,442.1	1766.5	1937.3	1838.0	1839.5	1908.9	1929.2	2119.8	2323.3	2540.4
Demand deposits	443.3	524.7	575.4	592.1	546.3	566.9	573.0	629.6	690.0	754.5
Savings deposits	705.5	831.9	912.3	805.3	866.3	898.9	908.5	998.3	1094.1	1196.4
Time deposits	293.3	410.0	449.6	360.7	426.9	443.0	447.7	491.9	539.2	589.6
Memorandum items (using TMU exchange rates):										
TMU exchange rate (dalasis per SDR)		21.3	21.3	21.3	22.2	22.2	22.2	22.2	22.2	22.2
Central Bank of The Gambia										
Net foreign assets		1282.0	1306.3	1163.1	1341.3	1426.6	1523.3	1661.1	1821.1	1970.0
(in millions of SDRs)		60.2	61.4	54.6	60.4	64.2	68.6	74.8	82.0	88.7
Foreign assets		1722.7	1761.7	1570.2	1761.2	1846.6	1938.9	2074.4	2216.6	2325.5
(in millions of SDRs)		81.0	82.8	73.7	79.3	83.1	87.3	93.4	99.8	104.7
Foreign liabilities		-440.7	455.4	-407.2	420.0	-420.0	415.5	-413.3	-395.5	-355.5
(in millions of SDRs)		-20.7	-21.4	-19.1	-18.9	-18.9	-18.7	-18.6	-17.8	-16.0
Net domestic assets		-431.5	432.9	-240.4	-402.0	464.8	-449.0	480.6	-527.2	-987.4
Domestic credit		-517.6	494.8	432.6	494.5	-558.3	-545.5	-580.0	-638.6	-684.9

Sources: The Gambian authorities; and staff estimates and projections.

1/ Advances to banks and commercial bank holdings of central bank bills.

Table 8. The Gambia: Balance of Payments, 1998-2007
(In millions of SDRs, unless otherwise indicated)

	1998	1999	2000	2001		2002	2003	2004	2005	2006	2007
		Prel.	Prel.	Prog.	Prel.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Exports, f.o.b.	95.8	87.9	95.8	105.5	110.3	119.4	124.8	129.2	135.7	141.7	154.9
Groundnuts/groundnut products	9.6	7.3	9.8	10.3	11.2	12.1	13.3	13.4	13.9	14.3	14.3
Other domestic exports	5.6	4.3	6.1	7.5	7.5	8.2	8.5	8.8	9.2	9.7	10.0
Reexports	80.6	76.3	79.9	87.7	91.6	99.1	103.0	107.0	112.6	117.8	130.6
Imports, f.o.b.	-152.7	-141.5	-145.9	-161.6	-171.9	-176.6	-183.0	-186.5	-191.2	-198.8	-211.6
For domestic use	-97.7	-91.9	-95.3	-106.1	-113.9	-112.6	-117.8	-118.8	-120.0	-124.3	-128.9
Of which: oil products	-9.2	-11.6	-17.7	-18.2	-18.2	-18.5	-19.2	-19.0	-20.5	-22.3	-23.7
For reexport	-55.0	-49.6	-50.6	-55.5	-58.0	-62.7	-65.2	-67.7	-71.3	-74.5	-82.6
PRSP-related imports	0.0	0.0	0.0	0.0	0.0	0.0	-11.2	-13.4	-15.2	...	...
Total Imports (including PRSP)	0.0	0.0	0.0	0.0	0.0	0.0	-194.2	-200.0	-206.4	...	...
Factor services (net)	-5.2	-5.0	-4.9	-3.0	-5.9	-6.3	-7.0	-7.0	-6.8	-6.7	-6.7
Nonfactor services balance	9.0	7.3	-0.8	1.3	2.5	0.8	2.2	1.3	0.7	0.5	-4.9
Of which: Travel income	51.0	46.6	36.2	36.6	38.2	40.7	42.6	43.2	45.4	47.3	49.3
Private unrequited transfers (net)	17.5	14.8	17.0	17.5	21.0	22.0	23.0	23.5	24.7	25.9	27.1
Official unrequited transfers (net)	26.3	22.9	23.7	28.4	24.0	25.4	23.5	23.3	27.4	28.4	24.7
Current account balance, including PRSP											
Excluding official transfers	-35.6	-36.4	-38.7	-36.8	-44.0	-40.6	-51.1	-52.9	-52.2	-37.5	-41.1
including official transfers	-9.3	-13.5	-14.9	-8.4	-20.0	-15.2	-27.7	-29.6	-24.7	-9.1	-16.4
Capital account	16.4	15.9	15.9	-0.6	9.6	1.4	2.3	3.0	4.3	2.9	3.3
Official loans (net)	3.8	3.1	4.5	-6.0	-6.0	13.0	2.5	-1.1	-0.2	0.2	-0.6
Project related	10.4	10.0	13.2	11.3	11.3	25.1	13.6	10.1	10.6	11.1	11.4
Amortization	-6.6	-6.9	-8.7	-17.3	-17.3	-12.1	-11.1	-11.1	-10.8	-10.9	-12.1
Private capital inflow	12.6	12.8	11.4	5.3	15.6	-11.6	-0.2	4.1	4.5	2.7	3.9
Foreign direct investment (net)	8.8	5.4	1.2	3.6	4.0	5.3	5.6	5.9	5.9	6.1	6.2
Commercial loans (net)	-0.3	-0.8	0.0	-0.8	-0.8	-1.9	-1.3	-1.3	-1.3	-1.2	0.0
Short-term capital (net) 1/	-2.4	0.1	8.7	2.0	4.0	-2.0	1.0	1.5	2.0	0.0	0.0
Suppliers' credits	6.5	8.1	1.5	0.5	8.4	-13.0	-5.5	-2.0	-2.1	-2.1	-2.3
Overall balance	7.1	2.3	1.0	-9.1	-10.3	-13.8	-25.4	-26.6	-20.5	-6.2	-13.2
Financing	-7.1	-2.3	-1.0	9.1	10.3	3.5	4.0	3.0	-0.7	-0.8	6.2
Change in gross official reserves (increase = -)	-6.4	-2.7	8.2	2.9	-4.9	-6.3	-6.1	-6.4	-4.9	-4.6	-5.3
Repurchases/repayments (IMF)	-4.0	-3.1	-1.7	-0.5	-0.5	-0.4	-0.1	-0.8	-1.8	-3.2	-4.2
Purchases/loans (IMF)	3.3	3.4	6.9	6.7	6.7	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	10.3	21.4	23.6	21.2	7.0	7.0
Memorandum items:											
Current account balance (in percent of GDP)											
Excluding official transfers	-11.6	-11.7	-12.1	-12.6	-14.8	-13.2	-15.5	-15.5	-14.4	-10.0	-10.4
Including official transfers	-3.0	-4.4	-4.7	-2.9	-6.7	-5.0	-8.4	-8.7	-6.9	-2.4	-4.2
Current account balance (in percent of GDP), excluding PRSP imports											
Excluding official transfers	-11.6	-11.7	-12.1	-12.6	-14.8	-13.2	-12.1	-11.6	-10.2	-10.0	-10.4
Including official transfers	-3.0	-4.4	-4.7	-2.9	-6.7	-5.0	-5.0	-4.8	-2.6	-2.4	-4.2
Gross official reserves (end of period)											
In millions of SDRs	75.4	78.1	86.3	79.6	81.4	87.7	93.8	100.2	105.1	109.8	115.1
In months of imports, cif	5.1	5.8	6.1	5.2	4.9	5.1	5.3	5.5	5.6	5.6	5.5
In months of imports, cif											
Over the next 12 months	4.8	5.4	5.2	5.1	4.7	4.8	5.2	5.3	5.3	5.2	5.0
Plus all other services payments	3.9	4.5	4.5	4.3	4.1	4.1	4.4	4.6	4.6	4.4	4.3
Debt Service ratio 2/ 3/											
Including the Fund	11.4	11.4	8.5	16.3	16.0	11.9	10.7	10.7	10.5	10.7	10.3
Excluding the Fund	8.5	8.8	7.1	15.8	15.5	11.5	10.4	10.1	9.3	8.9	8.1

Sources: The Gambian authorities; and staff estimates and projections.
1/ Including errors and omissions.
2/ In percent of exports and travel income.
3/ In 2001, the increase in debt service mainly reflects payments to Alimenta (the last payment made in August).

Table 9. The Gambia: External Debt Service Before and After Traditional Debt Relief and After Enhanced HIPC Initiative Assistance, 2000-07

	2000	2001	2002	2003	2004	2005	2006	2007
		Proj.						
	(in millions of U.S. dollars, unless otherwise indicated)							
Total debt service before traditional debt-relief mechanisms	19.9	22.7	23.1	22.6	23.7	24.1	25.9	28.2
Principal	13.7	16.5	16.2	15.1	16.1	16.6	18.6	21.0
Interest	6.2	6.2	7.0	7.4	7.6	7.5	7.4	7.2
Scheduled debt service on existing contracted debt	19.7	22.0	21.1	19.7	20.3	20.4	19.8	19.4
Principal (medium and long term)	13.7	16.5	16.2	15.1	16.1	16.6	16.2	16.1
Multilateral 1/	9.2	8.0	8.0	8.0	9.2	10.1	10.5	11.0
Official bilateral	4.4	8.5	8.2	7.1	7.0	6.5	5.8	5.1
Paris Club	2.2	2.5	1.8	1.8	1.6	1.3	0.8	0.8
Post-cutoff date	1.6	1.9	1.2	1.2	1.1	0.8	0.7	0.7
Re-cutoff date	0.5	0.5	0.5	0.5	0.5	0.5	0.1	0.1
Other official bilateral	2.2	6.0	6.4	5.4	5.4	5.1	5.0	4.3
Postcutoff date	0.2	4.0	4.3	4.3	4.3	4.3	4.3	3.7
Pre-cutoff date	2.0	2.0	2.0	1.0	1.0	0.8	0.6	0.6
Interest (medium and long term)	6.0	5.5	5.0	4.6	4.2	3.8	3.6	3.3
Multilateral	3.5	3.2	3.0	2.8	2.6	2.4	2.3	2.2
Official bilateral	2.5	2.3	2.0	1.8	1.6	1.4	1.2	1.1
Paris Club	0.8	0.6	0.5	0.4	0.3	0.2	0.2	0.2
Post-cutoff date	0.5	0.4	0.3	0.3	0.2	0.2	0.2	0.2
Pre-cutoff date	0.3	0.2	0.2	0.1	0.1	0.0	0.0	0.0
Other official bilateral	1.7	1.6	1.5	1.4	1.3	1.1	1.0	0.9
Post-cutoff date	1.6	1.6	1.5	1.4	1.2	1.1	1.0	0.9
Pre-cutoff date	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total debt service after traditional debt-relief mechanisms 2/	17.2	20.2	20.7	21.2	22.4	23.0	25.5	27.8
Principal	11.0	14.0	13.6	13.6	14.6	15.3	17.9	20.3
Interest	6.2	6.2	7.1	7.6	7.8	7.8	7.7	7.5
Scheduled debt service on existing contracted debt	17.0	19.5	18.7	18.4	19.0	19.4	19.4	19.0
Principal	11.0	13.9	13.6	13.6	14.6	15.3	15.5	15.4
Multilateral 1/	9.2	8.0	8.0	8.0	9.2	10.1	10.5	11.0
Official bilateral	1.8	5.9	5.6	5.6	5.4	5.1	5.0	4.4
Interest	5.9	5.5	5.1	4.8	4.4	4.1	3.9	3.6
Multilateral 1/	3.5	3.2	3.0	2.8	2.6	2.4	2.3	2.2
Official bilateral	2.4	2.3	2.1	2.0	1.8	1.7	1.5	1.4
Total debt service after enhanced HIPC Initiative assistance	19.6	16.0	16.1	9.6	10.9	11.9	14.5	17.3
Principal	13.6	11.3	10.8	3.9	4.7	5.5	8.1	10.8
Interest	6.1	4.8	5.3	5.7	6.3	6.4	6.5	6.5
Scheduled debt service on existing contracted debt	19.4	15.3	14.1	6.8	7.5	8.2	8.4	8.5
Principal	13.6	11.3	10.8	3.9	4.7	5.5	5.7	5.9
Multilateral 1/	9.2	5.3	5.2	3.5	4.2	5.0	5.1	5.2
Official bilateral	4.4	5.9	5.6	0.4	0.5	0.5	0.6	0.7
Interest	5.8	4.1	3.3	2.9	2.9	2.7	2.7	2.6
Multilateral	3.4	1.8	1.5	1.0	1.0	0.9	0.9	0.8
Official bilateral	2.4	2.3	1.8	1.8	1.8	1.8	1.8	1.8
Debt service on new borrowing	0.2	0.7	2.0	2.9	3.4	3.7	6.1	8.8
Principal	0.0	0.0	0.0	0.0	0.0	0.0	2.3	5.0
Interest	0.2	0.7	2.0	2.9	3.4	3.7	3.8	3.9
	(In percent of exports of goods and services)							
Memorandum items:								
Debt-service ratio before rescheduling 2/	16.4	19.6	19.0	17.5	17.8	17.3	17.8	18.5
Debt-service ratio after rescheduling 2/	14.2	17.5	16.9	16.4	16.8	16.5	17.6	18.3
Debt-service ratio after enhanced HIPC initiative	16.1	13.8	13.2	7.5	8.2	8.6	10.0	11.4
Total debt-service savings	-2.4	4.2	4.5	11.6	11.5	11.1	11.0	10.5

Sources: The Gambian authorities; and staff estimates and projections.

1/ Including IMF and nonguaranteed debt owed by public enterprises where the government is the majority shareholder.
2/ Assumes stock-of-debt operation on Naples terms at end-December 1999 and at least comparable treatment from other official bilateral creditors.

Table 10. The Gambia: Income and Social Indicators, 1970- 2005

	Unit of Measurement	Latest Single Year 1970-75	1980-85	1992-97	1998	1999	2000	2001	2002	2003	2004	2005
										Proj.		
Population												
Total population	Millions	0.5	0.7	1.2	1.23	1.29	1.32	1.36	1.40	1.43	1.47	1.51
Population (midyear)	Millions	0.5	0.7	1.2	1.22	1.27	1.31	1.34	1.38	1.41	1.45	1.49
Population growth rate	Percent	3.3	3.0	2.8	3.0	4.2	3.0	2.8	2.6	2.6	2.6	2.6
Total fertility rate	Births per woman	6.5	6.5	5.7	...	...	...	...	...	...	...	...
Poverty												
Total	Percent of population	...	...	40.0	70.0	...	...	...	...	...	...	...
Urban poverty	Percent of population	...	...	37.0	56.3	...	...	...	...	...		...
Rural poverty	Percent of population	...	...	41.0	79.0							
National head count index	Percent of population	...	...	64.0	...	...	...	...	...	...	...	...
Income												
GNP per capita	U.S. dollars	230.0	240.0	340.0	336.8	340.0	359.0	376.9	395.9	421.1	438.7	440.3
Index of real wages	1974=100	...	...	...	...	...	...	...	...	...	...	...
Agricultural	1974=100	...	...	...	...	...	...	...	...	...	...	...
Nonagricultural	1974=100	...	...	...	...	...	...	...	...	...	...	...
Consumer price index	1974=100	126.0	384.0	1,441.3	1,457.3	1,523.8	1,525.7	1,594.3	1,682.0	1,749.3	1,801.8	1,855.8
Food price index	1974=100	...		1,512.7	1,565.8	1,630.8	1,632.6	1,706.0	1,782.8	1,854.1	1,909.7	1,967.0
Social indicators												
Government current expenditure												
Education	Percent of GDP	...	...	...	...	3.0	3.0	3.2	3.1	3.4	3.6	3.7
Health	Percent of GDP	...	...	...	...	1.8	1.9	2.1	2.2	2.4	2.6	2.6
Net primary school enrollment												
Total	Percent of age group	21.0	62.0	65.0	...	...	...	...	...	...	...	...
Male	Percent of age group	...	77.0	72.0	...							
Female	Percent of age group	...	48.0	57.0	...	...	...	...	...	...	...	
Access to safe water												
Total	Percent of population	12.0	45.0	50.0	...							
Urban	Percent of population	97.0	100.0	64.0	...	...	...	...	...	...	...	...
Rural	Percent of population	3.0	33.0	39.0	...	...	...	...	...	...	...	...
Immunization rate												
Measles	Percent under 12 months	...	75.0	91.0	...	...	...	...	...	...	...	...
DPT	Percent under 12 months	...	77.0	96.0	...	...	...	...	...	...	...	...
Children's (under age of 5) malnutrition rate	Percent	...	20.0	26.0	...	...	...	...	..	...	...	...
Life expectancy at birth												
Total	Years	37.0	41.0	53.0	53.2							
Male	Years	36.0	39.0	51.0	51.4	...	...	...	...	...	...	...
Female	Years	39.0	43.0	55.0	55.0	...	...	...	...	...	...	...
Mortality												
Infant mortality rate	Per thousand live births	179.0	154.0	78.0	76.4	...	...	...	...	...		...
Under-age-of-5 mortality rate	Per thousand live births	319.0	216.0	110.0	...	...	...	...	...	...		...
Male	Per thousand live births	...	...	138.0	...	...	...	...	...	...	...	...
Female	Per thousand live births	...	...	120.0	...							
Adult (ages 15-59) mortality rate	Per thousand population	...	...	...	...	...	...	...	...	...	...	...
Male	Per thousand population	655.0	584.0	404.0	408.0							
Female	Per thousand population	519.0	466.0	339.0	344.0	...	...	...	...	...	...	...
Maternal mortality ratio	Per thousand live births	...	15.0	11.0	...	...	...	...	...	...	...	...

Sources: World Bank; United Nations; the Gambian authorities; and staff estimates and projections.

June 25, 2002

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Köhler:

1. On behalf of the government of The Gambia, we have the honor of transmitting the attached memorandum of economic and financial policies (MEFP) that sets out the objectives and policies that the government intends to pursue during 2002/03–2004/05 (April–March). The MEFP is itself based on the Strategy for Poverty Alleviation (SPA II—our version of the poverty reduction strategy paper (PRSP)),[15] whose focus is on a longer-term development strategy to reduce poverty with sustainable growth and external debt management, as well as structural reforms. The reforms entail enhanced public participation in policy formulation, accelerated economic growth with increased private sector activity, and various social sector measures to enhance human capital. The government intends to make the contents of this letter and those of the attached MEFP and technical memorandum of understanding (TMU), as well as the staff report on the request for the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), available to the public and authorizes you to arrange for them to be posted on the IMF website, subsequent to Board approval.

2. In support of these objectives and policies, the government of The Gambia hereby requests a three-year arrangement under the PRGF, in an amount equivalent to SDR 20.22 million (65 percent of quota). Moreover, in support of its overall economic program, the government will also be requesting support from bilateral and multilateral donors and creditors.

3. The government of The Gambia will provide the Fund with such information as the Fund requests in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

4. The government of The Gambia believes that the policies and measures set forth in the attached memorandum are adequate to achieve the objectives of the program, but it will take any further measures that may prove necessary to this end. During the period of the three-year PRGF arrangement, the government will consult with the Managing Director on the adoption of any measures that may be appropriate, at the initiative of The Gambia or whenever the Managing Director requests such a consultation. Moreover, after the period of

[15] The PRSP was forwarded separately to you and the President of the World Bank.

the three-year arrangement and while The Gambia has outstanding financial obligations to the Fund arising from loans under that arrangement, The Gambia will consult with the Fund from time to time, at the initiative of the government or whenever the Managing Director requests consultation on The Gambia's economic and financial policies.

Sincerely yours,

/s/	/s/
Famara L. Jatta Secretary of State for Finance and Economic Affairs	Momodou C. Bajo Governor Central Bank of The Gambia

Attachments (2)
Memorandum of Economic and Financial Policies for 2002/03–2004/05
Technical Memorandum of Understanding

THE GAMBIA

Memorandum of Economic and Financial Policies for 2002/03–2004/05

V. Introduction

1. This memorandum reviews performance under the recently completed program supported under the Poverty Reduction and Growth Facility (PRGF) for 1998–2001. It also outlines the government's medium-term program for 2002/03–2004/05 (April–March), focusing especially on the current financial year, in support of which the government of The Gambia is requesting a new three-year arrangement under the PRGF. The government's program is formulated against the background of the launching of the Strategy for Poverty Alleviation (SPA II—our version of the poverty reduction strategy paper (PRSP)) and the December 2000 decisions by the Fund and World Bank Executive Boards approving debt relief for The Gambia under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative). The latter provided a significant boost to the government's effort to reduce poverty.

VI. Performance During the PRGF-supported Program and Recent Economic Developments

A. Performance under the PRGF-supported program (1998–2001)

2. Overall economic performance under the PRGF-supported program for 1998–2001 was mixed. Notwithstanding robust real GDP growth (led by a recovery in the agricultural sector, particularly groundnuts), accompanied by low inflation and good progress in a number of structural reforms, there were slippages in implementing the budget. In addition to shortfalls in customs revenue collection (partly reflecting the faulty introduction of a preshipment inspection (PSI) scheme during 1999–2000 and weak customs administration), budgetary expenditure exceeded program targets as a result of payments associated with the government's seizure in January 1999 of property belonging to Alimenta—a Swiss groundnut marketing company—and on-lending to the electricity public enterprise to purchase generators. Accordingly, the fiscal deficit (excluding grants), which had declined from 7.8 percent of GDP in 1997 to 3.6 percent in 2000, increased to 8.7 percent in 2001. Borrowing to cover the fiscal deficits and delays in the receipt of donor grants contributed to an increase in domestic debt to over 33 percent of GDP by end-2001. Broad money growth was uneven and accelerated to 35 percent in 2000 in conjunction with efforts to finance the groundnut crop before moderating toward the end of the program.

3. The external sector, while experiencing a significant improvement, remained under pressure, partly reflecting delays in the disbursement of donor grants. Thus, international gross reserves declined to the equivalent of 4.9 months of imports at the end of the program, while the exchange rate depreciated by an average of about 4 percent annually in real effective terms during 1998–2001. However, the depreciation contributed to the

improvement in The Gambia's external competitiveness, as did the extensive reforms to reduce the maximum external tariff from 90 percent in 1998 to 18 percent in 2000; the number of tariff bands was reduced from 30 to 3 over the same period.

4. Among the key structural reforms were the fiscal reforms entailing the (a) introduction of an automated system for customs data (ASYCUDA); (b) preparation of public expenditure reviews (PERs) for three key social sectors with assistance from donors; (c) enhanced expenditure control and reporting, partly through procedures to better manage the below-the-line (BTL) accounts; and (d) closing of government accounts for 1991/92 (July-June)–1999; the latter two reforms were implemented with the assistance of a Fund resident budget advisor. Significant legislation was prepared and part of it approved by the National Assembly to support the legal and institutional reforms for the financial sector and to enhance private sector activities (on issues such as privatization, regulation, and competition). The government privatized the Atlantic Hotel and the Trust Bank in 1999. Moreover, it reached a settlement with Alimenta on the property dispute, and the democratic process was strengthened through elections.

5. The government remains determined to consolidate the overall economic gains made over the last four years. Accordingly, and in conjunction with the preparation of the PRSP, it is coordinating with its development partners the preparation of a comprehensive technical assistance program to strengthen institutional capacity. This should allow the achievement of better results, building on past efforts that include (a) an emphasis on continued robust economic growth (focusing on the groundnut sector) to enhance income-generating activities; (b) budgetary reforms to improve transparency, accountability, and the allocation of resources (targeting agriculture, education, and health) in order to enhance the provision of services; and (c) an enhanced focus on developing the financial sector, and more broadly private sector activities, via a supportive macroeconomic and legal environment as part of a strategy to broaden economic participation. These and other initiatives to better involve the Gambian people, especially the poor in the poverty reduction and growth process, will inform our efforts in the future, as discussed below.

B. Recent Economic Developments[16]

6. In 2001, real GDP is estimated to have grown by 6 percent, thanks to the robust performance of the agricultural sector (especially groundnuts), which benefited from very good rain distribution. At the same time, the fisheries, construction, trade, and transport and communication sectors experienced rapid expansion. Notwithstanding the good harvest, the expansionary fiscal policies and sizable depreciation of the dalasi (see below) contributed to

[16] Details of developments through September 2001 are provided in our letters to you dated June 29, 2001 and November 14, 2001, as well as the Staff Report for the 2001 Article IV Consultation (Country Report No. 01/148).

higher inflation: end-of-period inflation increased to 8 percent compared with the program target of 3½ percent.

7. The external current account deficit (excluding official transfers) widened to about 14¾ percent of GDP in 2001 as a result of the unprogrammed importation of three electricity generators (funded from a donor concessional loan and supplier's credit) and higher imports for domestic use. Gross official reserves, at the equivalent of about five months of imports, also fell short of the 2001 target, largely because of an estimated delay in the disbursement of donor grants of 1.6 percent of GDP. The latter also contributed to a further depreciation of the dalasi of 8 percent in real effective terms in 2001.

8. Slippages occurred in the implementation of the 2001 budget; the overall deficit (excluding grants) is estimated at 8.7 percent of GDP, exceeding the revised target of 5.9 percent of GDP. This was mainly the result of shortfalls in customs duty receipts, but recurrent expenditure, including other charges, also exceeded the program target. In addition, the government incurred unprogrammed expenditure (on-lending to a public enterprise) in purchasing electricity generators and related equipment and making payments to commercial banks (see below). Since September, further shortfalls in customs and sales tax (on imports and domestic goods) revenue amounting to an estimated 1.3 percent of GDP have accumulated, including a buildup of tax arrears by public enterprises. Notably, the Gambia Telecommunications Company (GAMTEL)—which operates a fast-growing mobile telephone business with significant forward sales of telephone cards—incurred tax arrears amounting to D 32 million,[17] while the National Water and Electricity Corporation (NAWEC) was unable to pay D 27 million in tax arrears. There were also shortfalls in nontax revenue (0.5 percent of GDP) and overruns in net lending (0.4 percent of GDP), reflecting the financial problems of public enterprises. An additional 0.4 percent of GDP in excess outlays was incurred through the BTL accounts to accelerate development projects in response to election pressures. The government had recourse to net bank financing amounting to about 26 percent of beginning period money stock, compared with 8 percent under the program; outstanding government domestic debt had risen to about 33 percent of GDP by end-2001.[18]

9. In 2001, domestic credit expansion was dominated by government borrowing, which crowded out the private sector. This outcome resulted in part from government payments to commercial banks (D 64 million, equivalent to 1.1 percent of GDP) for the nonperforming

[17] Owing to delays in closing its accounts, GAMTEL was also recently assessed an estimated D 25 million in overdue income tax, which, together with sales tax arrears, amounts to 0.4 percent of GDP.

[18] This outcome was in part aggravated by the payment (amortization) for the Alimenta settlement (US$6.7 million in 2001) and the nondisbursement of donor grants that could have partly offset this payment.

crop finance loans extended to private operators in 1999/2000 in the aftermath of the seizure of the Alimenta assets. Nevertheless, broad money growth was contained at 19 percent (35 percent in 2000) following efforts by the central bank to mop up liquidity through sales of treasury bills; these sales contributed to an increase in the treasury bill rate from 12 percent to 15 percent during the year. Notwithstanding these efforts, four quantitative performance criteria for end-March 2001 and one such criterion for end-September 2001 were not observed; however, waivers were approved by the Fund's Executive Board. With regard to fourth quarter performance, two end-December 2001 quantitative indicative targets concerning net bank credit to, and the basic primary balance of, the central government– were not observed (Appendix I, Table 1).

10. On December 17, 2001, the National Assembly approved the budget for 2002, providing for an overall deficit (excluding grants) of about 4 percent; including grants, the deficit was projected at 1 percent of GDP. The budget incorporated poverty-reducing expenditure funded with interim debt relief under the enhanced HIPC Initiative and also reflects key sector priorities derived from PERs in the agricultural, education, and health sectors. In January 2002, the central bank seized the Continent Bank, following a further deterioration in the latter's financial situation and pending a resolution plan.

11. The implementation of structural measures was somewhat behind schedule; nevertheless, by end-2001, all but one of the structural performance criteria and structural benchmarks had been fully implemented (Appendix I, Table 2). There were technical delays in establishing a regulatory framework, issuing guidelines, and authorizing commercial banks to establish foreign currency deposits. However, by year's end, one bank had been authorized to offer foreign currency deposits, while others were working toward reaching this goal. Moreover, the Central Bank of the Gambia (CBG) introduced a 364-day treasury bill effective September 2001 and had earlier established a new Department of Rural Finance to focus efforts on improving the supervision of microfinancing institutions and promoting the provision of rural/informal finance, consistent with the authorities' efforts to better serve the poor. The Central Statistics Department (CSD) suffers from an acute manpower shortage and has not been in a position to either improve the consumer price index (CPI)[19] or to rebase the national accounts to a more recent date (from the 1976/77 base currently used). The Fund technical assistance mission in September 2001 recommended emergency measures to bolster the CSD personnel, and the government agreed to provide funding for an immediate increase of personnel in the National Accounts Section.

12. Progress on other key reforms has been encouraging. With the assistance of the Fund budget advisor, government accounts for 1998–99 were closed in August 2001 and, as in the case of the 1991/92–97 accounts, were submitted to the Auditor General; it is expected that,

[19] The CPI covers low-income urban households, and the basket has not been updated since 1974.

despite the loss of some relevant public records, arrangements can be made to complete the audit of these accounts and permit the timely audit of public accounts for subsequent years.

13. During 2001, substantial progress was made in improving access to technical assistance in order to strengthen institutional capacity. Government undertook initial discussions with Fund staff on the proposed Technical Cooperation Action Plan (TCAP), which aims to provide more comprehensive and better-coordinated technical assistance in support of an improved formulation and implementation of macroeconomic policies. Within this context, the Fund agreed to extend the services of the resident budget advisor for one year, and to provide a macroeconomic advisor in the Department of State for Finance and Economic Affairs (DOSFEA). To complement these efforts, several Fund technical assistance missions were mounted to review (a) the capacity to track poverty-reducing expenditures, including those funded from enhanced HIPC Initiative debt relief; (b) the need for strengthening tax administration; (c) the means to enhance the compilation of monetary, price, and national accounts data; and (d) the requirements for strengthening the institutional capacity of the central bank. The most recent mission found that, despite its considerable need to strengthen institutional capacity, the central bank had implemented only a limited number of past IMF recommendations. It was thus important to use a more integrated approach for future technical assistance and monitor it carefully; meanwhile, the central bank would have to continue to demonstrate its strong commitment to implement reforms.

14. The government also worked better with multilateral institutions and donors in identifying the technical assistance requirements for the PRSP. To this end, DOSFEA set up a technical assistance coordination desk and has been working closely with the United Nations Development Program (UNDP) in preparing a comprehensive technical assistance program for the SPA II (PRSP). Moreover, the government agreed on a Capacity-Building Project with the World Bank to strengthen public finance systems. The World Bank and the United Kingdom Department for International Development (DFID) have also provided assistance in developing the PERs, the poverty assessment, and the participatory process.

15. With regard to the governance and political process, the settlement reached with Alimenta should enhance investor confidence and catalyze reforms in the key groundnut-marketing sector. The presidential elections were conducted in October 2001, and President Jammeh was reelected with 53 percent of the vote. During his second inauguration in December, he condemned the September 11 attacks, granted amnesty to the former president and his family, and called for national unity. The National Assembly elections took place in January 2002, and the new Assembly was inaugurated on February 1. Following these elections, the United States agreed in March to remove the suspension of economic aid to The Gambia in force since the military coup in 1994. Local government elections were held in April 2002.

16. Economic developments through the first quarter of 2002 were characterized by the implementation of expansionary fiscal policies. While revenues were broadly on target (reflecting continued robust economic activity that benefited income tax collections and measures to close tax loopholes, especially for public entities) expenditure overshot the

targets by about 2 percent of GDP, as elections-related outlays continued. There were some increases in recurrent expenditure, funded mainly from the BTL accounts, where timely reporting and control proved ineffective. Construction was started on the Mandinaba-Soma road, funded by a payment of US$2.6 million on the US$35 million contract with the construction company (Tetrax), and the implementation of a number of projects was also accelerated.[20] A balance from the disbursement of some funds by Taiwan Province of China for the power project (including electricity generators imported in 2001) helped cushion the level of the net government credit from the banking system and led also to a drop in the stock of outstanding treasury bills. However, the end-March 2002 quantitative indicative targets with respect to the basic primary balance of the central government and the net domestic assets of the central bank were not observed. Delays in receipts of groundnut exports and border controls that impeded the reexport trade added to pressure on the exchange rate of the dalasi. Notwithstanding sales of foreign exchange by the central bank, the dalasi depreciated by 5 percent vis-à-vis the U.S. dollar. The end-March 2002 indicative target on net official international reserves was not observed.

VII. Objectives and Policies for 2002/03–2004/05

17. Consistent with the SPA II (the full PRSP) objectives, the government has formulated a medium-term macroeconomic framework that aims at achieving macroeconomic stability through market-based incentives that are conducive to robust private sector activities and poverty alleviation. To this end, the focus will be on (a) further strengthening public finances to contain the budget deficit and thus the high level of domestic debt; (b) continuing and deepening structural reforms; (c) strengthening institutional capacity through extensive recourse to technical assistance; (d) implementing a comprehensive social sector agenda, especially in the agricultural, education, and health sectors; and (e) further strengthening the macroeconomic and social databases to facilitate the formulation of policies that link macroeconomic and social targets, especially focusing on the poor.

18. The key macroeconomic objectives are to (a) maintain real GDP growth of about 6 percent annually during 2002–05; (b) limit average inflation to below 4 percent per annum over the 2002–05 period; (c) contain the external current account deficit (excluding official transfers) at about 10 percent by 2005; and (d) maintain gross external reserves over the period at about 5½ months of imports of goods and services. Total investment is projected to increase from 17¾ percent of GDP in 2001 to 27¼ percent in 2005 from (4¾ percent to 12¼ percent, respectively, for the government), and the envisaged increase in the government saving-investment balance of 7 percentage points of GDP (before PRSP-related expenditure) would contribute to the improvement in the external current account

[20] This level of implementation is not sustainable given resource and other constraints including the onset of rains in May–June.

VIII. The Program for 2002/03

19. For 2002, real GDP is projected at about 6 percent on the basis of expected continued strength in agriculture, buttressed by the reforms envisaged in groundnut marketing following the settlement of the Alimenta dispute. Moreover, tourism and the reexport sectors are expected to recover fully with the improved border relations, and overall economic activity should benefit from improved infrastructure and utilities (electricity and telephones). With the help of good weather and a bumper crop in 2001, coupled with tightened financial policies, inflation is projected to decline to below 6 percent by end-2002.

A. Fiscal Policy

20. Modifications have been introduced in the budget for 2002 to incorporate the impact of recent developments, including the preliminary outturn for 2001 and the updated PERs in the key social sectors, which reflect the costings of the priority policy interventions. The budget incorporates interim debt relief of about US$4.4 million under the enhanced HIPC Initiative provided by the Fund, the World Bank, and the African Development Bank/Fund. On this basis, the overall deficit (excluding grants) is now projected at 5 percent of GDP; including grants, the deficit will be reduced to 2½ percent of GDP. Allowing for the enhanced HIPC Initiative debt-relief expenditure, the overall deficit would reach 6¼ percent of GDP.

21. Revenues are projected at about 17½ percent of GDP in 2002, underpinned by measures to improve tax administration. These measures, in turn, are supported by Fund (tax administration and tax policy missions visited Banjul in November 2001 and February 2002, respectively) and World Bank technical assistance under the Capacity-Building Project. Measures have been taken to prevent the emergence of new tax arrears[21] and collect existing arrears (estimated at D 32 million, or 0.5 percent of GDP), while a decision has been made to discontinue the summer sales tax relief for hotels that was granted in 2001. The government undertook an independent audit of the 2001 operations of the Customs and Excise Department in April to ascertain and, if necessary, address revenue leakages; this constitutes a prior action for the PRGF-supported program. With a view to ensuring satisfactory control of duty exemptions and the timely collection of customs duties, the authorities will no longer use the direct delivery system (with the exception of perishable and bulk cargo items) unless a voucher is presented at the time of clearance. At the same time, action has been taken to process such applications expeditiously to minimize the inconvenience to importers. To support these efforts, the list of exemptions has been updated and will be gazetted shortly. As recommended by the Fund tax administration mission, the domestic sales tax unit will be transferred from the Customs and Excise Department to the Central Revenue Department as

[21] A directive was issued in February 2002 that, henceforth, oil companies will pay the full customs duty due on all oil products imported on behalf of NAWEC, thereby fully closing a loophole through which that enterprise had accumulated tax arrears.

soon as possible to facilitate tax administration.[22] Measures have been initiated to set up a headquarters office to oversee the proposed tax reforms (and leave the existing Tax Department to focus on collecting revenue) as a first step toward establishing an autonomous revenue authority. Coordination among the revenue departments should benefit from computerization, including the planned implementation of ASYCUDA II in the Customs and Excise Department. Moreover, the government intends to follow up on the recommendations of the Fund tax policy mission. A joint World Bank/Fund mission in June 2002 prepared a joint work agenda to introduce the other planned reforms.

22. On the expenditure side, the aim is to reduce recurrent expenditure to 17¾ percent of GDP in 2002 from the estimated 20¼ percent in 2001 (the latter partly reflects the nonrecurring current expenditure from last year). The key social and poverty sectors identified in SPA II (PRSP) have received allocative priority, while a 6 percent across-the-board increase in the civil service salaries and public wages has been provided to help retain skilled staff following a wage freeze for senior personnel in 2001. The government provided a one-month salary advance to civil servants for Tobaski (a religious festival falling in February 2002), which is repayable over a six-month period through automatic salary deductions. Additional resources from the enhanced HIPC Initiative interim debt relief will augment allocations to the priority social sectors. With donor support, capital expenditure is projected to increase to 6¼ percent of GDP in 2002 (4¾ percent in 2001), in order to strengthen the physical infrastructure and the agricultural, health, education, and judicial sectors; the ultimate goal is to alleviate poverty, strengthen private sector activity, and promote exports.

23. To address the first quarter expenditure overruns, the government has agreed to finance the Mandinaba-Soma road project with grants now expected from two donors. Progress has been made in this regard, and as of early June 2002, US$1.6 million in grants had been disbursed. Moreover, funds that had been set in escrow for this project (D 42 million) have been repatriated and paid back into the consolidated revenue fund. Recurrent expenditure and the disbursement on a number of development projects, including the Mandinaba-Soma road, will be slowed via tightened controls on the relevant BTL accounts. Effective May 2002, all expenditure from BTL accounts will require proper documentation and reporting. Additionally, the filling of vacancies in the budget unit and the Auditor General's office should help improve expenditure control and auditing.

24. A cabinet paper approved in September 2001 outlined comprehensive budgetary reforms associated with the requirements of the SPA II (PRSP), triggers for debt relief under the enhanced HIPC Initiative, and the PRGF-supported program. These reforms are centered

[22] Access to corporate income statements provides the Central Revenue Department with the best means to also administer the domestic sales tax. This will require a change in the law to mandate the relevant department to assume such responsibilities, even though administrative changes have already commenced.

on the Accountant General's Office and are aimed at improving the reporting and control of expenditure, including the BTL accounts, as well as expediting the reconciliation and closing of public accounts. The new system should also subsequently facilitate conversion to program budgeting in line with the objectives of the PERs (and, eventually, the medium-term expenditure framework—MTEF) and improve expenditure classification to reflect better the SPA II (PRSP) and enhanced HIPC Initiative priorities. Complementary reforms will also be aimed at the Auditor General's Office, among other things, to expedite the audit of accounts. Currently, the white paper on the Commission of Inquiry on the former Auditor General and a paper on its recommendation have been placed on the cabinet's agenda. The government looks forward to continued Fund technical assistance in those areas, with the return of the resident budget advisor and the placing of a DOSFEA macroeconomic advisor in Banjul. The work of the latter would also facilitate coordination within DOSFEA and between the DOSFEA and the central bank through improved regular reporting and projections of fiscal data (revenue, expenditure, debt service, external assistance, and government borrowing requirements); the latter is a key input in liquidity forecasting and would facilitate monetary policy formulation. Other donors, including the World Bank, UNDP, and DFID, would also play a key role in implementing these reforms.

25. The government is implementing measures to deal firmly with the reemergence of cross arrears between the government and the public enterprises (PEs), including the above-mentioned tax arrears, owed, among others, by GAMTEL and NAWEC. As of end-January 2002, the government had accumulated arrears of D 43.5 million (0.7 percent of GDP) to PEs, while the latter had accumulated an estimated D 138 million in arrears to the government. A cabinet paper was prepared to highlight the problem and proposed a comprehensive program to address the financial problems of the PEs and a mutual settlement of these arrears. Quarterly targets leading to the elimination of these cross arrears by mid-2003 were agreed with the key public enterprises. The longer-term issues of PEs will be addressed in a donor-funded study that will provide recommendations to restructure or privatize eight Track II PEs (see also Subsection D below).

B. Monetary Policy and Financial Sector Reforms

26. The key objectives of monetary policy during 2002 are to reduce inflation and strengthen external reserves. To these ends, the government will maintain prudent fiscal policies and a tight monetary policy (while providing adequate credit to the private sector), and promote exchange rate flexibility consistent with a further buildup of official reserves. The avoidance of unprogrammed increases in net credit to the government, such as those associated with payments to Alimenta and related developments in 2001, will also be an important objective for monetary policy in 2002. Through sales of securities, the central bank will seek to moderate the growth of broad money from an estimated 19 percent during 2001 to 13 percent by end-2002, in line with projected nominal GDP growth.

27. Reforms in the financial sector will aim at improving the operation of the money market, making interest rates more flexible, and enhancing the soundness and efficiency of the financial system. To assist in these tasks, the CBG received three Fund technical

assistance missions in 2001, including the December mission, which undertook a diagnostic review of the capacity requirements and past Fund technical assistance. In August 2001, the CBG received additional Fund technical assistance, which recommended measures to improve monetary statistics. The recommendations of these missions to address weaknesses in the CBG's core functions—supervision, monetary operations, reserve management, payments systems, and internal controls—will form a key part of the medium-term reforms. The latter in turn, should also take into account the need for the central bank to continue to demonstrate a strong commitment to implement reforms, as well as the means to improve the effectiveness of technical assistance. To these ends, the central bank has started to implement a package of measures that will also trigger its access to Fund technical assistance under the TCAP. These measures include (a) a CBG board resolution to support the above-mentioned reform measures; (b) initiation of a review of the Central Bank Act; (c) revision (to reflect the mission's recommendations) and resubmission of the Financial Institutions and the Insurance Bills for parliamentary approval; (d) establishment of a committee to prioritize, coordinate, and enhance the CBG's training program; (e) preparation of a resolution plan for an insolvent bank and two insurance companies; (f) introduction of a liquidity-forecasting framework and operation of the book-entry system; (g) issuance of the revised foreign currency deposit prudential regulations to commercial banks; and (h) the filling of vacancies, particularly in the banking and insurance areas. Items (a) and (b) above, which were both implemented in February 2002, are also prior actions for the PRGF-supported program for 2002/03–2004/05. The proposed legislation and the various technical assistance recommendations require extensive revisions in the financial institutions' reporting requirements, which will be addressed during 2002–03.

28. Nonperforming loans had declined to 6.8 percent of total outstanding loans by end-March 2002 from 13.6 percent in June 2000, and provisioning for nonperforming loans at end-March 2002 remained above 90 percent of such loans in 2001. The government will encourage banks to maintain their capital adequacy ratios above the legal requirement of 8 percent and has taken steps to strengthen the management capacity of a financial institution that has not been meeting some of these standards.[23] The CBG is now working on a resolution plan for the Continent Bank and has commissioned an audit of the bank by an international firm—KPMG. Details of the resolution plan will be discussed with the Fund before it is finalized and implemented. The CBG's Rural Finance Department is expected to play a key role in efforts to improve the supervision and growth of the microfinance sector.

29. During 2002, The Gambia will continue to pursue regional monetary integration through collaboration with five other countries in west Africa[24] to establish a West African

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[23] The CBG proscribed the Continent Bank in August 10, 2001 and seized it on January 11, 2002 following a deterioration of the latter's financial situation.

[24] The other countries that are signatories to the April 2000 Accra Declaration are Ghana, Guinea, Liberia, Nigeria, and Sierra Leone.

Monetary Zone (WAMZ) by 2003. In April 2001, the West African Monetary Institute (WAMI) was established, with a mandate to prepare the groundwork for the establishment by 2003 of the West African Central Bank (WACB), which will function as the central authority of the WAMZ.

30. To address the problem of the large stock of government domestic debt (33 percent of GDP at end-2001), whose service absorbs more than 20 percent of government domestic revenue, the government has focused on efforts to reduce the fiscal deficit (excluding grants and the fully-funded HIPC Initiative expenditure) to sustainable levels. Furthermore, the government plans to use part of the proceeds from privatization, available donor assistance, and a part of debt relief under the enhanced HIPC Initiative to further reduce the stock of domestic debt. Since a sizable part of this debt is held by commercial banks, it will be important that its reduction avoid an injection of liquidity in the economy. A solution may lie in the establishment of an offshore entity that would take over the debt, or through debt/equity swaps for selected public institutions.

C. External Sector Policies

31. On the basis of the economic policies detailed above, the external current account deficit (excluding official transfers) is projected to decline to about 13¼ percent of GDP in 2002. The volume of total exports (excluding reexports) is projected to increase by about 6.8 percent, reflecting a further expansion in groundnut, fruit, and fish production. It is also expected that groundnut exports will contain a larger proportion of high-quality nuts. While import volumes are projected to decline by about 2.7 percent in 2002,[25] the reexport trade is expected to continue to recover, with improved cross-border relations and external competitiveness via a depreciated exchange rate, as well as the better availability of foreign exchange, including through the introduction of foreign currency deposits. The terms of trade, excluding reexports, are projected to improve by 1.4 percent in 2002. Receipts from tourism are expected to increase significantly as the sector—supported by an increase in weekly flights and the recent creation of the National Tourism Authority (see below)—continues to recover from the sharp decline in 2000. Donor assistance is also projected to increase, contributing to gross official reserves of SDR 87.7 million in 2002, a level equivalent to about five months of import cover. A financing gap of SDR 10.3 million is projected for 2002 (SDR 76.5 million, including PRSP-related funding gaps for 2002–05), which is expected to be covered by recourse to Fund and donor assistance, the latter likely through a donor roundtable meeting planned for September 2002.

32. The government remains committed to a liberal trade and exchange system. It will continue to assess the impact of the reduction in the external tariff to a maximum rate of 18 percent and in the number of tariff bands from ten to three in 2000, as well as of the reforms in the neighboring West African Economic and Monetary Union (WAEMU)

[25] Taking into account the generators imported in 2001.

countries (which maintain a maximum external tariff of 20 percent). Efforts have been intensified to improve the balance of payments data, based on the recommendation of the September 2000 Fund technical assistance. Technical assistance was received from DFID in 2001 to launch surveys of foreign direct investment, while the UNDP assisted with the full introduction of ASYCUDA to, inter alia, generate trade data on a timely basis. The reduction in external tariffs, together with the pursuit of prudent financial policies and a market-based flexible exchange rate, should benefit The Gambia's external competitiveness.

33. The government intends to use the remaining proceeds of the Fund interim assistance under the enhanced HIPC Initiative, approved on December 15, 2000, to meet debt-service payment on its existing debt to the Fund as they fall due during 2002. Measures have been taken to strengthen the loan and debt management unit at the DOSFEA with additional staffing and equipment, in order to improve the quality and timeliness of external debt data. Efforts are also under way to obtain debt relief from all other creditors. The Gambia will opt to participate in the sovereign credit rating assessment, funded either by the U.S. government or the UNDP.

D. Structural and Sectoral Policies

34. The efforts to modernize business-related legislation and regulations have gathered momentum with the December 2001 National Assembly enactment of the Regulatory and Procurement Acts, which also provide for the establishment of implementing agencies to regulate privatized utilities and handle public procurement, respectively. A contract has been tendered for a DFID-funded PE regulatory study. Since May 2000, the government has worked closely with the Commonwealth Secretariat to develop a competition policy (a draft has been completed) and, eventually, a Competition Bill to remove legal and regulatory impediments to competitive markets. In July 2001, legislation was approved by the National Assembly that, inter alia, set up the National Tourism Authority (a largely private sector-driven body) to promote the industry, including through the classification of hotels to improve the quality of service. Preparatory work is about to be launched on the Tourism Master Plan for 2002–20, funded by the AfDB. A part of the broader agenda on private sector legislation will entail efforts to introduce various bills (on business transactions, organization, and partnership), which together, will replace the existing antiquated Company Act. The Mortgage and Money-Laundering Bills will be drafted, which would help to streamline and further strengthen the regulation of the financial sector.

35. Regarding the public enterprise sector, the Privatization Act introduced in 2000, inter alia, formalized the establishment of the Gambia Divestiture Agency (GDA). The GDA is undertaking a major review of public enterprise finances to help disentangle government finances from the former, while a longer-term study will pave the way for further privatization. Already, the privatization of Track I public enterprises[26] has been approved by

[26] Ten public enterprises that can be sold without need for legislative and regulatory support, including the former Alimenta, Denton Bridge, and Kaur processing plants and barges.

cabinet; the GDA will channel part of the privatization proceeds into the divestiture account at the central bank. In 2002, up to D 25 million will be transferred from the divestiture account to reduce the government's domestic debt.

36. During 2002, the government will start to implement the Trade Gateway Project (US$23 million) approved by the World Bank in February 2002. The project will, among other things, enable The Gambia to establish an export-processing zone to promote private sector activity consistent with the PRSP objectives. The project will also promote investment in the country through the one-stop Investment Promotion Center and will support further efforts toward privatization. To this end, further studies on public enterprises, beyond the cabinet paper mentioned above, would assist the government in elaborating policies and reforms in this area.

37. In agriculture, the government intends to continue to work with the European Union (EU) and the Agri-Business Service Plan Association (ASPA), the latter comprising farmers and buyers, in order to improve the marketing of groundnuts and encourage the ASPA to adhere to a schedule of public announcements of producer prices early in the planting season. The settlement of the Alimenta dispute and the proposed privatization of its processing plants and barges among competing and reputable firms should promote private crop financing while contributing to better earnings by farmers. This privatization program is being prepared by the GDA; meanwhile, experts provided through EU technical assistance have evaluated the assets in preparation for their expected offers for sale. Already, the government has injected some D 15 million to improve these assets, in order to facilitate groundnut marketing during the 2001/02 season and the subsequent asset sale. Moreover, the proposed EU audit of the 1999/2000 operations of the trading companies will provide remedies to ensure adherence to proper internal control measures in compliance with industry standards. The government intends to make timely arrangements to help provide improved seed, fertilizer, and microfinance facilities to farmers, the latter through the US$10 million International Fund for Agricultural Development Rural Finance and Community Initiative. Significant support for the fishing sector will be provided by projects, worth some US$13 million, to build a second cold storage facility and establish artisanal facilities in during 2002.

38. The government is implementing a governance program adopted during the March 2000 roundtable meeting in Banjul, including reforms to (a) strengthen the constitutional and electoral processes; (b) strengthen the National Assembly structures and processes; (c) promote civic education and enhance civil participation in the political process; (d) improve the legal and judicial processes; (e) decentralize and reform the local government system; and (f) improve the management and transparency of public finances. A number of these reforms are also being supported by the DFID, EU, and UNDP and are being implemented in the context of the SPA II (PRSP).

39. As part of implementing the PRGF-supported program, the government intends to put in place measures that comprise structural benchmarks outlined in Table 11 of this Appendix.

E. Social and Poverty Reduction Policies

40. The launching of the SPA II (PRSP), which has drawn on The Gambia's experience since 1992 to develop a comprehensive poverty reduction strategy, marks a milestone in, among other things, the evolution of the PRGF-supported program. The latter is now based on SPA II (PRSP) and thus incorporates the views of Gambians, including the poor. SPA II (PRSP) has significantly improved the government's ability to identify the poor and the sources of poverty, and to intensify efforts to develop intervention to better target the poor. Accordingly, the PRGF highlights the SPA II (PRSP) program "pillars," namely, the efforts to create an environment conducive to sustained high growth (targeting income generation in rural agriculture), while providing the means to increase the allocation of public resources and the delivery of social services. While our articulation of the agricultural sector strategy will require more time to develop, the preparation of PERs in key sectors has provided an early means of linking sector and national budget priorities—a process that has been reinforced by interim resources provided through debt relief under the enhanced HIPC Initiative. Moreover, the PRGF-supported program draws extensively on our efforts, in collaboration with various donors, to promote the role of the private sector; enhance transparency and accountability for public finances; improve macroeconomic and social data to strengthen poverty policy analysis; and access technical assistance to support institutional capacity.

41. The budget for 2002 provides the first attempt at integrating PERs and debt relief under the enhanced HIPC Initiative, in order to allocate increased resources for the social sectors and for development expenditure. The system for reporting on poverty-reducing expenditure established last year, including the special HIPC Initiative account at the central bank, will become fully operational in 2002 with the issuance of the first biannual reports (May and November), designed, inter alia, to make further progress toward the triggers for the enhanced HIPC Initiative completion point. The broader resource requirements of the SPA II (PRSP) have been evaluated in conjunction with the financing gaps in the PRGF-supported program and will be presented to the donor roundtable meeting planned for the second half of 2002.

42. The government is aware that the updating of the comprehensive poverty reduction strategy will place a considerable burden on institutional capacity and necessitate further reforms to improve the delivery and monitoring of enhanced public services. In this regard, it intends to intensify collaboration with donors, including the Fund, to ensure timely access to, and effective use of, technical assistance.

F. Statistical Issues

43. The Gambia's economic and financial statistics remain in need of improvement, especially with regard to the major components of the balance of payments, the national accounts and prices, public investment, the public enterprise sector, and employment. Moreover, data on the social sectors and poverty need to be substantially improved and better integrated with mainstream economic data. The government has benefited from the

recommendations of various recent Fund technical assistance missions to strengthen the compilation of economic data. A notable development is the recent effort to improve the staffing of the CSD on an interim basis, pending the longer-term restructuring of the department into an independent agency, by offering better incentives to retain staff. Apart from generating macroeconomic data, the CSD is expected to play an important role in carrying out the household survey, the baseline delivery survey for social amenities, and the 2003 housing and population census. These efforts are key to improving the capacity for undertaking poverty and social impact analyses. The country is also benefiting from participation in the General Data Dissemination System (GDDS) and uses the framework to improve the quality, timeliness, and transparency of data provision.

G. The Technical Cooperation Action Plan (TCAP)

44. Following our request to the Fund management for technical assistance in April 2001, the government has worked closely with the Fund staff and other donors to prepare a comprehensive technical assistance program for the PRSP. It is expected that the coordinated effort will promote complementary efforts aimed at covering the key requirements for technical assistance through a careful identification of gaps. These gaps would then be presented to the donor roundtable meeting planned for September 2002, together with the SPA II (PRSP) for funding. Within this framework, considerable work has been undertaken by the Fund staff to prepare a comprehensive TCAP aimed at promoting performance under a possible new three-year PRGF arrangement.

IX. Program Monitoring and Review

45. To monitor policy implementation under the program, prior actions, a number of quantitative performance criteria for end-September 2002, and quantitative benchmarks have been identified. Issuance of the papers on the request for the PRGF arrangement will be subject to three prior actions, comprising (a) a CBG board resolution in support of the reforms recommended by the December 2001 Fund technical assistance mission; (b) the initiation of a review of the Central Bank Act, with a view to modernizing the act; and (c) the audit of the 2001 operations of the Customs and Excise Department. Items (a) and (b) are drawn from a group of measures that will also trigger Fund technical assistance to the CBG under the TCAP.

46. Performance under the first annual program under the PRGF arrangement will be monitored on the basis of the following quantitative performance criteria for end-September 2002: (a) a ceiling on net bank credit to the government; (b) a ceiling on net domestic assets of the central bank; (c) a floor on the basic primary balance of the government; (d) the nonaccumulation of external payments arrears; (e) a minimum level of net official international reserves; (f) a limit on new nonconcessional external loans contracted or guaranteed by the central government in the maturity ranges of 1–12 years; and (g) a zero ceiling on the outstanding stock of short-term external public debt (excluding normal import-related credits). The performance criterion on the nonaccumulation of external payments arrears will be applied on a continuous basis. Also, quantitative benchmarks have

been established for these variables for end-June 2002; indicative targets on the same variables were agreed for end-December 2002. In addition, quarterly financial indicators were established on total government revenue, the wage bill, and the primary budget balance.

47. The program also includes a number of structural benchmarks for various dates as indicated in Table 2 of this Appendix.

48. In addition, policy implementation under the first annual program under the PRGF arrangement will be assessed by two reviews. Disbursement of the second loan under the PRGF arrangement will be conditional on the observance of the end-September 2002 performance criteria and the completion of the first review no later than end-December 2002. The disbursement of the third loan will be subject to the observance of the end-March 2003 performance criteria and completion of the second review no later than end-June 2003.

Table 1. The Gambia: Quantitative Performance Criteria, Benchmarks and Indicative Targets Under the First Annual Program
Under the Three-Year Poverty Reduction and Growth Facility Arrangement, April 1, 2002 - December 31, 2002

	2001 End-Dec. Prel.	2001 End-Dec. Indicative Target	2001 End-Dec. Prel.	2002 End-Mar. Indicative Target	2002 End-Mar. Prel.	2002 End-Jun. Quantitative Benchmarks	2002 End-Sep. Performance Criteria	2002 End-Dec. Quantitative Benchmarks
Performance criteria	(Stocks)	(In millions of dalasis; change from beginning of the calendar year)						
Net bank credit to the central government (ceiling) 1/ 2/	589.2	158.8	505.8	6.6	-30.2	-83.7	-95.8	-75.5
Net domestic assets of the central bank (ceiling) 1/ 3/	-431.5	-3.5	-64.9	-1.4	183.0	29.5	-33.3	-17.5
Basic primary balance of the central government (floor) 1/ 4/		97.7	0.0	59.3	-40.7	67.4	141.8	225.7
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
		(In millions of SDRs; change from beginning of the calendar year)						
Net official international reserves (floor) 6/	60.2	-2.0	-4.6	1.1	-5.6	0.1	4.0	8.3
New nonconcessional debt contracted or guaranteed by the government (ceiling), 1-12 year maturity 7/		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of external public debt with a maturity of less than 1 year (ceiling) 8/		0.0	0.0	0.0	0.0	0.0	0.0	0.0
		(In millions of dalasis; change from beginning of the calendar year)						
Financial indicators								
Total domestic government revenue (floor)		1,100.8	989.9	285.3	285.4	604.9	892.8	1,211.5
Government wage bill (ceiling)		342.8	342.0	112.9	107.0	192.2	277.4	371.6
Memorandum item:								
External budgetary assistance 9/		94.2	0.0	10.0	0.0	50.0	70.0	90.0

1/ The ceilings will be adjusted downward by the amount of external budgetary assistance in excess of that programmed. In the event of a shortfall in external budgetary assistance as defined above), the ceilings will be adjusted upward by the amount of the shortfall.
2/ Defined as claims on government (net) in the monetary survey.
3/ Defined as the difference between the net official international reserves and reserve money.
4/ The basic primary balance is defined as domestic revenue minus total expenditure and net lending, excluding interest payments and externally financed capital expenditure.
5/ To be applied on a continuous basis.

assistance (as defined above), the floor will be adjusted downward by the amount of the shortfall.
7/ External debt contracted or guaranteed other than that with a grant element equivalent to 35 percent or more, calculated using a discount rate based on OECD commercial interest reference rates.
8/ Excluding normal import-related credits.
9/ Including grants, loans, and debt relief, but excluding project aid.

Table 2. The Gambia: Prior Actions and Structural Benchmarks Under the First Annual Program
Under the Three-Year Poverty Reduction and Growth Facility Arrangement, April 1, 2002 - March 31,2003

Measures	Expected Date of Completion	status
Prior actions		
A Central Bank of The Gambia (CBG) board resolution in support of the reforms recommended by the December 2001 Fund technical assistance mission.		Completed March 2002.
Initiation (a request by the CBG and approval by the government) of a review of the Central Bank Act, with a view to modernizing the act.		Completed February 2002.
Audit of the 2001 operations of the Customs Revenue Department.		Completed April 2002.
Structural benchmarks		
Completion of Stage I of the household survey (Dry Season) that will form a basis for constructing an updated and comprehensive consumer price index.	End-September 2002	
Completion of the updated automated customs data system (ASYCUDA II).	End-October 2002	
Public reports on the poverty-reducing expenditure. 1/	End-November 2002	
Quarterly schedule eliminating cross government/public enterprise arrears based on a review of public enterprise study and cabinet paper.	End-July 2002	Completed May 2002
Completion of the enterprise survey in order to compile data on the international investment position in the balance of payments.	End-July 2002	

Table 3. The Gambia: Prior Action Structural Performance Criterion, and Structural Benchmarks
Under the Poverty Reduction and Growth Facility, October 1, 2000 - September 30. 2001

Measures	Date	status
Prior action		
Submit to parliament the supplementary budget measures, including the contingency budget to be funded from interim debt relief under the enhanced HIPC Initiative.		Submitted to parliament on June 14,2001; it was approved on June 25.2001.
Structural performance criterion		
Establish and begin to implement a comprehensive accounting framework to monitor expenditure on poverty reduction, including expenditure funded from enhanced HIPC Initiative debt relief.	End-December 2000	Completed at end-May 2001.
Structural benchmarks		
Initiate a register of establishments involved in balance of payments transactions and complete implementation of surveys of these establishments.	End-February 2001	Completed at end-December 2000.
Extend the mandate of the external debt unit of the Department of State for Finance and Economic Affairs and have it start to compile data on publicly guaranteed external debt other external contingent liabilities of the government and domestic debt	End-June 2001	Completed on schedule.
Complete the full installation of ASYCUDA I. the automated system for customs data. and use it to generate trade data reclassified by economic categories.	End-March 2001	Delay in receiving UNCTAD technical assistance.
Complete the rebasing of national income accounts to 1998.	End-April 2001	Delayed
Establish the regulatory framework. issue guidelines. and authorize commercial banks to establish foreign currency deposits.	End-June 2001	Completed in December 2001.
Introduce the book-entry system for treasury bill auctions and finalize plans for introducing longer-term treasury bills and government bonds.	End-August 2001	Introduced in August 2001.

The Gambia: Technical Memorandum of Understanding

(As of May 8, 2002)

I. Introduction

49. This memorandum sets out the understandings between the Gambian authorities and staff of the International Monetary Fund (IMF) regarding the definitions of quantitative and structural performance criteria and benchmarks for the third annual arrangement under the Poverty Reduction and Growth Facility (PRGF), as well as the related reporting requirements. The tables with the latest actual data for the monetary aggregates, as well as the preliminary estimates for March 2002 used for the derivation of the flows for the program period, are included in the staff report (Tables 6 and 7).

II. Quantitative Performance Criteria: Definitions and Reporting Standards

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

50. **Definition.** Net international reserves (NIR) are defined as reserve assets less liabilities to foreign residents of maturity of one year or less and less borrowing from the IMF. Gold holdings will be valued at U.S. dollar market prices, together with foreign currency holdings, at the bilateral exchange rates prevailing on March 31, 2002. The NIR shall be converted into dalasis at the exchange rate prevailing on March 31, 2002 (estimated at D 21.3000 per SDR). Reserve assets are defined for this purpose as external assets readily available to, or controlled by, the Central Bank of The Gambia (CBG). Pledged or otherwise encumbered reserves assets, including, but not limited to, reserves assets used as collateral or guarantee for third-party external liability, are to be excluded.

51. **Adjustment clauses.** The floor on the net international reserves of the central bank will be adjusted **upward (downward)** by the amount of disbursed external budgetary support (comprising non-project-related loans and grants) at the end of each quarter **in excess (in shortfall)** of the programmed amounts in the budget (Appendix I, Table 1).

52. **Supporting material.** Net international reserves of the central bank will be transmitted on a weekly basis within ten days of the end of each week; the net foreign assets of the commercial banks and external budgetary support will be transmitted on a monthly basis within six weeks of the end of each month.

B. Net Domestic Assets of the Central Bank

53. **Definition.** The net domestic assets of the central bank are defined as the difference between reserve money (the sum of currency outside banks and all deposits of the commercial banks, excluding deposits of the central government) and the net foreign assets of the central bank, converted at the foreign exchange rate specified in paragraph 2. Net foreign assets are defined as NIR plus other claims on, and liabilities to, foreign residents.

54. **Adjustment clauses.** The ceiling on net domestic assets of the central bank will be adjusted **downward (upward)** by the amount of disbursed external budgetary support (comprising non-project-related loans and grants) at the end of each quarter **in excess (in shortfall)** of the programmed amounts in the budget (Appendix I, Table 1).

55. **Supporting material.** Net domestic assets of the central bank will be transmitted on a monthly basis within four weeks of the end of each month.

C. Net Claims on the Central Government by the Central Bank of The Gambia

56. **Definitions.** The net claims on central government by the central bank are defined as claims on the central government by the central bank less deposits of the central government with the central bank.

57. **Adjustment clauses.** The ceiling on net claims on the central government by the central bank will be adjusted **downward (upward)** by the amount of disbursed external budgetary support (comprising non-project-related loans and grants) at the end of each quarter **in excess (in shortfall)** of the programmed amounts in the central government budget (Appendix I, Table 1).

58. **Supporting material.** Data on cumulative government revenue and expenditure, on the net central government position with the central bank, and on treasury bills outstanding, as well as data on external loans and grants to the government, will be transmitted on a monthly basis within six weeks of the end of each month.

D. Basic Primary Balance of the Central Government

59. The basic primary balance is defined as government domestic revenue (tax and nontax) minus total expenditure and net lending, excluding interest payments and externally financed capital expenditure.

E. External Payments Arrears

60. **Definition.** External payments arrears are defined as the stock of external arrears on loans contracted or guaranteed by the public sector (as defined below in paragraph 14), except on debts subject to rescheduling or a stock-of-debt operation.

61. **Supporting material.** An accounting of nonreschedulable external arrears by creditor countries (if any), 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 creditors, non-Paris Club creditors, and other creditors.

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

62. **Definitions.** In this memorandum, the public sector consists of the central and regional governments and other public agencies, including the Central Bank of The Gambia. This performance criterion is on the contracting or guaranteeing of external debt with original maturity of 1-12 years by the government.[27] Excluded from this performance criterion is debt with borrowing from the IMF and with a grant element of at least 35 percent. The grant element is to be calculated by using currency-specific discount rates reported by the OECD (commercial interest reference rates): for **maturities of less than 15 years**, the grant element will be calculated based on six-month averages of commercial interest rates, and, for **maturities longer than 15 years**, the grant element will be calculated based on ten-year averages.

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

G. Outstanding Stock of External Public Debt

64. This performance criterion is the outstanding stock of external public sector debt with original maturity of less than one year owed or guaranteed by the central government.[28] Excluded from this performance criterion are normal import-related credits.

65. **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. Prior Actions and Quantitative Performance Criteria and Benchmarks

66. To monitor policy implementation, three prior actions and a number of quantitative benchmarks have been proposed over the course of the program, as well as quantitative performance criteria and benchmarks for end-September 2002 (see Appendix I, Table 1). The

[27] This performance criterion applies not only to debt as defined in point no. 9 of the "IMF Guidelines on Performance Criteria with Respect to Foreign Debt" (adopted by the Executive Board of the Fund on August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received.

[28] The term "debt" has the meaning set forth in point no. 9 of the "IMF Guidelines on Performance Criteria with Respect to Foreign Debt," adopted on August 24, 2000.

prior actions entail (a) a CBG Board resolution in support of the reforms recommended by the December 2001 Fund technical mission; (b) initiation of a review of the Central Bank Act; and (c) an audit of the 2001 operations of the Customs and Excise Department. The proposed benchmarks for end-June 2002 will comprise the following: (a) a ceiling on net bank credit to the central government; (b) a ceiling on net domestic assets of the Central Bank of The Gambia; (c) a floor on the basic primary balance of the central government, defined to exclude interest payments and foreign-financed investment spending; (d) the nonaccumulation of external payments arrears; (e) a floor on net official international reserves; (f) a ceiling on new nonconcessional external loans contracted or guaranteed by the public sector for maturities of 1–12 years; and (g) a zero ceiling on the outstanding stock of short-term external public debt owed or contracted by the public sector (excluding normal import-related credits). The criterion on the nonaccumulation of external payments arrears will be applied on a continuous basis. Limits on items (a)-(g) above for end-September 2002 will serve as quantitative performance criteria. Indicative targets have been set for end-December 2002. Five structural benchmarks are outstanding, set for specific dates through end-November 2002, and a continuous indicative target on the avoidance of external arrears has also been set (Appendix I, Table 2).

IV. Structural Performance Criteria and Benchmarks

67. Lastly, the authorities will notify the African Department of the Fund of developments with respect to structural performance criteria and benchmarks as soon as they occur. The authorities will provide the following documentation, according to dates in Appendix I, Table 2, elaborating the steps taken to (a) complete Stage I of the Household Survey (dry season), which will form a basis for constructing an updated and comprehensive consumer price index; (b) complete the automated system for customs data (ASYCUDA) II; (c) complete public reports on poverty-reducing expenditure; (d) complete a quarterly schedule for eliminating government-public enterprise cross arrears based on a review of a public enterprise study and cabinet paper; and (e) complete the enterprise survey in order to compile data on the international investment position in the balance of payments.

V. Other Elements of the Program – Program-Monitoring Committee

68. **Definition.** The Gambian authorities shall establish a program-monitoring committee composed of senior officials from the Department of State for Finance and Economic Affairs (DOSFEA), the CBG, and other relevant agencies. The committee shall be responsible for monitoring the performance of the program, recommending policy responses, informing the Fund regularly about the progress of the program, and transmitting the supporting materials necessary for the evaluation of performance criteria and benchmarks. The committee shall provide the Fund with a progress report on the program on a monthly basis within four weeks of the end of each month, using the latest available data.

VI. Data Requirements

A. Production and Prices

69. **Reporting standard.** The monthly disaggregated consumer price index will be transmitted within four weeks of the end of each month.

B. Government Accounts Data

70. **Reporting standard.** A consolidated budget report of the central government will be transmitted comprising (a) the revenue data by each major item, including that collected by the Commissioner of Taxes and the Customs and Excise Department, as well as transfers from privatizations to the budget; (b) details of the recurrent and capital expenditure of the central government; (c) details of budget financing (domestic and external), which will be transmitted on a monthly basis within six weeks of the end of each month; and (d) details on the government's outstanding arrears outstanding, as of end-March 2002, including payments and other arrangements to discharge them (these data will be transmitted on a monthly basis within six weeks of the end of each quarter). The government's arrears amounted to D 43 million as of end-December 2001, while public enterprises owed the government about D 138 million.

C. Monetary Sector Data

71. **Reporting standard.** The balance sheet of the central bank and the consolidated balance sheets of the commercial banks will be transmitted on a monthly basis within six weeks of the end of each month. The results of the Treasury bill auctions will be transmitted on a biweekly basis within five business days. The stocks of government securities, balances in the divestiture account, detailed information on interbank loans (terms, duration, and participating institutions), and interest rate developments will be transmitted on a monthly basis within two weeks of the end of each month.

D. External Sector Data

72. **Reporting standard.** The following standard will be adhered to: (a) the interbank market exchange rate, as the simple average of the daily-weighted average buying and selling rates, will be transmitted on a weekly basis within five business days of the end of the week; (b) the results of foreign exchange auctions (on a weekly or more frequent basis) will be transmitted on a weekly basis within five business days of the end of each week; and (c) balance of payments data will be transmitted on a quarterly basis within six weeks of the end of each quarter.

The Gambia: Relations with the Fund
(As of April 30, 2002)

Membership Status: Joined 09/21/1967; Article VIII

VII. General Resources Account	SDR Million	% Quota
Quota	31.10	100.0
Fund holdings of currency	29.62	95.2
Reserve position in Fund	1.48	4.8

VIII. SDR Department	SDR Million	% Allocation
Net cumulative allocation	5.12	100.0
Holdings	0.05	1.0

IX. Outstanding Purchases and Loans	SDR Million	% Quota
Enhanced Structural Adjustment Facility (ESAF)/ Poverty Reduction Growth Facility (PRGF) arrangements	20.61	66.3

X. Laetst Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Mill ion)
ESAF/PRGF	06/29/1998	12/31/2001	20.61	20.61
ESAF	11/23/1988	11/25/1991	20.52	18.02
Structural Adjustment Facility (SAF)	09/17/1986	11/22/1988	10.86	8.55

Projected Obligations to the Fund[29] (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	04/30/2002	2002	2003	2004	2005	2006
Principal				0.7	1.4	2.7
Charges/interest		0.2	0.2	0.2	0.2	0.2
Total		0.2	0.2	0.9	1.6	2.9

[29] Repurchase obligations: Repurchases in the credit tranches including the Compensatory Financing Facility, are to be completed in 3 ¼ - 5 years. Repurchases under the External Fund Facility (EFF) are due in 4 ½ - 10 years.

Implementation of HIPC Initiative

	Enhanced framework
Commitment of HIPC assistance	
Decision point date[30]	12/11/2000
Assistance committed (end-1999 NPV terms)[31]	
Total assistance (US$ million)	66.6
Of which: Fund assistance (SDR million)	1.8
Completion point date	Floating
Delivery of Fund assistance (SDR million)	
Amount disbursed	0.08
Interim assistance	0.08
Completion point[32]	…
Amount applied against member's obligations (cumulative)	0.02

[30] Decision was approved in principle by the Fund. World Bank Board decision was taken on 12/14/00.

[31] Net present value (NPV) terms at the completion point under the original framework, and NPV terms at the decision point under the enhanced framework.

[32] Under the enhanced HIPC Iinitiative, the nominal amount of assistance disbursed will include an additional amount corresponding to interest on amounts committed but not disbursed during the interim period, calculated using the average return (during the interim period) on the investment of resources held by, or for, the benefit of the PRGF-HIPC Trust.

Safeguards Assessments

Under the Fund's safeguards assessment policy, the Central Bank of The Gambia (CBG) is subject to a full Stage One safeguards assessment with respect to the forthcoming PRGF arrangement. Based upon the off-site review of information submitted by the CBG, it was concluded that a safeguards mission should be conducted to draw definitive conclusions and determine possible recommendations, including timing, prior to completing the safeguards assessment. In this regard, an on-site safeguards assessment mission will visit The Gambia before September 2002. The first review under the PRGF arrangement will address potential issues emerging from the safeguards assessment.

Exchange rate arrangement

Prior to January 20, 1986, the Gambian currency, the dalasi, was pegged to the pound sterling at a rate of D 5=£1. On January 20, 1986, an interbank market for foreign exchange was introduced, and since then the exchange rate has been determined by market forces. At end-April 2002, the midpoint exchange rate in the interbank market was D 18.7 per U.S. dollar.

The Gambia accepted the obligations of Article VIII, Sections 2, 3, and 4 on January 21, 1993.

Last Article IV Consultation

The 2001 Article IV consultation (Country Report No. 01/148) was concluded by the Executive Board on July 13, 2001. The Gambia is on the standard 12-month cycle for Article IV consultations.

Technical assistance

A long-term Fund resident macroeconomic advisor arrived in Banjul in April 2002.

The long-term Fund resident budget expert assisting the authorities in strengthening budgetary expenditure reporting and control (see below) returned to Gambia in March 2002 for another one-year term.

A technical assistance mission from FAD to advise on tax policy visited Banjul in February 2002.

A technical assistance diagnostic mission from MAE visited The Gambia in December 2001.

A technical assistance mission from FAD on income tax and customs administration visited The Gambia in November 2001.

A technical assistance mission from STA visited Banjul in August–September 2001 to assist with the improvement of National Accounts and Price Statistics.

A technical assistance mission from STA on Monetary and Financial Statistics visited Banjul in August 2001.

A technical assistance mission from FAD visited Banjul in July to assess the authorities' capacity to track poverty-related spending.

An MAE short-term expert visited Banjul in May 2001 to assist the authorities in designing appropriate operational, prudential, and policy safeguards (including assessing the adequacy of existing legislation) for the introduction of foreign currency-denominated accounts.

An MAE short-term expert visited Banjul in April 2001 to assist the authorities in setting up a book-entry system.

A technical assistance mission from STA on balance of payments statistics visited The Gambia in September 2000.

An MAE short-term expert visited Banjul in May 2000 to assist the authorities in setting up a short-term liquidity forecasting system.

A long-term Fund resident budget expert is assisting the authorities in strengthening budgetary expenditure reporting and control from August 2000 through August 2001.

An STA mission visited The Gambia in November 1999 to review the statistical collection in order to develop a GDDS (General Data Dissemination System) metadata for The Gambia.

An FAD technical assistance mission—aimed at assisting the authorities in expenditure management, budget execution issues, cash and debt management, short-term financial planning, fiscal reporting, and information systems—visited The Gambia in early September 1999.

An MAE short-term expert visited Banjul in November 1999 to assist the authorities in designing appropriate operational, prudential, and policy safeguards (including assessing the adequacy of existing legislation) for the introduction of foreign currency-denominated accounts in the banking system.

A technical assistance mission from STA on the balance of payments statistics visited The Gambia in June-July 1999.

A technical assistance mission from STA on the national accounts visited The Gambia in November-December 1998.

An MAE technical assistance mission took place in August 1998 to assist the Central Bank of The Gambia in developing market-based monetary policy instruments and to review its program for strengthening banking supervision.

An MAE technical expert provided assistance to the central bank in foreign exchange operations in December 1996.

A joint FAD/United Nations Development Program (UNDP) technical assistance mission took place in January–February 1996 to help establish a system for monitoring the financial operations of public enterprises.

An MAE technical assistance mission on monetary management and bank supervision visited The Gambia in January–February 1994.

A joint FAD/UNDP technical assistance mission on government accounting procedures and the computerization of these accounts took place in February–March 1993.

A technical assistance mission from STA on government finance statistics visited The Gambia in November 1992.

Resident Representative

There is currently no provision for a resident representative in The Gambia.

The Gambia: Relations with the World Bank Group
(As of April 30, 2002)

1. The World Bank, through IDA, has assisted the government in pursuing four main objectives: (a) establishment of a macroeconomic and sectoral environment conducive to economic growth; (b) rehabilitation and development of infrastructure; (c) development of human capital through the provisions of more efficient social services; and (d) capacity building in departments that have a key role for economic management. Instruments used in supporting these objectives have been adjustment lending (first and second structural adjustment credits (SAL I and SAL II)), buttressed by sector-based rehabilitation and investment projects.

2. In addition to SAL II, which provided a global framework for its support, past IDA lending has supported policy and institutional reforms. Among others, the Enterprise Development Project assisted in promoting private sector investment in small and medium-scale activities. Past projects in the transport, utility, and urban sectors promoted private sector activities by improving the maintenance and rehabilitation of infrastructure, and by rendering better services with a more efficient use of public resources.

3. The Country Assistance Strategy (CAS) for The Gambia for fiscal years (FY) 1998-2001, endorsed by the Board on September 10, 1998, is under implementation. At the end of FY 2001, the Bank's lending portfolio reflected its base-case scenario, and the proposed Trade Gateway Project would occur under the high-case scenario. A new CAS is under preparation (Board presentation currently scheduled for fall 2002).

4. As of April 30, 2002, IDA had approved 30 credits for a total amount of about US$271 million, with an undisbursed amount of about US$70 million. The current portfolio consists of six projects in health, education, poverty alleviation, capacity building for economic management, and the private sector, totaling US$99 million.

5. In **health**, the Participatory Health/Population/Nutrition operation was approved in March 1998. It aims at improving the quality of services related to reproductive health, infant and child health, and nutrition for women of reproductive age, infants, and children. It also aims at improving the quality of management and implementation of a family health program. An HIV/AIDS Rapid Response operation was approved in January 2001. The project aims at (a) containing the HIV/AIDS pandemic; (b) reducing the spread of the pandemic and mitigating its effects; and (c) increasing access to prevention services, as well as treatment, care, and support for those infected and affected by HIV/AIDS.

6. In **education**, the Third Education Sector Project was approved in September 1998 to support the implementation of the second half of the government's Education Sector Policy Framework, 1988–2005, and its accompanying investment program.

7. A **Poverty Alleviation and Municipal Development** operation was approved in March 1999, with the following objectives: (a) to reduce the backlog in public infrastructure

development and improve the maintenance of public assets; (b) to alleviate poverty through the creation of temporary jobs and improvements in the selection of small and medium-sized investments, which should aim at upgrading the living environment of the poor; and (c) to strengthen the technical and managerial capacity of local authorities (with an emphasis on their financial situation), local private firms (namely, consultants and contractors), and Gamworks (a procurement agency).

8. A **Capacity Building for Economic Management** Project was approved in July 2001 to help (a) build government capacity for economic planning, policy formulation, and execution, and (b) build the capacity of the judicial and financial systems to facilitate private sector development.

9. A trade **Gateway** Project was approved in February 2002 to help the country establish itself as a globally competitive export and processing center by laying the foundation for expanded private investment, export-oriented production, and employment, through the establishment of a free zone and an improved institutional environment.

10. As of April 30, 2002, the IFC's portfolio had two investments with a balance of about US$0.6 million. The current portfolio includes investments for a medical clinic (Ndebaan), and commercial fishing (Lyefish).

11. IDA, MIGA, and the IFC will continue to coordinate their respective roles to support development activities in The Gambia. These activities are being enhanced by the IFC's office in Dakar, which also oversees the IFC's activities in The Gambia.

Summary of Statement of IDA Credits in The Gambia
(As of April 30, 2002; in millions of U.S. dollars)

Projects	Commitment	Disbursed	Undisbursed
24 credits closed	171.8	172.8	0.0
Ongoing projects			
Gateway	16.0	0.0	15.7
CB for Econom Mgmt Project	15.0	0.0	15.5
HIV/AIDS Rapid Response	15.0	0.0	15.3
Participatory Health/Pop./Nutrition	18.0	4.2	13.3
Third Education	20.0	8.7	11.0
Poverty Alleviation and Municipal Dev.	15.0	5.0	9.0
Subtotal	**83.0**	**17.9**	**64.1**
Total	**270.8**	**198.5**	**70.4**

Source: The World Bank Integrated Controller's System (– 4/30/02).

The Gambia—Statement of IFC's Held and Disbursed Portfolio
(As of April 30, 2002; in millions of U.S. dollars)

		Committed/Held				Disbursed			
		------------IFC------------				------------IFC------------			
FY Approval	**Company**	**Loan**	**Equity**	**Quasi**	**Partic**	**Loan**	**Equity**	**Quasi**	**Partic**
1993	AEF Ndebaan (Medical Clinic)	0.2	0.0	0.0	0.0	0.2	0.0	0.0	0.0
1994	AEF Lyefish (Commercial Fishing)	0.4	0.0	0.0	0.0	0.4	0.0	0.0	0.0
	Total Portfolio	**0.6**	**0.0**	**0.0**	**0.0**	**0.6**	**0.0**	**0.0**	**0.0**
Pending commitments		0.0	0.0	0.0	0.0				

The Gambia: Statistical Issues

73. There are substantial weaknesses in The Gambia's economic and financial statistics, especially in the national accounts, balance of payments, and external debt statistics. Although these weaknesses do not preclude a meaningful assessment of economic policies, the reporting delays and poor quality of some of the data hamper the analysis of recent economic developments. The authorities have recently provided most core data to the Fund in a timely manner. Available data are published in the central bank's quarterly bulletins and the Central Statistics Department's (CSD) publications. The Gambia has volunteered to serve as a General Data Dissemination System (GDDS) pilot country. In November 1999, a STA technical mission helped the authorities to develop the metadata for the GDDS. The metadata are now available on the Fund's Dissemination Standards Bulletin Board (DSBB).

Real sector

74. An STA real sector expert provided assistance on the Consumer price index (CPI) and national accounts in August 2001. According to his report, annual national accounts estimates are compiled on the basis of indicators in the absence of comprehensive information on various economic activities and are available only from the production side. Reliable data on employment and labor costs are also not available. The breakdown by expenditure category is largely estimated by Fund staff. It should be possible to make independent estimates from the expenditure side for the year 1998, when a comprehensive household survey was carried out. However, improvements in accounts will require adequate staffing of the CSD and the improvement of data collection through surveys.

75. STA technical experts provided assistance on national accounts in November-December 1998. During 2000, the authorities published documentation on sources and methods used in the current series of GDP by kind of economic activity. Also, the publication of national accounts for fiscal years (FY) 1995/96 and 1996/97 (June–July) and calendar years 1997 and 1998 will be completed by year's end. Currently, the national accounts section of the CSD is engaged in the following improvements: (a) to move the base year from 1976/77 to a more recent year; (b) to provide estimates of private final consumption; and (c) to change the framework of national accounts from the 1968 *System of National Accounts (SNA)* to the 1993 *SNA*.

76. Currently, the CSD publishes low-income CPI data using weights based on the 1976/77 survey. The geographical area covered by the price survey is also limited to the greater Banjul area, and there are consistency issues in price data for nonfood items. A new consumer price index (with a base of July 1994-June 1995) for the low-and middle-income population in the greater Banjul area has been produced, using new weights from the 1992/93 household expenditure survey. However, the household survey data underlying these weights are thought to be rather weak. During 1998, an extensive household survey was undertaken to map the poverty situation in the country. As the survey covered all of the country and was large in size, it could form the basis for a new weights system for the CPI. As with the

national accounts, improvements in the CPI will also require adequate staffing of the CSD and the improvement of data collection through surveys.

Government finance

77. The authorities provide the staff with current information on central government revenue and expenditure. Data on domestic government financing are also available on a monthly basis with a short lag. The three-year rolling public investment program has not been updated for some time, and the execution of public investment needs closer monitoring. The latest annual data reported for publication in the *Government Finance Statistics Yearbook and International Financial Statistics (IFS)* correspond to 1993.

Monetary data

78. Monthly balance sheet data of the Central Bank of The Gambia (CBG) are available within two weeks after the end of the reference month, and data for the monetary survey with a lag of one month. The coverage of banks in the monetary survey is comprehensive, and the banks follow a uniform chart of accounts to report financial data to the CBG. Flash reports of key monetary data are also sent from the banks to the CBG on a weekly basis. Over the past two years, the CBG has introduced several reclassifications of the monetary accounts in an attempt to improve sectorization and coverage, as well as to harmonize the data reported to STA and AFR.

79. The STA mission on monetary statistics in August 2001 made recommendations regarding the inclusion of noncommercial bank depository corporations (the Postal Savings Bank and Village savings and credit associations (VISACAs)) in the monetary survey. In addition, the mission recommended reclassification of several items on the balance sheets of commercial banks and the CBG, and suggested changes in the reporting procedure to harmonize data between STA and AFR. The CBG has made some progress in implementing these recommendations, and STA is envisaging a follow-up mission later this year.

Balance of payments

80. The Gambia's external transactions are characterized by a large volume of activity in the informal sector. For example, the bulk of the reexport trade is unrecorded. Therefore, balance of payments statistics have to be supplemented by estimates of activity in the informal sector. The central bank estimates reexports as a fixed share of total imports. Tourism revenue is estimated based on tourist arrival data from the relevant ministry. Data on private capital flows are poor, mainly because survey data are nonexistent. Data on official grants and loan disbursements and repayments are relatively good. Data on the gross and net international reserves of the central bank are available with a short lag.

81. The Fund provided technical assistance (TA) on balance of payment statistics in June-July 1999 and September 2000. In reviewing progress, the 2000 mission noted that significant advances had been made in the compilation of balance of payments statistics and that several of the 1999 mission’s recommendations had been implemented. Based largely on

the mission's recommendations, The CBG established a balance of payments unit, equipped with computer resources, and successfully initiated surveys of the banking sector, insurance companies, travel and shipping agents, hotels, and foreign embassies. The government has fully computerized its database on the stock of external public debt and the related debt-service obligations, using the Commonwealth Secretariat's debt-reporting and management system with technical assistance from The World Bank.

82. Further steps to improve cooperation and coordination between the Central Statistics Department and Customs and Excise Department have been taken. The CBG has recently received assistance from DFI, which is a United Kingdom-based consulting company contracted by the U.K. Department for International Development (DFID) to support the central bank in estimating the level of private capital flows. As part of this support, the CBG will be establishing a balance of payments committee consisting of relevant government agencies, companies, and organizations, partly to raise awareness and partly to ensure their cooperation in providing information on a timely basis. A register of establishments has been compiled with support from The Gambia Chamber of Commerce and the Registrar of Companies, and a survey of these has been undertaken (a structural benchmark for September 30, 2001).

The Gambia: Statistical Indicators

(As of May 2002)

	Exchange Rates	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP	External Debt
Date of latest observation	4/2002	3/2002	3/2002	3/2002	3/2002	4/2002	3/2002	12/2002	12/2002	4/2002	2000	3/2002
Date received	5/2002	5/2002	5/2002	5/2002	5/2002	5/2002	5/2002	5/2002	5/2002	5/2002	5/2002	5/2002
Frequency of data 1/	M	M	M	M	M	M	M	M	A	M	A	M
Frequency of reporting 1/	M	M	M	M	M	M	M	M	A	M	A	M
Source of data 2/	A	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting 3/	V	V	V	V	V	V	V	V	V	C, V	V	C, V
Confidentiality 4/	C	C	C	C	C	C	C	C	C	D	C	D
Frequency of publication 1/	D	M	M	M	M	M	M	A	A	M	A	M

1/ A=annually; D=daily; M=monthly; Q=quarterly; and W=weekly.
2/ A=direct reporting by Central Bank of The Gambia, Ministry of Finance, or other official agency.
3/ C=cable or facsimile; and V=staff visits.
4/ C=unrestricted use; and D=restricted until officially published.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 02/115
FOR IMMEDIATE RELEASE
October 8, 2002

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2002 Article IV Consultation with The Gambia

On July 8, 2002, the Executive Board concluded the Article IV consultation with The Gambia.[1]

Background

Overall economic performance in The Gambia during 2001 and the early part of 2002 was mixed. The economy benefited from robust real GDP growth with moderate inflation. Notable progress was also achieved in the settlement of the property dispute with Alimenta[2] (the last payment of US$5 million out of a total of US$11.5 million was in August 2001). Important gains were made in implementing economic and structural reforms. However, there were budgetary slippages leading to a sizeable increase in the overall budget deficit. Presidential, national and local elections were held in late 2001 and early 2002 and the full Poverty Reduction Strategy Paper (PRSP) was finalized and forwarded to the Fund and the World Bank in May 2002.

In 2001, real GDP growth was 6 percent, underpinned by strong performance of agriculture, tourism, and the construction sectors. Average annual inflation (based on the low-income consumer price index) edged up to 4½ percent, slightly above the target of 4 percent, driven by higher imported inflation (via the depreciation of the dalasis) and expansionary fiscal policies.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. In this PIN, the main features of the Board's discussion are described.

[2] A Swiss groundnut marketing company whose assets were seized by the government in January 1999.

The external current account deficit (excluding official transfers) is estimated to have increased to 14¾ percent of GDP in 2001 from 12 percent in 2000, reflecting one-off importation of electricity generators to improve generation and distribution; reexports were slowed by cross-border difficulties. The real effective exchange rate of the dalasi depreciated by 8 percent during 2001, contributing to an improvement to the external competitiveness of The Gambia. The non-disbursement of donor grants (equivalent to 1.6 percent of GDP) contributed to the decline in gross official reserves to SDR 81.4 million at the end of 2001 (against SDR 86.3 million in 2000), equivalent of about 4.9 months of import cover.

The overall fiscal deficit (excluding grants) increased to 8¾ percent of GDP in 2001 from about 3½ percent in 2000. The deficit including grants, at 7.6 percent of GDP, significantly exceeded the target of about 3 percent, reflecting delayed receipt of donor grants. The government incurred one-off expenditures comprising (a) repayment to commercial banks related to the 1999/2000 groundnut financing; (b) D15 million to rehabilitate the former Alimenta assets in order to facilitate groundnut marketing; and (c) on-lending to a public enterprise to improve the supply of electricity; and (d) election-related outlays. Additionally, there were revenue shortfalls, including in customs revenue (1.3 percent of GDP), reflecting weak performance in tax administration and financial problems of public enterprises, as the latter built sizeable arrears to the government.

Monetary policy was accommodating as domestic credit expansion, both to the government and the private sector, exceeded the targets at end-2001. Through end-2001, net credit to the government increased by 8.3 percent of GDP, which was significantly above the target, while credit to the private sector increased by 12.8 percent. However, broad money growth, which accelerated to about 35 percent in 2000, moderated to 19.4 percent in 2001, reflecting measures to mop up banks' excess reserves. Reserve money, mainly currency outside banks, also exceeded the program target. The treasury bill rate was raised from 12.5 percent in August to 15 percent by October 2001.

Notwithstanding some delays, there was significant progress in implementing structural reforms and arrangements to access technical assistance to strengthen the limited institutional capacity. A number of reforms were implemented to strengthen budgetary performance, including the closing of public accounts for 1991/92-1999, developing an accounting framework to monitor expenditure on poverty reduction, including expenditure funded from the enhanced HIPC Initiative debt relief, developing a framework to facilitate timely reconciliation of treasury cash books with the accounts of central bank, and bringing a number of below-the-line accounts under budgetary control and reporting procedures. Donors provided financial support for public expenditure reviews in key social sectors (agriculture, education, and health) to ensure a better linkage of sector policies to budgetary priorities in the PRSP. In the financial sector, the authorities took further steps to broaden and deepen the money market, with the introduction of longer maturity treasury bills and the book-entry system to facilitate the trading of treasury bills and other securities. As part of the effort to promote attractiveness of The Gambia as a regional entrepôt and financial center, commercial banks were allowed to open foreign currency-denominated deposits for their customers.

Consistent with the PRSP objectives, the National Assembly enacted key legislation to encourage private sector activities, including the Privatization, Regulatory and Procurement Acts. To complement these efforts, Cabinet approved a fast-track privatization program for a number of public enterprises that do not require regulation, including the former Alimenta assets. There were also renewed emphasis on implementing agricultural marketing reforms and providing extension services, improved inputs, and access to credit for farmers with support from donors.

The authorities intensified their efforts to access technical assistance in order to strengthen the implementation of broad-based structural reforms. This was achieved partly through better coordination of donor technical assistance, to which the Fund is contributing through the Technical Assistance Action Plan (TCAP) to strengthen the formulation and implementation of policies. Moreover, in July 2001 the World Bank approved the World Bank's Capacity Building for Economic Management Project to help strengthen key economic institutions.

The full PRSP was submitted to the Fund and the World Bank in May 2002, and the authorities also achieved significant progress in implementing triggers for the enhanced HIPC Initiative Completion Point, especially in key social sectors (education and health). There were efforts to redirect government spending to social sectors (agriculture, education and health), as witnessed by increased capacity at training institutions for agricultural extension specialists, lower basic education teachers, and primary health care technicians. Moreover, the girls' scholarship program, which started in 2001, on a pilot basis in two poor regions, has become a great success in increasing girls' enrolment, especially among the poor households; plans are underway to extend the scholarship to all poor households in the country.

Executive Board Assessment

Directors noted that The Gambia's economic performance during 2001 had been mixed. Positive developments included continued robust real GDP growth, moderate inflation, the preparation of a comprehensive PRSP, and the settlement of the property dispute with Alimenta. Commendable progress was also achieved in implementing the enhanced HIPC Initiative completion point triggers, notably on education and health. However, Directors noted with concern that, partly due to one-off factors, fiscal slippages, which continued through the first quarter of 2002, had undermined earlier progress toward fiscal consolidation. They also noted the widening of the external current account deficit.

Against this backdrop, Directors welcomed the steps taken by the authorities to reverse the recent fiscal slippages, as well as their renewed commitment to press ahead with reforms aimed at achieving a durable improvement in fiscal performance. Building on earlier progress, the 2002/03 program will also deepen broad-based economic and financial sector reforms to strengthen the foundations for private sector confidence and investment, and for poverty reduction. Directors were encouraged that, with donor relations improved, these reforms should benefit from closely coordinated technical assistance, and, in this context, looked forward to the TA program to be presented at the upcoming donors' roundtable meeting. The Fund's Technical

Cooperation Assistance Plan to enhance macroeconomic policy formulation and implementation will be an important contribution in this regard.

Directors urged the authorities to adhere strictly to their plans to strengthen fiscal performance in line with the revised targets of reducing the overall deficit (excluding grants) to 5 percent of GDP in 2002, and to about 2 percent by 2005. On the revenue side, efforts should aim at a sustained improvement in the institutional capacity of the tax administration, including the customs administration. Strict implementation of the measures to eliminate tax and other arrears owed to the government by a number of public enterprises, as well as perseverance with reforms to improve tax efficiency and reduce tax exemptions will also be crucial. Directors welcomed recent steps to contain public spending, and urged the authorities to maintain tight controls over expenditures from below-the-line accounts. Going forward, the authorities should give a high priority to budgetary reforms to enhance transparency and accountability of public expenditure, as this will also be crucial to ensure satisfactory implementation of the poverty reduction strategy and the enhanced HIPC Initiative assistance. In particular, Directors encouraged the authorities to press ahead with the appointment of an Auditor General with substantive responsibilities to audit public accounts on a timely basis, and to collaborate effectively with donors in improving and broadening public expenditure reviews, with a view to developing a medium-term expenditure framework encompassing all major expenditure programs.

Directors supported the Central Bank of The Gambia's continued pursuit of a prudent monetary policy, which aims at maintaining low inflation and strengthening external reserves while providing adequate room for private sector credit growth. They agreed that the emphasis should continue to be on an improved and expanded use of indirect instruments, taking advantage of Fund technical assistance. Directors noted the steps taken to strengthen the management capacity of the Continent Bank, but urged the authorities to act expeditiously to address the Bank's financial problems, including completion of a resolution plan to establish the full cost to the budget of either recapitalization or liquidation of the bank. They looked forward to the enactment of the anti-money laundering bill, and of measures to strengthen the central bank's supervisory functions and enhance its independence.

Directors welcomed the full PRSP, which benefited from a highly participatory process and provides the building blocks for the poverty-reducing policies and reforms incorporated in the PRGF-supported program. They urged the authorities to continue with work to refine sector priorities, further articulate and strengthen the governance component of the PRSP, and improve the macroeconomic and social data that will help assess the impact of adjustment and reform on the poor.

Directors underscored the importance of continued efforts to consolidate and broaden structural reforms, which are key to stimulating private sector activity and accelerating a reduction in poverty. Priorities include improvements in business legislation, establishment of a framework for the regulation of public enterprises, and continuation of the privatization program. They also urged the authorities to make further progress toward a sustainable marketing arrangement for groundnuts with minimal government involvement.

Directors commended the authorities' commitment to a liberal trade and exchange system. They considered that continuation of a flexible exchange rate policy remains appropriate for maintaining the country's external competitiveness in the context of the planned prudent financial policies.

While The Gambia provides data to the Fund that meet the requirements for effective surveillance and program monitoring, Directors welcomed The Gambia's participation in the General Data Dissemination System and encouraged the authorities to continue their efforts to reduce reporting delays and to upgrade the quality of data used for economic analysis.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

The Gambia: Selected Economic and Financial Indicators, 1997-2001 1/

	1997	1998	1999 Est.	2000 Prel.	2001 Prel.	2002 Proj.
	(Annual percentage changes)					
Domestic economy						
Real GDP	4.9	3.5	6.4	5.6	6.0	6.0
Nominal GDP	9.3	6.1	11.0	9.4	10.6	9.3
GDP deflator	2.6	2.5	4.4	3.8	6.4	4.5
Consumer price index (period average)	2.8	1.1	3.8	0.9	4.0	3.0
Groundnut production (in thousand of metric tons)	78.1	73.5	123.0	138.0	141.4	161.0
	(In percent of GDP)					
Gross fixed investment	17.2	18.4	17.8	17.3	17.7	19.4
Government	8.4	5.9	5.3	4.6	4.7	5.7
Private	8.8	12.5	12.5	12.7	13.0	13.7
Gross domestic savings	7.1	7.5	7.9	4.9	4.1	6.7
Gross national savings	13.5	15.3	13.5	12.6	13.7	14.3
Government	8.4	9.3	8.3	7.6	5.5	6.9
Private	5.1	5.3	5.2	5.0	8.2	7.4
	(In percent of GDP unless otherwise specified)					
Financial variables						
Government revenues	19.1	18.8	17.9	18.5	16.2	17.5
Current expenditures	17.6	18.0	18.0	18.3	20.2	17.6
Overall fiscal balance, excluding grants 2/	-7.8	-4.4	-4.8	-3.6	-8.7	-5.0
Overall fiscal balance, including grants 2/	-6.5	-2.4	-3.5	-1.4	-7.6	-2.2
Basic primary balance	4.9	5.6	4.6	4.6	-1.3	3.3
Current balance	0.1	0.7	-0.2	0.2	-4.0	-0.2
Change in broad money (in percent)	22.3	10.2	12.1	34.8	19.4	13.2
	(In millions of SDRs, unless otherwise indicated)					
Exports, f.o.b.	78.8	95.8	87.9	95.8	110.3	119.4
	-	-	-	-	-	
Imports, f.o.b.	127.9	152.7	141.5	145.9	171.9	-176.6
Current account balance						
Excluding official transfers	-31.4	-35.6	-36.4	-38.7	-44.0	-40.6
Including official transfers	-11.0	-9.3	-13.5	-14.9	-20.0	-15.2
Current account balance						
Excluding official transfers 3/	-10.6	-11.6	-11.7	-12.1	-14.8	-13.2
Including official transfers 3/	-3.0	-3.0	-4.4	-4.7	-6.7	-5.0
Overall balance of payments	4.7	7.1	2.3	1.0	-10.3	-13.8

Gross official reserves (end of period)	69.6	75.4	78.1	86.3	81.4	87.7
In months of imports, c.i.f.	5.6	5.1	5.8	6.1	4.9	5.1
External debt service 4/	13.5	11.4	11.4	8.5	16.0	11.9
External debt outstanding	107.5	97.5	101.6	110.0	126.9	130.7
Exchange rate (dalasis per SDR)	13.9	14.4	15.9	16.9	20.7	...

Sources: The Gambian authorities; and IMF staff estimates and projections.

1/ Until 1996/97, fiscal years (July-June); from 1997, calendar years.
2/ On a commitment basis.
3/ In percent of GDP.
4/ In percent of exports and travel income.

INTERNATIONAL MONETARY FUND

NEWS BRIEF

FOR IMMEDIATE RELEASE

News Brief No. 02/74
FOR IMMEDIATE RELEASE
July 23, 2002

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Gives Final Approval of a Three-Year, US$27 Million PRGF Arrangement for The Gambia

The Executive Board of the International Monetary Fund (IMF) has given its final approval of a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for SDR 20.22 million (about US$27 million) for The Gambia.

The final decision of the IMF Executive Board was contingent on a decision by the Executive Board of the World Bank on July 18, 2002. That decision concluded that Gambia's Poverty Reduction and Strategy Paper (PRSP) provides a sound basis for concessional assistance by the World Bank.

The final approval of the arrangement makes the first disbursement of SDR 2.89 million (about US$4 million) available for The Gambia under the PRGF arrangement (See Press Release No. 02/32).

Press Release No. 02/32
FOR IMMEDIATE RELEASE
July 10, 2002

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves In Principle a Three-Year, US$27 Million PRGF Arrangement for The Gambia

The Executive Board of the International Monetary Fund (IMF) today approved in principle a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for SDR 20.22 million (about US$27 million) for The Gambia. The IMF's Board's decision will become effective after the World Bank Executive Board's review of The Gambia's Poverty Reduction Strategy Paper (PRSP), scheduled for July 16, 2002. Upon effectiveness of the IMF's Board decision, The Gambia will be able to draw SDR 2.89 million (about US$3.8 million) under the arrangement.

The PRGF is the IMF's concessional facility for low income countries. It is intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a PRSP. This is to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

After the Executive Board's discussion on the Gambia, Eduardo Aninat, Deputy Managing Director and Acting Chairman, stated:

"The Gambian authorities have achieved a broadly encouraging economic performance under their previous PRGF arrangement, including sustained real GDP and per capita income growth, and low inflation. Notable achievements include the reforms in the financial sector, the substantial reduction and rationalization of external tariffs, the settlement of the property dispute with Alimenta, and the preparation of a comprehensive PRSP. However, fiscal slippages in 2001 and continuing through the first quarter of 2002 have partly undermined these positive achievements.

"The Fund therefore welcomes the authorities' renewed commitment to strengthen fiscal performance. The new PRGF-supported program aims at improved fiscal discipline, further progress in ensuring good governance, and the continued implementation of broad-based economic and financial reforms which are key to promoting private sector activity and reducing poverty. Better coordination of donor aid, including a comprehensive technical assistance program which will be presented to a donor conference, will help support the implementation of the PRSP. The Fund contributes to this effort, and the staff has prepared a Technical Cooperation Action Plan to improve macroeconomic policy formulation and implementation.

"The revised budget for 2002 provides for an appropriate strengthening of fiscal performance to reduce the fiscal deficit and the stock of domestic debt in line with the medium-term framework. To achieve the program's fiscal objectives, the authorities will press ahead with reforms to further strengthen revenue, including by improving tax administration; maintain strict expenditure controls, especially on the below-the-line accounts; and slow down the pace of implementation of certain projects. Broader budgetary reforms aimed at enhancing the transparency and accountability of public expenditure will also be crucial to support the emphasis on key social sector priorities, in line with the PRSP and HIPC Initiative objectives.

"The pursuit of a prudent monetary policy, while providing adequate private sector credit growth, will remain key to containing emerging inflationary pressures. The authorities should also act expeditiously in addressing the Continent Bank's financial problems, including finalizing a resolution plan for the distressed bank.

"Implementation of structural reforms, including measures to improve business legislation, continuation of the privatization program, and the creation of a sustainable marketing arrangement for groundnuts with minimal government involvement, will be essential to strengthen the foundations for private sector activity and accelerating poverty reduction," Mr. Aninat said.

ANNEX

Recent Economic Developments

Under the 1998-2001 PRGF arrangement supported by the IMF, The Gambia overall registered significant gains on the macroeconomic and structural policy fronts, although performance was somewhat uneven, especially towards the latter part of the program period. A recovery in real GDP growth, led by improved agricultural performance, including in the key groundnut sector, helped reduce inflation. There was considerable fiscal and external sector adjustment, and exports and imports recovered significantly.

Economic performance during 2001 was mixed. Real GDP grew by 6 percent, underpinned by the strong performance of the agriculture, tourism, and construction sectors. Average annual inflation edged up to 4 ½ percent, driven by higher imported inflation and expansionary fiscal policies. In the fiscal area, the budget deficit before grants widened to 8 ¾ percent of GDP in 2001, compared with the revised program target of 5.9 percent. Including grants, the deficit increased to 7.6 percent of GDP from 3 percent in 2000. In addition, revenue shortfalls, including in customs revenue, reflected weak tax administration and the financial problems of public enterprises. Overall, domestic revenue declined to 16.2 percent of GDP in 2001 from 18.2 percent in 2000.

To ensure that there is no recurrence of the recent slippages, the authorities have slowed project execution and maintained tighter expenditure controls. On the revenue side, there was a significantly enhanced revenue performance in the first quarter of 2002.

Program Summary

The PRGF arrangement is underpinned by macroeconomic adjustments, including fiscal measures and reforms to strengthen the financial sector that will help the poor.

Real GDP growth is projected at 6 percent for 2002. This outcome is supported by the expected privatization, and reforms in groundnut marketing; the continued recovery in the re-export and fishing sectors, and improved confidence.

After a surge from end-2001 through early 2002, annual average inflation is expected to stabilize at 5 ½ percent, following measures to tighten financial policies.

Fiscal policy aims at reducing the overall budget deficit to 5 percent of GDP, compared with the 4 percent in the original budget. This revised budget target is based on an expected recovery in revenue, the nonrecurrence of previous exceptional outlays in 2001, and measures to tighten expenditure controls. The revised budget reflects an emphasis on increased expenditure allocations for key sectoral priorities such as agriculture, health, and education.

The key objectives of monetary policy during 2002 are to maintain low inflation and strengthen external reserves. The monetary program for 2002 targets a reduction in end-period inflation to

3 ¾ percent and the maintenance of adequate gross official external reserves. In this context, the government will maintain a tight monetary policy, while providing adequate credit to the private sector, and continuing to promote exchange rate flexibility.
On the structural front, areas covered include the modernization of business-related legislation, the regulation and public procurement, the competition policy, and public enterprises divestiture.

The PRSP Process

The main objectives of The Gambia's PRSP are to promote growth and employment, enhance the provision of social services and mainstream cross-cutting policies for gender issues and the HIV/AIDS problem, as well as to improve the economic environment in order to accelerate poverty reduction.

The PRSP provides a clear set of indicators and targets for monitoring and evaluating the implementation of the strategy in the health and education sectors in an innovative approach. It proposes to integrate conventional quantitative approaches to monitoring with participative methods, involve civil society groups in the budget process to increase transparency, and include indicators on the new area of social capital along side the more traditional indicators of physical and human capital.

The Gambia joined the Fund on September 21, 1967. Its quota is SDR 31 million (about US$41 million), and its outstanding use of IMF resources as of April 30, 2002 is SDR 20.61 million (about US$27 million).

The Gambia: Selected Economic and Financial Indicators, 1997-2001 1/

	1997	1998	1999 Est.	2000 Prel.	2001 Prel.	2002 Proj.
	(Annual percentage changes)					
Domestic economy						
Real GDP	4.9	3.5	6.4	5.6	6.0	6.0
Nominal GDP	9.3	6.1	11.0	9.4	10.6	9.3
GDP deflator	2.6	2.5	4.4	3.8	6.4	4.5
Consumer price index (period average)	2.8	1.1	3.8	0.9	4.0	3.0
Groundnut production (in thousand of metric tons)	78.1	73.5	123.0	138.0	141.4	161.0
	(In percent of GDP)					
Gross fixed investment	17.2	18.4	17.8	17.3	17.7	19.4
Government	8.4	5.9	5.3	4.6	4.7	5.7
Private	8.8	12.5	12.5	12.7	13.0	13.7
Gross domestic savings	7.1	7.5	7.9	4.9	4.1	6.7
Gross national savings	13.5	15.3	13.5	12.6	13.7	14.3
Government	8.4	9.3	8.3	7.6	5.5	6.9
Private	5.1	5.3	5.2	5.0	8.2	7.4
	(In percent of GDP unless otherwise specified)					
Financial variables						
Government revenues	19.1	18.8	17.9	18.5	16.2	17.5
Current expenditures	17.6	18.0	18.0	18.3	20.2	17.6
Overall fiscal balance, excluding grants 2/	-7.8	-4.4	-4.8	-3.6	-8.7	-5.0
Overall fiscal balance, including grants 2/	-6.5	-2.4	-3.5	-1.4	-7.6	-2.2
Basic primary balance	4.9	5.6	4.6	4.6	-1.3	3.3
Current balance	0.1	0.7	-0.2	0.2	-4.0	-0.2
Change in broad money (in percent)	22.3	10.2	12.1	34.8	19.4	13.2
	(In millions of SDRs, unless otherwise indicated)					
Exports, f.o.b.	78.8	95.8	87.9	95.8	110.3	119.4
Imports, f.o.b.	-127.9	-152.7	-141.5	-145.9	-171.9	-176.6
Current account balance						
Excluding official transfers	-31.4	-35.6	-36.4	-38.7	-44.0	-40.6
Including official transfers	-11.0	-9.3	-13.5	-14.9	-20.0	-15.2
Current account balance						
Excluding official transfers 3/	-10.6	-11.6	-11.7	-12.1	-14.8	-13.2
Including official transfers 3/	-3.0	-3.0	-4.4	-4.7	-6.7	-5.0
Overall balance of payments	4.7	7.1	2.3	1.0	-10.3	-13.8

Gross official reserves (end of period)	69.6	75.4	78.1	86.3	81.4	87.7
In months of imports, c.i.f.	5.6	5.1	5.8	6.1	4.9	5.1
External debt service 4/	13.5	11.4	11.4	8.5	16.0	11.9
External debt outstanding	107.5	97.5	101.6	110.0	126.9	130.7
Exchange rate (dalasis per SDR)	13.9	14.4	15.9	16.9	20.7	...

Sources: The Gambian authorities; and IMF staff estimates and projections.

1/ Until 1996/97, fiscal years (July-June); from 1997, calendar years.
2/ On a commitment basis.
3/ In percent of GDP.
4/ In percent of exports and travel income.

Statement by the IMF Staff Representative
July 10, 2002

Information that has become available since the staff report (Country Report No.04/42) was issued provides evidence of improving economic conditions, which do not affect the thrust of the staff appraisal.

Adequate rains have been reported so far and the authorities are guardedly optimistic about a good year for agriculture. Groundnut production is expected to benefit from increased acreage and better inputs while marketing will be enhanced with an expected new entry of new traders and the rehabilitation of a processing plant and 21 barges that transport groundnuts. Acreage for food crops has increased and better inputs, especially the introduction of high yielding rice varieties, augur well for increased production.

Tourist arrivals so far in 2002 have benefited from political calm and increased charter flights, including for the summer season. Completion of major renovations at the leading hotels will also contribute to at least a 15 percent increase over 2001.

Annual **Inflation** through April 2002 was about 5.6 percent, having moderated from 8 percent at the end-2001, as prices for mostly imported food items have continued to increase albeit at a slower pace in line with moderating pressure on the fiscal and external sectors; the dalasi has depreciated in nominal terms by less than 1 percent against the U.S. dollar since the elections in late April.

Preliminary **fiscal** data for April-May show that expenditure growth has moderated significantly especially on projects and now overall expenditure and net lending appears within range of the end-June program target. On the revenue side, the good performance in the first quarter appear to have slowed, as tax on international trade were adversely affected by the border problems that hindered the reexport trade during the period. At end of May, a Joint High Commission held meetings in Dakar, Senegal to resolve the issues in this area and revenues are expected to recover.

Annual **broad money** growth stood at 22¾ percent at end-April, slightly down from the 25 percent recorded at end-March, reflecting the decline in credit to the government while growth in credit to the private sector continued to be robust. Increased coordination between open market operations and foreign exchange market intervention has improved liquidity management in the banking system. As a result, the stock of treasury bills, sold to mop up excess liquidity, has started to moderate significantly; the outstanding stock of treasury bills at end-May was D 1883 million compared with D 1919 million at end-2001.

Relations with the Paris Club: A Paris Club creditor has reported long-standing technical arrears of about US$7 million, on which it has agreed that no payments need to be made. The Paris Club has indicated creditors' willingness to provide a rescheduling on Cologne terms to regularize the arrears and provide interim HIPC relief to The Gambia. The resulting cash payments are similar to what was assumed under the program, and thus there is no effect on the residual financing gap.

In late June 2002, The Gambia and the European Commission signed the release of € 3.7 million, which should be disbursed shortly and is expected to be used to reduce government domestic debt. A Financing Agreement was signed concurrently in the amount € 4.255 million, including a 15 percent enhanced HIPC Initiative eligibility augmentation. Thus, the residual financing gap in the PRGF program for 2002 should be covered.

On **technical assistance** issues, a June 2002 joint Bank/Fund tax mission agreed a work agenda for 2002/03 for the tax revenue departments, including setting up a revenue project management unit and headquarters office to oversee the reforms pending establishment of an Independent Tax Revenue Authority. Proposed measures include setting up a large tax payer unit, self tax assessment, computerization, setting up a taxpayer identification number system, and better implementation and eventual upgrading of the automated system for customs data. The detailed reform package will be incorporated into the PRGF program during the September 2002 program review mission. Meanwhile, the Fund will send an expert to Banjul in late summer to help with the drafting of a new Income Tax Bill. Separately, the authorities have requested the Fund to provide a follow up mission to the central bank (planned for late July 2002) to initiate a work on a comprehensive program under the Technical Cooperative Action Plan.