

The Gambia: Ex Post Assessment of Longer-Term Program Engagement

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THE GAMBIA

Ex Post Assessment of Longer-Term Program Engagement

Prepared by a staff team from the African, Fiscal Affairs, and
Policy Development and Review Departments¹

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Policy Development and Review Department

June 28, 2005

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I. INTRODUCTION

1. **In the late 1980s and early 1990s, The Gambia made considerable progress in reducing financial imbalances, liberalizing the economy and establishing the basis for sustainable economic growth and balance of payments, with Fund support and donor assistance.** The country was considered a relative success case and was one of few African countries which graduated from Fund financial support in the early 1990s.

2. **The economy suffered a series of adverse external and internal shocks culminating in the suspension of most external financial and technical assistance, and travel advisories that sharply reduced tourist arrivals, after the military change of government in July 1994.** The production of groundnuts, the principal agricultural export commodity, was adversely impacted by changes in the traditional marketing structure. An expansionary fiscal stance led to large budget deficits (excluding grants) averaging about 10 percent in 1994–96, and to high real interest rates and crowding out of private investment. Re-export trade was disrupted by currency and exchange reforms in neighboring CFA zone countries, which also tightened their border controls. The external shocks and the inadequate policy responses led to low growth and weakened external accounts. Following the transition to an elected government in 1997, the government normalized its relations with donors, began to take corrective actions, and sought Fund support under the Enhanced Structural Adjustment Facility (ESAF).

3. **Since 1998, The Gambia has had two successive arrangements under the ESAF and Poverty Reduction and Growth Facility (PRGF).** A three-year arrangement under the ESAF approved in 1998 was converted in 2000 to an arrangement under the PRGF; a second arrangement under the PRGF was approved by the Executive Board in July 2002. Although the two successive arrangements place The Gambia among countries with longer-term Fund engagement, there has been only one drawing under the second PRGF arrangement, as the first review has not been completed and the program has been off track since 2002. In addition, the program has been marred by misreporting of performance criteria data and noncomplying disbursements in 2001, which were repaid in 2004. Since 1998, The Gambia has received modest disbursements (excluding the noncomplying disbursements) of SDR 16.6 million; outstanding Fund credit as of end-March 2005 was 50.2 percent of quota.

The Gambia: History of Lending Arrangements Since 1986				
Facility	Approval date of Arrangement	Date of Expiration or Cancellation	Amount Agreed (SDR million)	Amount Drawn (SDR million)
Stand-by	9/17/1986	10/16/1987	5.13	5.13
SAF	9/17/1986	11/22/1988	10.86	8.55
ESAF	11/23/1988	11/25/1991	20.52	20.52
ESAF/PRGF	6/29/1998	12/31/2001	20.61	20.61
<i>o/w: noncomplying disbursements</i>				(6.87)
PRGF	7/18/2002	7/17/2005	20.22	2.89

4. **The Gambia's ex post assessment of performance under Fund supported programs will focus principally on developments since 1998, and the challenges facing the country in the medium term.** The ex post assessment report was discussed with the authorities in early May 2005, at the time of the Article IV Consultation discussions.

II. PERFORMANCE UNDER THE ESAF AND PRGF ARRANGEMENTS, 1998-2004

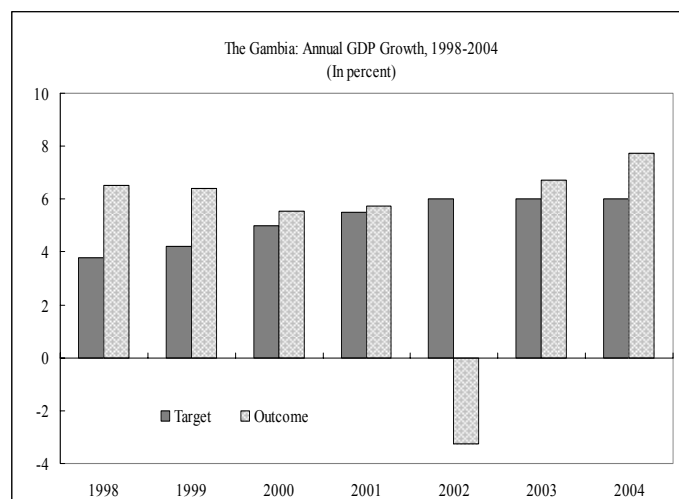
5. **The Fund-supported programs sought to achieve and maintain macroeconomic stability and to implement structural reforms necessary for attaining high sustainable economic growth and a significant reduction in poverty.** The key macroeconomic objectives under the ESAF/PRGF arrangement and the second PRGF arrangement were to attain real economic growth of 5-6 percent annually, inflation of below 4 percent per year, and sustainable external accounts including gross external reserves of 5-6 months of imports. These objectives were to be achieved through improved conduct of macroeconomic policies, especially consolidation of government finances and sound monetary policies, and implementation of structural reforms to encourage private sector investment and economic diversification. Other objectives of the reform program included the strengthening of governance through improved legal and institutional frameworks, and the implementation of a comprehensive social agenda. After the adoption of an interim Poverty Reduction Strategy Paper (I-PRSP) in 2000 and the full PRSP in 2002, the objectives of the reform program were expanded to explicitly include achieving debt sustainability and making progress towards the Millennium Development Goals (MDGs).

A. Macroeconomic Policies and Performance

Areas of progress

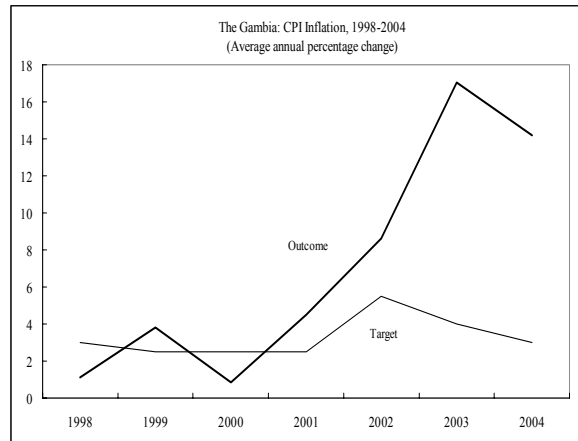
6. **Under the ESAF/PRGF arrangement of 1998–2001, The Gambia made initial progress towards improved economic growth and stabilization.** Real economic growth averaged 6 percent during the four years and annual inflation averaged 2.6 percent per year. The favorable outcome reflected the performance of the agricultural sector, which grew at an annual average of about 10 percent, attributable to favorable weather and improved services to the groundnuts sector. The initial gains in growth continued, except in 2002

when the impact of adverse weather on agriculture led to a 3 percent decline in real GDP. Largely reflecting a succession of good harvests, economic growth recovered to about 6 percent annual average in 2003–04. But the initial gains from stabilization were reversed by higher fiscal deficits and large monetary expansion in the later years that led to inflation



of 17 percent in 2003, the highest level in nearly two decades, and to a sharp depreciation of the local currency (dalasi) vis-à-vis the U.S. dollar.

7. **The average growth rate achieved by The Gambia in the decade through 2004 was higher than realized by sub-Saharan Africa (SSA),** but lower than rates attained by African countries that implemented strong reforms and reached the HIPC completion point by end-2004.² Over the decade, the average rate of inflation in The Gambia was lower than that recorded by SSA and by the African “HIPC completion-point countries”, despite the sharp rise in inflation in The Gambia since 2002. Also, considerable volatility notwithstanding, the country performed better in both the growth and inflation indicators in the decade through 2004, in comparison with its performance in 1985-94 (Table 1).



8. **The authorities made some progress in implementing financial sector reforms.**³ A number of reforms were implemented under the programs since 1998, in order to establish a sound and more efficient financial system. The Trust Bank, an insolvent institution, was sold to private investors, and additional banks were licensed to enhance competition. The regulatory framework and bank supervision were strengthened through the passage and effective implementation of the Financial Institutions Act, which resulted in a sharp reduction in nonperforming loans, and adherence to statutory requirements for capital adequacy and liquidity. The banks were allowed to open foreign currency deposits, and the administered floor on deposit rates was eliminated. Improvements were made in the functioning of the government securities market, and in the interbank money and foreign exchange markets. Separate insurance and money laundering Acts were enacted in 2003, and a revision of the Central Bank Act was initiated in 2001.

9. **During the PRGF/ESAF arrangement, 1998-2001, and the first year under the second PRGF arrangement, the external current account deficits, including official transfers, remained below the program projections.** Although significant weaknesses in the balance of payments data raise questions about coverage, the outturn for current account

² Includes eleven countries in Africa that have reached the HIPC completion point, namely: Benin, Burkina Faso, Ethiopia, Ghana, Madagascar, Mali, Mozambique, Niger, Senegal, Tanzania and Uganda.

³ The Gambia broadly liberalized the operations of the financial sector before the start of the ESAF/PRGF arrangement, and the sector is dominated by several international banks.

deficits, including official transfers, averaged 2.7 percent over the five years through 2002. Also, during most of the period under the ESAF/PRGF arrangement, The Gambia accumulated gross international reserves, which were 6-7 months of import cover and above the program targets except for 2001 (Table 3). The improvements in the external accounts were achieved at a time when The Gambia received modest external grants (excluding technical assistance).

10. The Gambia has maintained a liberal trade and payments system under the last two arrangements. The government continued to maintain an open trade regime in the last few years, when expansionary financial policies weakened the external accounts and contributed to a sharp depreciation of the dalasi. Other reforms in the external sector focused on improving the competitiveness of exports. In the first two years under the ESAF/PRGF arrangement, the authorities implemented significant reductions and simplification of external tariffs. The maximum rate was reduced from 98 percent to 18 percent and the number of tariff bands from 30 to 6. Steps were taken to benefit from international trade, particularly re-export trade, and to promote transit shipments through the Banjul port.

Areas of weak performance

11. Progress since 1998 has been slow in securing a marked reduction in poverty, particularly in rural areas. The incidence of extreme poverty remains high. The most recent data, which are from the 1998 household budget survey, indicate that the poverty rate based on US \$1 per day income level was at 59 percent. The data from the 2003 household budget survey are not yet available. A recent study by the World Bank indicates that The Gambia's progress towards achieving the MDGs has been slow and uneven in recent years. While some progress was made in health and education, including net primary school enrolment and the ratio of girls to boys in primary and secondary education, the country will not meet key targets set for reducing extreme poverty, child mortality reduction, and combating major diseases (Table 2). In view of the estimated population growth rates of 3 percent per annum, per capita GDP has risen by 1–2 percent per year since 1998.

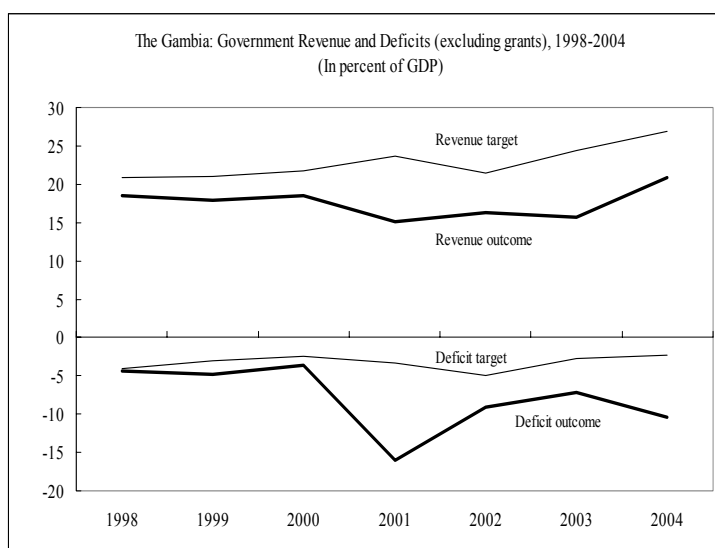
12. An improvement in the public finances in the initial years under the ESAF/PRGF arrangement was reversed in 2001, and the public accounts weakened considerably under the 2002 PRGF arrangement, leading to the program going off track and the first review not being concluded. The overall deficit, excluding grants, improved slightly between 1998 and 2000, owing largely to lower-than-programmed capital expenditure. However, there was a sharp reversal in 2001 as the overall deficit rose to 16 percent of GDP, before declining to an annual average of 8.8 percent of GDP in 2002–04. The considerable deterioration (the deficit was nearly 5 times the target in 2001) was driven by unbudgeted expenditure, equivalent to 6.8 percent of GDP. The poor fiscal performance also reflected significant revenue shortfalls in 2001—tax revenue declined by 3.2 percent of GDP—and higher than expected wages, interest payments, and transfers. The unfavorable fiscal stance led to large government borrowing from the Central Bank of The Gambia (CBG) and a sharp rise in domestic debt.

13. Major risks to the program have pertained notably to problems related to the lack of transparency and accountability, difficulties in containing government expenditure, as well as the strain on limited economic management capacities.

Measurable improvements were not implemented to mitigate such risks at the start of the program, as the last audited financial accounts of the government still date back to 1991 and no budget accounts have been closed since 1999. Public expenditure planning and execution continued to be impeded by failure to close the fiscal accounts beyond 1999 and the lack of progress in finalizing the accounts for auditing. A joint assessment by Fund and Bank staffs in June 2004 concluded that, in terms of the Public Expenditure Management (PEM) system's ability to track poverty-reducing public spending, The Gambia meets only 3 of 16 performance benchmarks.⁴ Moreover, the study concluded that the country performed slightly better in a similar assessment in 2001, indicating a retrogression in public expenditure management.

14. Progress in securing fiscal consolidation was undermined by shortfalls in targeted revenue.

Total revenue was programmed to rise from 20.9 percent of GDP in 1998 to 22.5 percent in 2001. However, after remaining largely unchanged at about 18 percent of GDP through 2000, total revenue dropped to 15 percent in 2001. Significant problems in tax and customs administration contributed to substantially lower-than-expected tax performance. A reduction in average import duties did not lead to an improvement in compliance, as weaknesses in customs administration persisted.

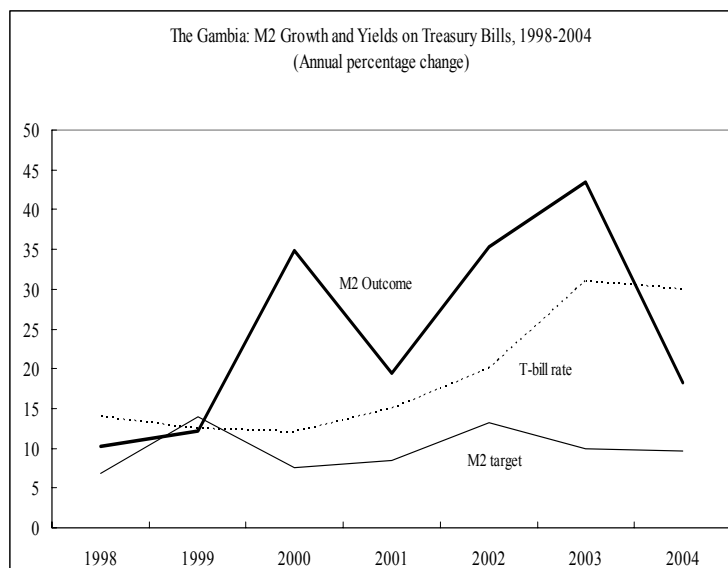


15. The limited fiscal consolidation during the initial years of the arrangement gave way to substantial deterioration after 2001 (Table 3). Recurrent expenditure outlays exceeded program targets in each year of the arrangements, as weaknesses in budget formulation and expenditure management, in particular below-the-line accounts and unbudgeted outlays, undermined the achievement of key macroeconomic and social targets set in the country's poverty reduction strategy. The government implemented a cash budgeting system to contain expenditure commitments toward the end of 2002; but the annual budget deficit, excluding grants, remained high at about 7-10 percent of GDP in the

⁴ The second Assessment and Action Plan (AAP) based on 16 indicators of the adequacy of budget formulation, execution and reporting

last three years. External grants and concessional loans were much lower than envisaged under the arrangements, owing to donors' misgivings about problems with expenditure management. Large fiscal deficits financed by growing domestic debt crowded out priority expenditures in the social sectors and in capital spending. With net foreign financing fluctuating between -0.8 percent of GDP in 2000 and 2 percent of GDP in 2002, the bulk of fiscal financing has been through the issuance of domestic debt, in the form of treasury bills.

16. Broad money growth averaged 11 percent in 1998–99, at somewhat higher than programmed levels, but rose to 33 percent in 2000–03, causing a resurgence of inflationary pressure. The principal factors that led to the growth in broad money were the central bank lending to government, and monetized losses incurred by the central bank. The large government recourse to bank financing led to a sharp increase in domestic public debt and



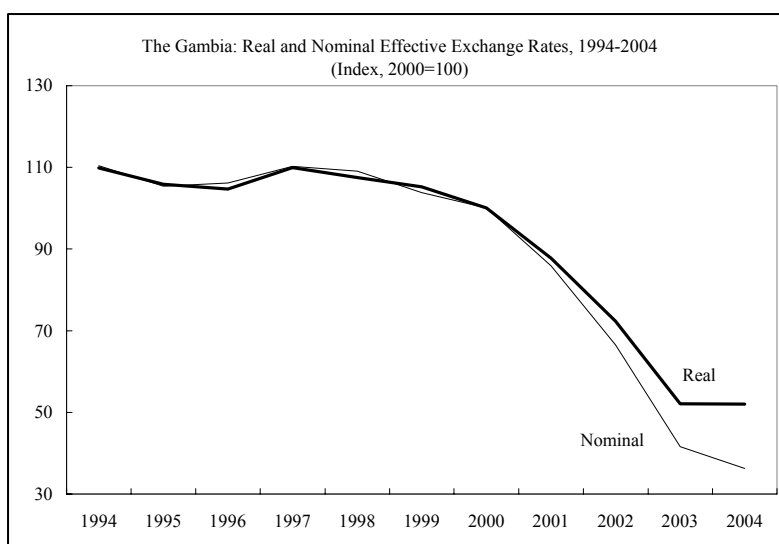
fueled inflationary pressure. The details of the central bank losses and the specifics of the transactions that contributed to the losses are under review through an audit by an international firm. Institutional weaknesses are manifested by the fact that the current Central Bank Act does not clearly spell out the permissible investments and transactions of the central bank, and it does not provide protection from government interference in the operations of the CBG, which permits the removal of the Governor or appointed Board members without investigation or due process. Other provisions of the Act enable the Minister of Finance to override central bank policy, with no limits for the override authority. Under the proposed new Act of the central bank, the limits on its total claims against the government, which were exceeded at times in recent years, would be set at a maximum of 10 percent of the tax revenue of the previous fiscal year.

17. The development of financial markets and access to credit remain weak. Credit to private sector was at about 13.8 percent of GDP and broad money to GDP ratio at 27.4 percent in 2001–02; both indicate low financial sector development. There is a need to improve access to bank credit for the potential growth sectors in the economy. The perceived credit access difficulties led to unsuccessful and costly efforts by government to directly intervene in provision of credit to agriculture (groundnuts production and marketing). Also, access to credit by small- and medium-sized enterprises in the industrial and services sectors has been problematic. Bank lending is concentrated on distributive trade and personal loans, which accounted for 57 percent of outstanding bank loans at end-2002, while the banks

invested in liquid assets for the most part and maintained spreads between lending and deposit rates of 12-14 percentage points in 2000–04.

18. **The external current account deficit (including official transfers) deteriorated substantially after 2002 when the second PRGF arrangement went off track, and more than doubled by 2004 with respect to its 2001 level, and the stock of external debt as a proportion of GDP rose.** In view of substantial trade deficits reflecting the narrow export base and impact of expansionary financial policies on imports, the external current account, excluding official transfers, rose to an average of 16.2 percent of GDP in 2002-04, from about an average of 10.4 percent in the preceding four years. While the deficits were financed partly through official transfers and modest private inflows, the external debt rose from 130 percent of GDP in 2002 to 145 percent in 2003. Compared to the HIPC decision point assessment, the projections for export receipts and GDP growth were significantly lower. The ratio of external debt service payments to exports and travel income is estimated at 15.9 percent in 2004, against 5 percent projected at the time of the decision point.⁵

19. **The exchange rate regime in The Gambia is officially characterized as a free float, but the CBG has made frequent interventions in foreign exchange markets to influence the exchange rate.** In the three years to 2003, as the dalasi depreciated by 58 percent in real effective terms, CBG intervention was frequent and substantial in an effort to slow down the



depreciation of the dalasi. As these interventions were costly and contributed to considerable foreign exchange losses for CBG, there has been an apparent shift to target an improvement in external reserves since the beginning of 2004.

B. Structural Reforms

20. **Economic governance problems persisted in The Gambia throughout the period under review, as illustrated by pervasive lack of financial accountability and transparency in the fiscal accounts;** constant difficulties in raising domestic revenue owing

⁵ The Gambia reached the decision point under the HIPC Initiative in December 2000, and received interim debt relief from multilateral creditors.

to weaknesses in tax and customs administration, including ad hoc exemptions; and inadequate internal controls and audits of the central bank. These governance problems and administrative interventions undermined investors' confidence and impeded development of private sector economic activities. Adverse actions in this area also eroded the confidence of donors, which ceased to provide budget support to the country. The erosion of economic governance was a principal factor in limiting the success achieved under the arrangements, and in the interruption of Fund support under the PRGF arrangement (Box 1).

Box 1. Economic Governance in The Gambia

- Fiscal transparency and accountability have been limited in the period under review. Failure to maintain comprehensive government accounts, to produce timely fiscal reports or audited accounts to the legislature has undermined public scrutiny and has facilitated considerable extra-budgetary expenditure. Audited accounts have not been presented to the National Assembly since 1990, the government accounts have not been finalized since 1999 and there is no reliable in-year fiscal reporting.
- In January 1999, the government seized the property of The Gambian Groundnut Corporation (GGC)—a private company that had a monopoly on the processing and exporting of groundnuts—without compensation. Alimenta, GGC's parent company, submitted the case for arbitration in July 1999. The dispute was settled out-of-court after the government paid compensation of US\$11.4 million to the company. The EU provided grant aid of about US\$7 million to help settle the case.
- Poor governance of the central bank during 2001-2003 and significant deficiencies in internal audit function led to payments to private foreign exchange bureaus for purchases of undelivered foreign exchange; the equivalent of US\$11 million was still outstanding as of end-June 2003. Central bank lending to government of US\$28.5 million from the foreign exchange reserves was not reflected in the government or central bank accounts and led to misreporting to the IMF and noncomplying disbursements, in 2001, that were repaid in 2004.
- A pre-shipment inspection regime was introduced in 1998 and then abolished in 2000 after a precipitous decline in reexports. The regime for exemptions and concessions was largely discretionary, the arrangements were not fully disclosed and the fiscal costs were not quantified.
- Noncompetitive awarding of government contracts has been a problem. The Gambia Public Procurement Agency (GPPA) was created with the responsibility for implementing new legal framework and reviewing all large contracts.

21. **Limited progress was made towards achieving the desired diversification of the economy**, as little emphasis was given to promoting diversification of agriculture and export commodities. Priorities set to foster the production and marketing of high-value products (vegetables, fruits and fish) for the tourist and export markets, and cereals for domestic food security were not realized. The contribution of industry to real GDP remained stagnant and efforts were not successful in fostering private investment in export-oriented industries including free zones at the port and airport of Banjul. There was a significant recovery of the

tourism sector from its low levels in the mid 1990s, but the number of arrivals in 2004 and earnings from the sector were not much higher than attained in 1994.

22. **Efforts to rehabilitate the groundnut sector with donor assistance were constrained by a government takeover in 1999 of the assets of The Gambia Groundnut Corporation (GGC),** a foreign-owned processing and marketing company; the seizure of the assets of the company adversely impacted on private investors' confidence and on relations with some traditional donors. The government's direct involvement in the provision of critical inputs and marketing dampened the prospects for growth in the groundnut sector, which contributes substantially to employment and export earnings. The groundnut sector was also confronted with other serious difficulties, as nonrepayment of bank loans by The Gambia Cooperative Union (GCU) led to inadequate provision of seeds and fertilizer.

23. **Private sector development generally has been weak, and privatization has stalled since 1998.** A central focus of the structural reform agenda was to promote private sector investment and economic activity. In 1998-2002, the business legal framework was upgraded, a competition policy drafted, the operations of the commercial branch of the High Court were expanded by additional branches and judges and a public procurement Act was approved. Privatization focused on the offer for sale of a few enterprises (the Trust Bank, The GGC, and several hotels), and the operations of key public utilities were to be commercialized—the National Water and Electricity Company, the Public Transport Corporation, the Telecommunications Company, and the Airport and Ports Authorities.⁶ Progress under the divestiture and commercialization program has been slow and the targets were often missed. Delays in addressing the inefficiencies in public utilities and in completing the sale of the assets of GGC constrained performance in key sectors, and impacted adversely on private investment, domestic and foreign.

24. **Public service was weakened further as the planned reforms were not implemented.** Despite evident deficiencies in the performance of the public service and a government declaration to strengthen the public service by streamlining and improving incentives of essential managers, much needed comprehensive public service reforms were not implemented. The success of public management reforms requires adequately skilled personnel with incentives for good performance. Quantitative ceilings were maintained under the program on public sector wages between 1998-2002, although the ceilings were frequently exceeded. In the absence of reforms to strengthen the civil service and to offer adequate incentives to essential employees, low wages and salaries continued to undermine administrative capacity and constrain recruitment of skilled employees.

25. **During the period under review, Fund technical assistance was provided in the following core areas:** (i) public expenditure management; (ii) tax administration; (iii) monetary and foreign exchange operations and central bank reorganization; (iv) national

⁶ The Gambia significantly reduced the number of public enterprises before 1998.

accounts statistics; and (v) financial sector supervision. Any successes achieved as a result of the technical assistance has not been sustained, and major shortcomings remain with respect to public expenditure management and the timeliness, quality, and publication of macroeconomic statistics—especially with respect to national accounts, government finance statistics, and balance of payments.

C. Compliance with Program Conditionality

26. **The record of compliance with program conditionality under the ESAF/PRGF arrangement, 1998-2001, was mixed, and significant implementation problems were encountered.** The resources committed under the arrangement were fully disbursed and all reviews under the program were completed, except the mid-year review in 1999.⁷ However, the reviews were often accompanied by requests for waivers on nonobservance of performance criteria. Based on revised data since 2001, it is evident that weaknesses in the management of the accounts of the public sector and the central bank led to frequent non observance of performance criteria set on net bank credit to government, and net domestic assets of the central bank. Also, targets on fiscal performance, such as on revenue and limits on public sector wages, and on the level of net foreign assets of the central bank were often not met. Quantitative performance criteria on external payments arrears and external debt were generally observed (Table 6).

27. **Implementation difficulties became more acute under the PRGF arrangement approved in 2002.** As a result of severe policy slippages and the economic consequences of lack of accountability in public expenditure management, the first review under the arrangement has yet to be completed and only one disbursement was made. Fund relations with the authorities were further strained by the discovery in 2003 of unrecorded public expenditure in fiscal year 2001 financed by loans from the central bank, as well as illicit foreign exchange transactions by officials of the central bank. These transactions led to evidence of misreporting relating to performance criteria of end-March and end-September 2001, and to noncomplying disbursements that were repaid in 2004 (Box 2).

28. **Performance was mixed under structural conditions in the ESAF/PRGF and the second PRGF arrangements.** Generally prior actions were met on a timely basis but a number of performance criteria were missed or met with delays that necessitated requests for waivers. Moreover, implementation of benchmarks was problematic, as about 2/3 of the total was met on time under the ESAF/PRGF arrangement, and 40 percent under the first year of the second PRGF arrangement. Structural conditionality under The Gambia programs was streamlined in line with Fund guidelines on conditionality. The number of structural

⁷ The amounts not disbursed during the first year of the 1998-1999 ESAF arrangement due to the non-completion of the mid-year review were re-phased into the second annual arrangement in 1999-2000.

Box 2. The Gambia: Noncomplying Disbursements and Corrective Actions

- In October 2003, the government acknowledged misreporting to the Fund of data with respect to performance criteria under the 1998-2001 PRGF arrangement.
- The misreporting relates to the nonobservance of the end-March and end-September 2001 performance criteria on net official international reserves, net domestic assets of the central bank, net lending to the central government, and the basic primary fiscal balance of the central government.
- Substantial revisions to data on foreign exchange reserves and lending to the central government submitted to the Fund during 2001-03, reflected three major errors.
- No account had been taken in 2001 of payments made by the CBG of US\$28.5 million in foreign currencies on behalf of the government. *This led to an overstatement of gross foreign exchange reserves since the end of 2001 by 45 percent of the revised end-2001 level, and an understatement of public spending and fiscal deficits equivalent to 6.8 percent of GDP.*
- The international reserves had erroneously been credited during 2001 and subsequently with currency purchased from foreign exchange bureaus that had not been delivered. As a result, the reserves had been further overstated by up to US\$16 million.
- The CBG paid an additional unrecorded US\$1.84 million from the foreign reserves in 2003 to finance commissions on foreign currency loan for US\$28 million from a foreign commercial bank, to secure a dollar deposit to mask the shortfall in reserves.
- As a result, The Gambia received two noncomplying disbursements, equivalent to SDR 3.435 million each in July and December 2001.
- On March 8, 2004, the Executive Board took the decision that The Gambia should repay these disbursements (SDR 6.87 million) plus accrued interest in four equal installments during 2004.
- These amounts were paid on April 7, June 30, September 30, and November 24, 2004—the latter ahead of schedule.

conditions fell from 15 on the approval of the 1998 ESAF to 8 on approval of the PRGF arrangement in 2002. There was no reduction in the number of conditions in core areas, but a withdrawal of conditions from other structural reform areas (Table 7).

29. **The Gambia has had less performance criteria and more structural benchmarks than the average for PRGF countries;** the aggregate number of structural conditions were broadly in line with the average for PRGF arrangements in place at the same time, except in 1999-2000 when the number of conditions in The Gambia was about half of the average in

PRGF countries. Consistent with other PRGF countries, structural conditionality focused on areas related to fiscal policy and management, but there were more conditions on data issues compared to other PRGF arrangements, possibly reflecting the deficiencies in core macroeconomic data. Structural conditionality in The Gambia is marked by process building measures instead of focusing on critical outcomes (Table 7).

The Gambia: Program Structural Conditionality versus other Similar Arrangements, 1998 - 2002

	Number of Structural Conditions (The number met in brackets)			Total
	Prior actions	Performance criteria	Structural Benchmarks	
The Gambia ESAF (First annual Arrangement, Apr. 1998-March 1999)	4 (4)	2 (1)	9 (5)	15 (11)
All ESAF Arrangements, 1/	3	2	4	8
The Gambia ESAF (Second Annual Arrangement, October 1999-September 2000)	7 (7)	2 (2)	7 (5)	16 (14)
All ESAF Arrangements, 1999 1/	7	7	14	28
The Gambia PRGF (Third Annual Arrangement, October 2000-September 2001)	2 (2)	1 (0)	6 (3)	9 (5)
All PRGF Arrangements, 1/	4	4	6	14
The Gambia PRGF, (April 2002-March 2003)	3 (3)	0	5 (2)	8 (5)
All PRGF Arrangements, 1/	2	2	5	9

Source: IMF documents.

1/ Average for all ESAF or PRGF Arrangements over the same period.

D. Cooperation with the World Bank

30. **Fund-Bank collaboration was close during the ESAF/PRGF arrangement and in particular in the preparation of the Interim Poverty Reduction Strategy (I-PRS) and The Gambia's full PRSP.** The Bank led the policy dialogue in key structural reforms in economic and social sectors, including on private sector development, education and infrastructure, and legal and judicial reforms. Recently approved Bank projects included one in support of building capacity for economic policy formulation and management; and another to develop an export-oriented production base (the trade gateway project to establish a free zone). The Fund led in joint efforts to assist the authorities in macroeconomic policy formulation and with a wide range of structural reforms, some necessitated in part by the fact that, in 1998-2004, the World Bank did not grant budget support or program lending with broad structural conditionality.

31. **The Bank and Fund agreed with the government on the direction of reforms; and there was generally consistency and coherence in communications with the authorities on key reform issues.** However, Bank and Fund engagement in Public Expenditure Management (PEM) experienced some overlap, difficulties in coordination, and may have contributed to inadequacies in establishing priorities for effective conditionality. The Bank's work on public expenditure reviews has been infrequent, particularly in view of the urgent need to enhance fiscal management. Moreover, the planned introduction of an Integrated Financial Management Information System (IFMIS) initiated in 2001 has not become operational, and the Medium Term Expenditure Framework has been delayed and

neither had much impact on improving the accountability and transparency of public spending. Technical assistance provided by the Fund to address immediate reporting and accounting problems has been only marginally more successful. Efforts by the Fund and the World Bank to enhance PEM were not always well coordinated, as reflected by the placement of separate resident advisors at the treasury in 2000-01, and no audited accounts since 1991.

III. LESSONS FOR POLICIES AND PROGRAM DESIGN

32. **Governance problems and insufficient commitments to key reforms hampered program implementation over the course of both arrangements.** Problems in government expenditure management, in particular accounting, auditing, and reporting were pervasive and needed to be addressed urgently in order to lay the foundation for improving transparency of the use of public resources. Weaknesses in The Gambia's PEM systems implied the need for enhanced program monitoring and supervision. More stringent prior actions could have been designed to address these problems, such as the timely maintenance of a comprehensive general ledger and the publication of audited accounts. Interim flash fiscal reporting, aimed at producing acceptable fiscal data for the Fund program, were not a reliable approach over the long term. Country-specific measures were required to ensure the closure of long overdue accounts, as middle-ground approach between the World Bank supported long-term reforms and the Fund supported interim measures.

33. **PEM systems have remained well below the standard required for reliable reporting and program monitoring, despite considerable technical assistance. Resolution of the problems in PEM and in the internal controls at the central bank should have been given more prominence in program design and conditionality.** The weaknesses in transparency and accountability were identified as a potential threat to macro stability, at an early stage of the program design. However, successive arrangements since 1998 have taken a gradual and incremental approach at provision of more credible and reliable fiscal and central bank accounts. The gradual efforts have not made any measurable improvement in the management of the public and central bank accounts, and there was sufficient evidence of the critical nature of improved accountability and transparency for achieving success under the program. Under these circumstances, Fund support could have been made conditional on prior actions to ensure audited government accounts were made available on a timely basis, as mandated by law, and that the CBG accounts were considerably improved.

34. **The government and Fund staff over estimated revenue projections and under estimated implementation difficulties.** Reflecting mainly weak commitment by the authorities, implementation delays have occurred in all significant areas, including passage of legislation, redesign of customs and tax procedures, restructuring of headquarters, recruitment and training of additional staff, upgrading of the customs computer system, and improvements to field office facilities. Consequently, the improvements in revenue mobilization that were programmed under the ESAF/PRGF arrangement and the second PRGF arrangement did not materialize (Tables 3 and 4).

35. **Weaknesses in the internal controls of the central bank and in the conduct of its core functions impeded the successful implementation of key aspects of the reform program.** Deficiencies in the existing central bank legislation, and its internal controls and auditing masked inappropriate transactions in the management of the country's external reserves, foreign exchange transactions and lending to government. The conduct of monetary policy particularly in 2000-02 was accommodative at best or inactive. The Bank's transactions contributed to excessive injection of domestic liquidity that led to a sharp rise in inflation and a marked depreciation of the local currency in 2001-03.

36. **Inadequate national ownership of reforms to underpin the program and insufficient commitments to key reforms contributed to the implementation problems.** The Gambia's PRSP was prepared through consultative process, but limited participation and legislative branch oversight of reforms and lack of timely information on economic and financial developments in the public domain attest to a narrow ownership of the programs supported by Fund arrangements. In addition, steps taken by the authorities to strengthen public expenditure controls through the introduction of a cash budget system indicate that commitment to reform in the use of public resources was insufficient and had to be strengthened after the PRGF arrangement went off track. While "forced adjustment" may have been a contributing factor, the authorities renewed commitment to adjustment has been a factor in stabilization efforts, since late 2002.

37. **The lack of reliable and comprehensiveness data seriously undermined program surveillance.** Poor data quality is symptomatic of underlying deficiencies in the capacity of key institutions. The inadequate provision of comprehensive and timely fiscal and monetary data constrained program monitoring and formulation of remedial actions. Also, the limitations in the quality and timeliness of data extend to all areas of macroeconomic and social data, and have hampered policy formulation and analysis. Measures to successfully address these deficiencies early in the arrangements could have yielded positive results.

38. **The provision of technical assistance from the Fund, Bank, and bilateral donors will be critical in helping to achieve key structural reforms, and to continue to strengthen The Gambia's economic management capacity.** With respect to the strengthening of statistical capacity, there are currently plans to establish an Interim Statistics Council to spearhead the passage of the Statistics Act and eventual creation of an autonomous Bureau of Statistics, and preparations are underway for the implementation of a comprehensive statistics reform package, to be costed and presented to a donor roundtable meeting later in 2005. In addition, there are several ongoing initiatives to strengthen macroeconomic management, including the strengthening of internal controls at the central bank and the reconciliation of the above- and below-the-line fiscal accounts, for which additional technical assistance might be needed.

IV. KEY CHALLENGES FOR THE MEDIUM TERM

39. **In the period ahead, a key challenge facing the government is to return to and maintain macroeconomic stability, and achieve sustainable high broad-based economic**

growth. Major efforts are needed to contain inflation to low single digits, through fiscal consolidation, appropriate monetary and exchange rate policies, and strengthened structural reforms. Other required measures include improved performance of agriculture, economic diversification, enhanced access to credit, development of the private sector and limiting government intervention in key sectors.

40. **A top priority of the government should be to regain fiscal consolidation by establishing an efficient and effective revenue administration, ensuring expenditure containment and meeting the accountability and transparency in the use of public resources required for resumption of external budget assistance.** The large fiscal adjustment that is required in The Gambia is likely to entail a combination of revenue-raising measures, sustainable expenditure reductions, and resumption of external grants and concessional loans assistance. The improvements in revenue are likely to be gradual, particularly owing to the low level of administrative capacity. Successful expenditure containment and resumption of external budgetary support to historically more normal levels will be subject to visible improvements in PEM. Sustainable expenditure reduction will allow for higher outlays for priority (PRS) sectors and have significant impact on domestic financing.

41. **A key component of government expenditure containment is to reduce the debt burden, external and domestic, to more sustainable levels.** As a result of the deterioration in fiscal balances in the mid-1990s and in 2001, combined with the reduction in external financing, interest payments, notably on domestic debt, increased to 41.3 percent of tax revenue in 2003-04, and are expected to rise without further fiscal tightening. Domestic interest payments were equivalent to 32.2 percent of tax revenues and the domestic debt stock was equivalent to 25.1 percent of GDP in 2003, compared to 13.4 percent in 1994/95 (total domestic debt peaked at 38.1 percent of GDP in 2001). In this context, addressing the country's debt sustainability will involve an effective debt management strategy, including adoption of prudent domestic financial policies and reliance on non-debt creating inflows, such as private capital flows and external grants.

42. **Good governance, proper accountability and transparency have to prevail in the management of public resources, in order for The Gambia to realize financial stability, and promote sustainable high real economic growth and poverty reduction.** A well-functioning PEM system is needed to provide assurances to all stakeholders that public resources are being used for the intended purposes. As indicated in Annex 1, the greatest concerns include the significant delays in the preparation and auditing of public accounts, the poor preparation of the budget, the weak internal controls and audits, and the execution of expenditures outside of the normal budgeting process. These deficiencies have been duly identified, but experience has shown that implementation of solutions has been problematic.

43. **Strengthening the internal audit and financial controls of the CBG and its autonomy is critically required.** The on-going review of the Central Bank Act, started in 2001, should be accelerated and the CBG should be accorded more autonomy in its operations in the revised legislation. The limits on government borrowing from the central

bank ought to be codified in the Act and set at levels consistent with international best practices. Other procedures governing CBG operations should be clearly set, so as to avoid recurrence of involvement in non core activities.

44. **An important challenge facing The Gambia is to achieve decisive progress in implementing more ambitious structural reforms, that are essential to build the basis for more rapid growth, poverty reduction, and sustainable external accounts.** The overall record on progress with key reforms has been disappointing, including the reforms in the groundnut sector and the agricultural sector in general, the divestiture and commercialization program, the removal of obstacles to private investment and development of the private sector, and civil service reform. Competitiveness in The Gambia, notwithstanding the recent depreciation of the dalasi, has been constrained by inefficiencies of public utilities, and the overall costs of production in the country. Therefore, to promote high broad-based growth and balance of payments sustainability, the structural reforms will need to be reinvigorated to improve efficiency and stimulate private investment and exports, particularly in high value and nontraditional commodities. Concerted efforts are required to address the problems in access to finance, transportation and market access problems, as well as the administrative, legal, and broad business environment limitations.

V. STRATEGY FOR FUTURE FUND ENGAGEMENT

45. **The Gambia faces a challenging reform agenda in order to return to financial stability and establish the basis for broad-based growth, poverty reduction, and private sector development.** These include pursuing fiscal consolidation to reduce the public debt burden, strengthening revenue mobilization, reestablishing priorities for public expenditure toward poverty reducing outlays, and civil service reform; and improving the financial sector, the groundnut sector and the privatization and commercialization program. The Gambia also faces a need to strengthen the balance of payment in the medium term, as well as its resilience against external shocks. Moreover, the core areas of the required rebuilding of institutional capacity in key financial institutions would benefit from the provision of Fund technical assistance.

46. **The review of The Gambia's longer term Fund engagement manifests the need for a country to promote program ownership and good governance, meet minimal conditions for program implementation capacity, and provide timely and reliable data for monitoring of performance.** In this context, elements of a new Fund arrangement should include:

- Measures to strengthen on a priority basis accountability and transparency in the use of public resources. The anti-corruption steps taken recently should be followed up with permanent structures and systems to combat misuse of public resources and economic crimes in general.

- Readiness to utilize prior actions and structural performance criteria, such as on the timely provision of audited government and CBG accounts, as effective conditionality to ensure credibility and transparency of public accounts.
- Key structural reforms critical to achieving high sustainable growth and medium-term external viability should be specified, such as removing constraints on private sector development, improving the performance of public utilities, strengthening privatization, and promoting trade and economic diversification. Implementing on a priority basis more ambitious structural reforms, consistent with the need to streamlining aggregate structural conditions, will be essential to enhance economic growth and strengthened external accounts.
- Co-ordination with the World Bank and other donors on the specification and allocation of responsibilities for assistance with critical reforms in public expenditure management, strengthening of the financial sector, and reforms of the groundnut sector. Such coordination will avoid duplication and assist the authorities with delivery of key reforms in an effective manner.
- Joint Fund and donor assistance is required to rebuild capacity in key financial institutions. Front-loaded technical assistance should be put in place to assist the authorities in rebuilding key institutional capacities, and in the provision of core macroeconomic data that is essential for policy formulation and monitoring

47. **Further Fund program involvement including the possible successor PRGF arrangement will depend on progress in the reform agenda.** The current state of The Gambia's economy and its vulnerabilities to external shocks would suggest that the country will need continued donor assistance in the medium term. Consequently, a reduction in The Gambia's vulnerabilities and progress in the reform agenda will be instrumental in the country's exit strategy from use of Fund resources. The authorities are currently working towards a Staff Monitored Program (SMP), once the pre-conditions are met specially transparency in both the fiscal and monetary authorities' accounts, and expect the SMP would lead to renewed Fund support under a PRGF arrangement at the appropriate time and with strengthened economic and financial reforms in place. A new arrangement with the Fund would also be important in the government's efforts to reengage with donors, and seek financial and technical assistance. The need for further Fund program involvement beyond the possible successor PRGF arrangement will depend on a number of factors. In addition to progress in the reform agenda, developments in external conditions, as well as the private sectors response to reforms will be important. While drawing conclusions on this issue seems to be premature, The Gambia has proven in the past that with pursuit of appropriate financial policies, the country could build external viability that would make a "non-financial" relation with the Fund possible over the medium term.

Table 1. The Gambia, HIPC Completion Point Countries in Africa (HCC), and Sub-Saharan Africa (SSA): Selected Economic and Financial Indicators 1985-2004

	Averages for 1985-94			Averages for 1995-2004		
	The Gambia	HCC 1/	SSA	The Gambia	HCC 1/	SSA
(Average annual change in percent, unless otherwise indicated)						
Real						
Real GDP growth	3.7	3.3	1.7	4.3	5.2	3.7
Per capita GDP (at US\$ 2000) 2/	305	192	540	310	218	525
Inflation	15.7	20.8	29.2	6.1	9.4	17.6
(In percent of GDP, unless otherwise stated)						
Fiscal						
Total revenue	21.5	16.0	20.7	17.9	18.7	22.7
Tax revenue	n.a.	12.0	19.4	15.7	14.1	21.8
Total expenditure	29.2	20.5	25.7	26.9	21.8	25.4
Current expenditure	19.1	13.2	...	17.9	13.5	21.3
Capital expenditure and net lending	10.1	7.3	...	7.7	8.3	4.2
Overall balance, including grants	-1.7	-4.4	-5.1	-6.4	-3.6	-2.8
Net foreign financing	5.7	...	...	1.6	2.9	1.5
Net domestic financing 3/	-4.0	...	...	4.7	0.7	1.3
Money						
Broad money (percent change)	17.6	25.9	26.0	21.7	16.5	22.2
Credit to private sector	13.8	n.a.	n.a.	12.3	12.9	34.8
Net credit to government	-7.4	n.a.	n.a.	5.4	6.8	3.2
T-bill rate (percent)	25.8	14.2	14.8	21.1	11.1	16.7
External						
Current account balance (including official transfers)	-1.0	-5.0	-1.7	-5.2	-6.5	-2.6
Gross intl. reserves (months of imports)	2.8	2.3	2.2	5.3	4.2	3.5
External debt	88.5	70.1	42.0	116.6	79.5	42.7

Source: IMF, World Economic Outlook, Winter 2005 database.

1/ Includes only HIPC completion countries, as of March 2005 in sub-Saharan Africa (namely Benin, Burkina Faso, Ethiopia, Ghana, Madagascar, Mali, Mozambique, Niger, Senegal, Tanzania, Uganda).

2/ Calculated using 2000 exchange rates.

3/ Includes residual financing.

Table 2. The Gambia: Selected Indicators of Performance and Millenium Development Goals 1/

	1984	1994	2003	PRSP		Status 2/
				2005	2015	
Eradicate extreme poverty and hunger 3/						
Population below \$1 a day (%)	...	53.7	...	38.0	27.0	Off-track
Achieve universal primary education 4/						
Net primary enrollment ratio (% of relevant age group)	62.3	64.7	72.9	78.0	100.0	Off-track
Promote gender equality 5/						
Ratio of girls to boys in primary and secondary education (%)	56.5	69.2	85.5	100.0	100.0	On track
Reduce child mortality 6/						
Under 5 mortality rate (per 1,000)	...	137.0	126.0	82.0	45.0	Off-track
Improve maternal health 7/						
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	540.0	577.0	262.0	On track
Combat HIV/AIDS, malaria and other diseases 8/						
Prevalence of HIV, female (% ages 15-24)	...	0.7	1.4	...	...	Off-track 9/
Ensure environmental sustainability 10/						
Access to an improved water source (% of population)	...	...	62.0	66.0	76.0	On track

Source: World Bank, World Development Indicators database, April 2004; and The Gambian Poverty Reduction Strategy Paper (PRSP).

1/ Owing to data unavailability, some numbers refer to data anywhere from two years prior to or two years post the reference year.

2/ World Bank conducted Public Expenditure Review Assessment.

3/ Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.

4/ Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

5/ Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

6/ Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

7/ Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

8/ Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS.

9/ No specific targets set in the PRSP.

10/ Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water.

Table 3. The Gambia: Program Targets and Outcomes under the 1998-2001 ESAF/PRGF Arrangements

	1998		1999		2000		2001	
	Program 1/ Outcome	Program 2/ Outcome	Program 1/ Outcome	Program 2/ Outcome	Program 1/ Outcome	Program 2/ Outcome	Program 1/ Outcome	Program 2/ Outcome
Real								
Real GDP growth	3.8	6.5	4.8	4.2	5.0	5.0	5.0	5.5
Inflation (period average)	3.0	1.1	3.0	2.5	3.0	2.5	2.5	2.5
	(Annual percent change)							
Fiscal	(in percent of GDP, unless otherwise stated)							
Total revenue	20.9	18.6	21.1	21.0	17.9	21.4	21.7	23.6
Tax revenue	19.6	16.8	19.9	19.6	15.7	20.2	20.1	20.3
Total expenditure and net lending	24.2	23.0	23.4	23.3	22.7	22.7	23.3	24.4
Current expenditure	17.3	17.9	16.5	17.6	18.0	15.8	16.3	17.2
Capital expenditure and net lending	6.9	5.1	6.9	5.7	4.7	6.8	7.0	7.2
Primary balance 3/	7.0	5.6	7.4	6.6	4.7	7.7	7.6	6.9
Overall balance, excluding grants	-4.0	-4.4	-2.9	-3.1	-4.9	-1.9	-2.5	-3.4
Grants	1.3	2.0	1.2	1.4	1.3	1.2	1.6	2.3
Overall balance, including grants	-2.7	-2.4	-1.7	-1.7	-3.5	-0.7	-0.9	-1.1
Net foreign financing	3.0	1.2	3.4	0.9	0.6	3.0	1.8	1.9
Net domestic financing 4/	-0.3	1.2	-1.7	0.8	2.9	-2.3	-0.9	-0.8
Monetary								
Broad money (percentage change)	6.8	10.2	7.7	14.0	12.1	7.8	7.5	8.4
Velocity	3.5	3.4	3.5	3.2	3.3	3.5	3.2	3.1
Credit to private sector	11.1	11.4	12.6	12.4	12.5	14.3	13.9	n.a.
Net credit to government	-0.6	-0.1	-2.0	-0.5	0.8	-3.3	-1.6	n.a.
External								
Current account balance (including official transfers)	-4.3	-2.4	-4.2	-3.8	-2.8	-4.1	-3.9	-4.2
Gross intl. reserves (months of imports)	5.6	5.8	6.0	5.3	6.2	6.2	6.0	5.4
External debt	104.6	104.7	100.9	104.1	104.6	96.8	109.2	100.6

Sources: IMF, World Economic Outlook, Winter 2005; and IMF staff reports.

1/ First program target.

2/ Revised program target.

3/ Total revenue less expenditure and net lending excluding interest payments and foreign-funded capital expenditure.

4/ Includes residual financing.

Table 4. The Gambia: Program Targets and Outcomes under the 2002-04 PRGF Arrangement

	2002		2003		2004	
	Program	Outcome	Program	Outcome	Program	Outcome
Real	(Annual percent change)					
Real GDP growth	6.0	-3.2	6.0	6.9	6.0	5.1
Inflation (period average)	5.5	8.6	4.0	17.0	3.0	14.2
Fiscal	(percent of GDP, unless otherwise stated)					
Total revenue	21.5	16.3	24.4	15.7	26.9	20.9
Tax revenue	17.5	14.1	19.7	13.8	21.9	18.6
Total expenditure and net lending	24.1	25.4	26.0	22.9	26.2	31.2
Current expenditure	17.6	17.9	15.6	17.1	15.2	16.9
Capital expenditure and net lending	6.5	7.5	10.4	5.9	11.0	14.2
Primary balance 1/	3.3	2.7	0.9	3.6	0.6	9.6
Overall balance, excluding grants	-5.0	-9.1	-2.7	-7.2	-2.3	-10.3
Grants	2.8	4.4	-0.7	2.5	-1.3	4.6
Overall balance, including grants	-2.2	-4.6	-3.4	-4.7	-3.6	-5.7
Net foreign financing	-0.4	1.9	-0.4	0.6	0.9	5.7
Net domestic financing 2/	2.6	2.7	3.8	4.1	2.7	0.0
Monetary						
Broad money (percentage change)	13.2	35.3	9.9	43.4	9.6	18.3
Velocity	2.6	2.3	2.6	2.2	2.6	2.2
Credit to private sector	11.2	17.0	15.2	16.3	18.9	11.8
Net credit to government	8.8	14.9	6.8	14.9	5.0	8.2
External						
Current account balance (including official transfers)	-5.0	-2.8	-5.0	-5.1	-4.8	-11.8
Gross intl. reserves (months of imports)	5.1	4.5	5.3	4.4	5.5	4.1
External debt	n.a.	130.1	n.a.	144.9	n.a.	144.9

Sources: IMF, World Economic Outlook, Winter 2005; and IMF staff calculations.

1/ Total revenue less expenditure and net lending excluding interest payments and foreign-funded capital expenditure.

2/ Includes residual financing.

Table 5. The Gambia: Selected Economic and Financial Indicators, 1998-2004

	1998	1999	2000	2001	2002	2003	2004
(Annual percentage changes, unless otherwise indicated)							
National income and prices							
GDP at constant prices	6.5	6.4	5.5	5.8	-3.2	6.9	5.1
Consumer price index (period average)	1.1	3.8	0.9	4.5	8.6	17.0	14.2
Consumer price index (end of period)	4.8	1.7	0.2	8.1	13.0	17.6	8.0
External sector							
Exports, f.o.b. (in US\$)	19.9	-7.8	5.3	-19.4	7.1	-7.1	25.8
Imports, f.o.b. (in US\$)	20.3	-9.7	0.5	-19.9	12.8	-6.2	46.2
Terms of trade 1/	11.8	-18.0	-3.5	0.7	8.3	17.9	-7.0
Nominal effective exchange rate (period average)	-1.1	-4.8	-3.7	-14.1	-22.6	-37.4	-12.9
Real effective exchange rate (period average)	-1.3	-2.2	-4.9	-12.2	-17.6	-28.5	-0.5
(Change in percent of beginning-of-year broad money)							
Money and credit							
Broad money	10.2	12.1	34.8	19.4	35.3	43.4	18.3
Net foreign assets	8.2	4.3	22.5	-33.8	13.0	28.2	29.2
Net domestic assets	2.0	7.8	12.3	53.2	22.3	15.2	-10.9
Of which:							
Credit to the government (net)	0.5	3.4	3.1	25.5	1.0	12.5	-12.6
Credit to the private sector and public enterprises	5.4	7.8	4.4	4.4	23.7	20.0	-6.5
Claims on foreign exchange bureaus	0.0	0.0	0.0	8.8	4.0	-1.0	-1.2
Other items net	-4.1	-3.8	4.9	-9.9	-6.4	-16.3	7.3
Velocity (GDP/end-of-period broad money)	3.4	3.3	2.7	2.8	2.3	2.2	2.2
Treasury bill rate (in percent; end of period)	14.0	12.5	12.0	15.0	20.0	31.0	30.0
(In percent of GDP, unless otherwise indicated)							
Central government budget							
Domestic revenue	18.6	17.9	18.5	15.1	16.3	15.7	20.9
Total expenditure and net lending	23.0	22.7	22.1	31.1	25.4	22.9	31.2
Balance, excluding grants	-4.4	-4.9	-3.7	-16.0	-9.1	-7.2	-10.2
Balance, including grants	-2.4	-3.5	-1.4	-13.9	-4.6	-4.7	-5.7
Net foreign financing	1.2	0.6	-0.8	-0.4	1.9	0.6	5.7
Net domestic financing	1.2	2.9	2.2	14.3	2.7	4.1	0.0
Stock of domestic debt	25.6	27.0	31.5	38.1	36.6	25.2	30.7
Gross domestic investment and savings							
Gross domestic investment	18.3	17.8	17.3	17.4	21.2	19.5	27.1
Gross national savings	15.9	14.9	14.1	14.8	18.4	14.4	15.3
External sector							
Current account balance							
Excluding official transfers 2/	-10.9	-9.8	-10.6	-10.1	-13.4	-13.6	-21.6
Including official transfers 2/	-2.4	-2.8	-3.1	-2.6	-2.8	-5.1	-11.8
Gross official reserves (in millions of US\$)							
In months of imports, c.i.f.	5.8	6.2	7.0	5.0	4.5	4.4	4.1
External debt service (in percent of exports and travel income)	11.1	11.8	15.4	16.4	16.9	8.5	15.9

Sources: Gambian authorities; and IMF staff estimates.

1/ Excluding reexports and imports for reexport.

2/ Official transfers also includes an assumption for technical assistance.

Table 6. The Gambia: Compliance with Quantitative Program Targets under the ESAF/PRGF Arrangement, 1998-2001; and PRGF arrangement 2002 1/

	1998		2000		2001		2002	
	Sept.	March	March	Sept.	March	Sept.	Sept. 2/	
Net domestic assets of the central bank (ceiling) 3/	Met	Not met	Not met	Not met	Not met	Not met	Not met	
Net bank credit to the central government (ceiling)	Met	Not met	Met	Not met	Not met	Not met	Not met	
Basic primary balance of the central government (floor) 4/	Not met	Not met	Not met	Not met	Not met	Not met	Not met	
Payments arrears of the central government (ceiling)								
Domestic	Met	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
External	Met	Met	Met	Met	Met	Met	Met	
Total domestic government revenue (floor)	Not met	Met	Met	Met	Not met	Not met	Not met	
Government wage bill (ceiling)	Not met	Not met	Not met	Not met	Met	Not met	Not met	
Net foreign assets of the central bank (floor)	Met	Met	Met	Met	Not met	Not met	Not met	
New nonconcessional external loans contracted or guaranteed by the government (ceiling) 5/	Met	Met	Met	Met	Met	Met	Met	
Outstanding stock of external public debt with a maturity of one year (ceiling) 6/	Met	Met	Met	Met	Met	Met	Met	

1/ In 1999, the program went off track and no performance criteria were set.

2/ The review was not formally concluded.

3/ Defined as the difference between the net foreign assets of the central bank and reserve money.

4/ Defined as domestic revenue minus total expenditure and net lending, excluding interest payments and externally funded capital expenditure

5/ External loans contracted or guaranteed other than those with grant elements of 35 percent or more.

6/ Excluding normal import-related credits.

Table 7. The Gambia: Structural Conditionality under the 1998-2001 ESAF/PRGF Programs and the 2002-04 PRGF Program 1/

	Target Date	Met (M) /Not met (NM) on Target date
ESAF (April 1998 - March 1999)		
Prior actions		
1. Elimination of all discretionary customs duty exemptions.	Apr-98	M
2. Withdrawal of all automatic spending authorizations that refer to preceding budget exercises.	Apr-98	M
3. Completion of the public expenditure review for the education sector	Apr-98	M
4. Settlement of the cross debts between the government and public enterprises.	Apr-98	M
Structural performance criteria		
1. Reduction of the maximum duty rate to 25 percent (except for alcohol, tobacco and vehicles) and of the number of import duties to 19.	Jul-98	M
2. Adoption of a new divestiture strategy for the public enterprise sector.	end-Nov 1998	NM
Structural Benchmarks		
1. Extension of the sales tax to professionals.	end-Jun 1998	NM
2. Completion of a study on the price and taxation structure of petroleum products.	end-Jun 1998	M
3. Unification of reserve requirements and exclusion of interbank deposits from the deposit base.	end-Jun 1998	M
4. Reaching of an agreement with the commercial banks on a program for full reserve provisioning.	end-Jun 1998	NM
5. Establishment of a commercial chamber in the High Court.	end-Oct 1998	M
6. Adoption of a new procurement code.	end-Sep 1998	NM
7. Implementation of a new investment incentives system.	end-Dec 1998	NM
8. Adoption of a three-year public investment program.	end-Dec 1998	M
9. Offer of Trust Bank for Sale.	end-Dec 1998	M
ESAF (October 1999 - September 2000)		
Prior actions		
1. Set up a monitoring program for the payment of government arrears to public enterprises and settle D11 million of those arrears by end-June 2000 on a cumulative basis.	Oct-99	M
2. Issue a government circular to curtail the creation of "below-the-line" (BTL) accounts and to impose reporting and control safeguards on existing BTL accounts.	Oct-99	M
3. Abolish preshipment inspections scheme effective July 2000	Oct-99	M
4. 2000 budget consistent with the program.	Oct-99	M
5. Review investment code to incorporate tax reforms in The Gambia and envisaged tax and investment reforms in WAEMU countries.	Oct-99	M
6. Incorporate a further reform agenda through end-2000 into the interim procurement code	Oct-99	M
7. Incorporate a work agenda for 1999-2001 into the divestiture strategy	Oct-99	M

Table 7. The Gambia: Structural Conditionality under the 1998-2001 ESAF/PRGF Programs and the 2002-04 PRGF Program 1/
(continued)

	Target Date	Met (M) /Not met (NM) on Target date
Structural performance criteria		
1. Comprehensive census of government arrears outstanding as of end-June 1999.	end-Feb 2000	M
2. Develop and implement a framework on short-term liquidity forecasting and transform the Treasury Bill Committee into an Open Market Committee, as recommended by the December 1998 MAE technical assistance mission.	end-Jun 2000	M
ESAF (October 1999 - September 2000)		
Structural Benchmarks		
1. Ensure completion by Accountant General's Office of reconciliation of its quarterly balances from Septemeber 1997 to December 1999.	end-Jun 2000	M
2. Provide for the full implementation of the various balance of payments surveys of establishments and commercial banks by the central bank.	end-Dec 1999	M
3. Rebase the national accounts to a more recent date than 1976/77.	end-Apt 2000	NM
4. Fully implement Automated System for Customs Data (ASYCUDA).	end-Apt 2000	NM
5. Compile export and reexport trade data using ASYCUDA.	end-Jul 2000	M
6. Further streamline the tariff system by classifying commodities according to the Harmonized System and reduce maximum rate to below 20 percent.	end-Jun 2000	M
7. Bring to point of sale or tranform at least four public enterprises into private limited companies (PLC) and restructure at least two public enterprise into component units for their eventual privatization.	end-Aug 2000	M
PRGF (October 2000 - September 2001)		
Prior actions		
1. Submit to parliament the supplementary budget measures, including the contingency budget to be funded from the interim debt relief under the enhanced HIPC initiative.	Oct-00	M
2. Cabinet's approval of the 2002 budget that incorporates expenditure funded from the interim debt relief under the enhanced HIPC Initiative.	Oct-00	M
Structural performance criteria		
1. Establish and begin to implement a comprehensive accounting framework to monitor expenditure on poverty reduction.	end-Dec 2000	NM
Structural Benchmarks		
1. Initiate a register of establishments involved in balance of payments transactions and complete implementation of surveys of these establishments.	end-Feb 2001	M
2. 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-Feb 2001	M

Table 7. The Gambia: Structural Conditionality under the 1998-2001 ESAF/PRGF Programs and the 2002-04 PRGF Program 1/ (concluded)

	Target Date	Met (M) /Not met (NM) on Target date
3. Complete the full installation of ASYCUDA I and use it to generate trade data reclassified by economic categories.		
4. Complete the rebasing of national income accounts to 1998.	end-Apr 2001	NM
5. Establish the regulatory framework, issue guidelines, and authorize commercial banks to establish foreign currency deposits.	end-Jun 2001	NM
6. Introduce the book-entry system for treasury bill auctions and finalize plans for introducing longer-term treasury bills and government bonds.	end-Aug 2001	M
Structural Benchmarks		
1. Completion of Stage I of the household survey that will form a basis for constructing and updated and comprehensive consumer price index.	end-Sep 2002	M
2. Completion of the ASYCUDA II.	end-Oct 2002	In-progress
3. Public reports on the poverty-reducing expenditure. 2/	end-Nov 2002	In-progress
4. Quarterly schedule eliminating cross government/public enterprise arrears based on a review of a public enterprise study and cabinet paper.	end-Jul 2002	M
5. Completion of the enterprise survey in order to compile data on the international investment position in the balance of payments.	end-Jul 2002	In-progress

1/ First review of the PRGF still not concluded.

2/ Poverty-reducing expenditure reports are being produced by the authorities.

Public Expenditure Management (PEM)

Serious weaknesses in budget execution and treasury functions are long standing.

Among PEM problems identified by Fund technical assistance as early as 1993 were: (i) long delays in producing the general ledger, which was not comprehensive, and in reconciling bank data with cash books; (ii) large discrepancies between fiscal and monetary data in monthly fiscal reports, partially resulting from the large number of nontransparent and inadequately reported “below-the-line” accounts; and (iii) inadequate coverage in the accounting of foreign aid inflows. A technical assistance mission on “improving public expenditure management and customs administration (in 1999) concluded that **“Payments from below-the-line accounts affect and make government balances unreliable especially when there is no bank reconciliation, and may well be a major cause for expenditure indiscipline.”**

Despite the 1997 Constitutional requirement that the Auditor General (AG) shall report on the annual government accounts within six months of the end of the immediately preceding financial year to the national Assembly, no audited Annual Accounts have been produced since 1991. A Fund resident adviser assisted the authorities in closing the financial accounts up to 1998/99 and these were submitted to the AG only in 2001. To date, no audited accounts have been submitted to Parliament and subsequent annual accounts have yet to be finalized.⁸

Problems in public financial management persisted throughout the course of the ESAF/PRGF and second PRGF arrangements. The World Bank and IMF jointly conducted a HIPC expenditure tracking assessment and action plan (AAP) exercise in 2001, which was reassessed in 2004. These studies measured the performance of the PEM system against 15 benchmarks (16 in the 2004 study as an indicator for procurement was added), with a view to determining the systems ability to adequately track poverty reducing expenditure. The Gambia achieved the benchmark status in five of the fifteen indicators in 2001, but only three of the sixteen indicators in 2004, *placing it in the lowest category of countries whose PEM system is in need of substantial upgrading.*⁹ In both studies significant weaknesses were highlighted in budget execution, such as the lack of internal controls or bank reconciliation, and reporting, with continued delays in presenting audited statements. These studies support the conclusion of the 2003 Country Financial Accountability Assessment (CFAA), conducted by the World Bank and other donors, that

⁸ The Auditor General has presented only two reports to the legislature in the past two decades. These reports were not audits of the financial accounts but largely statements of the problems, such as poor compliance by Ministries that the auditor was facing. The financial statements of the government for the period 1991–99 were submitted for audit in March 2001. However, due to shortcomings in the records with the AGD based on which these accounts were prepared, the Auditor General did not start his work and has requested donor assistance to help him with the task.

⁹ The 2004 HIPC AAP for The Gambia will be posted on the World Bank website.

concluded: *“the greatest fiduciary risk associated with budget execution and monitoring is the long delay in closing the accounts and finalizing the general ledger. This significantly weakens expenditure control and legislative oversight.”*¹⁰

The problems in PEM have been attributed to a combination of poor governance, weak systems and extremely scarce capacity. These factors came together in 2001 when large unbudgeted expenditures, amounting to 6.8 percent of GDP, were made. The expenditures were not immediately apparent or brought to account, owing to the lack of independent oversight and controls, such as those provided by regular audits, comprehensive bank reconciliation and the production of financial statements.

The Fund, World Bank and other donors have extended considerable technical assistance to The Gambia to address the problems in PEM. A Fund resident advisor in PEM was in place for over three years, from August 2000. During this period some progress was made in reforming budget preparation and documentation, as well as budget execution and fiscal reporting although the progress was considerably slower than anticipated. The main developments included: introducing an interim flash fiscal reporting system¹¹; developing new budget classifications; partially addressing of the long existing problems associated with the below-the-line accounts; improving accounting of external loans and grants; and closing the 1992–99 final accounts. **However, several budget execution and reporting weaknesses persisted, notably: the 2000/02 final accounts were not closed as anticipated; the general ledger was not maintained; not all of the identified below-the-line accounts were closed.** In addition to the above, The Fund provided support to draft a new organic budget law in 2002, which was enacted, after some delay, in 2004.

The other main provider of technical assistance in this area, the World Bank, launched a \$15 million economic management reform project in 2001. Major components of this project are the introduction of a computerized financial management system (IFMIS), which is expected to address many of the deficiencies in PEM, and a medium-term expenditure framework (MTEF). **However, little progress has been made in these areas since the projects inception,** mainly attributed to the overcapacity in design of the IFMIS project and a long delay in the assignment of the MTEF advisor. Also, a bilateral donor has provided support to build capacity in the Auditor general’s department since 1998.

The PEM conditions under Fund programs were progressively tightened. The first year of the ESAF arrangement did not set PEM related prior actions or structural benchmarks. The

¹⁰ World Bank, 2003, “The Republic of The Gambia: Country Financial Accountability Assessment,” Report No. 26046–GM, produced in collaboration with the African Development Bank, European Commission, The Republic of The Gambia, and the U.K. Department for International Development (Washington).

¹¹ In September 2002, the National Emergency Financial Committee (NEFCOM) was established to oversee the execution of the budget and to control monthly allocations through monthly allocations to departments.

only measures in this area were World Bank proposed expenditure reviews in the health and education sectors and some basic civil service reform. As the scale of the problems in the PEM system, and the risks these posed to the program, became more evident additional structural benchmarks were agreed. The benchmarks reflected a gradual approach in addressing the systems weaknesses, moving from closing the below-the-line accounts through to ensuring the more timely reconciliation and closing of the accounts. Staff reports have consistently recommended that the authorities place top priority on strengthening the capacity of public financial management.

PEM-Related Structural Benchmarks, 1998–2002

Structural benchmarks	Initial Target Date	Met/Not met on Initial Target date
ESAF(Oct. 1999 – Sept. 2000)		
1. Issue a government circular to curtail the creation of "below-the-line" (BLT) accounts and to impose reporting and control safeguards on existing BLT accounts.	Nov. 1999	Met
2. Comprehensive census of government arrears outstanding as of end-June 1999.	Feb. 2000	Met
. Ensure completion by Accountant General's Office of reconciliation of its quarterly balances from September 1997 to December 1999.	June. 2000	Met
PRGF - (Oct. 2000 – Sep. 2001)		
1. Establish and begin to implement a comprehensive accounting framework to monitor expenditure on poverty reduction (Structural Performance Criteria).	Dec. 2000	Not Met
PRGF - July 2002-July 2003		
1. Agreement on a schedule for the reconciliation of the Accountant General's cash books and the general ledger with the accounts of the central bank, and regular updating of the general ledger to a more recent date- with a lag of two months.	July 2003	Not Met
2. Closing of public accounts for 2000–2002 by end 2003	Dec. 2003	Not Met
3. Publish reports on the poverty-reducing expenditure	Nov. 2002	Met