International Monetary Fund

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Press Release:
IMF Executive Board Completes Sixth Review Under The Gambia's ECF Arrangement and Approves a 12-Month Extension and US$ US$7.1 Million Augmentation
February 19, 2010

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

January 21, 2010

The following item is a Letter of Intent of the government of The Gambia, which describes the policies that The Gambia intends to implement in the context of its request for financial support from the IMF. The document, which is the property of The Gambia, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Banjul, The Gambia
January 21, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 40431

Dear Mr. Strauss-Kahn:

1. The Gambia's three-year Extended Credit Facility (ECF) arrangement was approved by the IMF Executive Board in February 2007. The fifth review was completed on August 7, 2009.

2. All quantitative performance criteria for end-September 2009, except for the fiscal basic balance, were met. The criterion for the basic balance was missed due to expenditure overruns in the second quarter of 2009. The Government approved a budget for 2010 aiming at a near-zero basic balance, which will enable the government to reduce its domestic debt obligations and ease the burden of servicing this debt. On this basis, we request a waiver for the nonobservance of the quantitative performance criterion on the basic balance for end-September 2009.

3. All structural benchmarks for end-September 2009 were implemented, except for the submission to the National Assembly of the audited government accounts for 2007. The following actions were completed: (i) submitting audited government accounts for 2005 and 2006 to the National Assembly, (ii) preparing a national debt strategy, and (iii) publishing first and second quarter balance of payments statistics with a one quarter lag. The credit reference bureau also became operational in July 2009. Submission of the accounts for 2007 was delayed by ongoing efforts to improve the quality of the audits and prevent qualifications. The 2007 audited accounts are expected to be submitted to the National Assembly during the first half of 2010.

4. The Government of The Gambia requests completion of the sixth review and the seventh disbursement under the ECF arrangement in an amount equivalent to SDR 2.00 million.

5. Further, the Government of The Gambia requests an extension of one year and augmentation (15 percent of quota; SDR 4.66 million) of the ECF arrangement. The extension will provide time to consolidate the achievements of the past three years while considering options and building domestic support for a new program. The augmentation would contribute to reducing the risks arising from a large current account deficit and

fluctuating financial account flows. It would be disbursed in two equal tranches following the seventh and eighth review.

6. The Government of The Gambia will pursue prudent macroeconomic policies to promote growth, low inflation, and poverty reduction.

7. The Government intends to make the contents of this letter, the Fund staff report, and other documents related to this review available to the public. Therefore, it authorizes the IMF to arrange for these documents to be posted on the IMF website following Executive Board conclusion of the review.

Sincerely yours,

/s/	/s/
Abdou Kolley Minister Ministry of Finance and Economic Affairs	Momodou Bamba Saho Governor Central Bank of The Gambia

Memorandum of Economic and Financial Policies

January 21, 2010

I. Introduction

1. **This memorandum updates the economic and financial program of the Government of The Gambia supported by the Extended Credit Facility (ECF) arrangement with the International Monetary Fund (IMF), which was approved by the Executive Board of the IMF on February 21, 2007.** The program covers the requested one-year extension to the original three-year ECF and aims at consolidating macroeconomic stability, fostering the conditions for sustaining high economic growth, and reducing poverty. This memorandum also reports on performance under the program through December 2009, including the end-September 2009 performance criteria for the sixth review of the ECF. The fifth review of the ECF was completed on August 7, 2009.

II. Recent Economic Developments

2. **The Gambian economy has performed better in 2009 than was projected at the time of the fifth review.** Real GDP growth is estimated to have been in the range of 4.5-5.0 percent, approximately one percentage point higher than the earlier projection. A second consecutive year of strong growth in agriculture, largely because of good rains and the successful expansion of rice farming, helped to offset the negative impact of the global financial crisis, particularly for the rural poor. Tourism and residential construction, however, have taken a hard hit. A sharp drop-off in remittances greatly limited financing for home building and purchases. Inflation fell to 2.6 percent by end-November 2009, down from its peak of 7.0 percent in February, partly reflecting a tight monetary stance. Both the food and non-food components of inflation have been falling—to 2.6 percent and 2.7 percent, respectively, in November.

3. **Fiscal operations incurred some slippages in 2009. In particular, there were large expenditure overruns in the second quarter of the year—mainly due to an unanticipated concentration of spending and other one-off expenditures.** As a result, and despite greater fiscal discipline in the third quarter, government's basic balance, which excludes grants and foreign-financed project spending, stood at GMD -138 million and GMD -61 million as of end-June and end-September 2009, respectively. On a cumulative basis (since end-December 2006) for program monitoring, the end-June and end-September basic balances stood at GMD 342 million and GMD 419 million, which were far below the corresponding program floors of GMD 745 million and GMD 773 million (indicative target and performance criterion, respectively).

4. **In September 2009, the National Assembly approved a supplementary appropriation bill to the National Assembly in the sum of GMD 344 million (1.8 percent**

of GDP), much of which covered the spending over and above the initial budget during the second quarter. For 2009 as a whole, total expenditures, excluding foreign-financed projects, are estimated to have exceeded the initially budgeted ceiling by an even larger margin (GMD 450 million or 2.3 percent of GDP) for 2009 as a whole, mainly reflecting the repurchase of GAMTEL/GAMCEL shares ($5.0 million) and investment in the GRTS satellite link project ($1.5 million) in addition to the supplementary expenditures. Total government revenues exceeded the budget target, boosted by a strong recovery in revenues from the petroleum import duty. Revenue from the corporate income tax, however, fell well short of its target. The basic balance is estimated to have ended the year in a deficit of GMD 312 million (1.6 percent of GDP) compared with the initial budget target of a slight surplus.

5. **Interest on government debt is estimated to have consumed 20.0 percent of government revenues in 2009, of which 15.7 percent of revenues was paid on domestic debt.** In contrast to a slight drop in outstanding (interest-bearing) domestic debt, as planned in the initial budget for 2009, domestic debt is estimated to have risen by GMD 314 million. Moreover, this additional borrowing, which was concentrated in the second quarter, put upward pressure on T-bill yields. The weighted average yield on T-bills peaked at 14.0 percent at end-June 2009, before falling to 11.1 percent at end-December 2009. At end-December 2009, domestic debt stood at GMD 4885 million (25.0 percent of GDP). The Gambia also has substantial external debt liabilities (about 45 percent of GDP as of end-December 2009), but the terms are sufficiently soft so that the debt service burden is manageable.[1]

6. **To fight the rise in inflation earlier in the year, the Central Bank of the Gambia (CBG), implemented a tight monetary policy stance.** The rediscount rate was maintained at 16 percent throughout the year even as inflation fell by 4½ percentage points. Reserve money growth, however, has been quite volatile, partly reflecting difficulties in liquidity forecasting. Although broad money growth remained strong (24.4 percent during the 12 months to October 2009, credit to the private sector has been constrained, rising by only 11.6 percent during this period, despite the entry of new banks.

7. **The Gambia's gross official international reserves have risen significantly in 2009, bolstered by the SDR allocations in August and September (equivalent to US$39 million) and budget support from the African Development Bank and World Bank (equivalent to US$13 million).** Gross reserves ended the year at US$178 million (or 6.4 months of imports). Despite this comfortable level of reserves, the balance of payments showed some weaknesses, including the sharp drop in tourism receipts and remittances and

[1] Based on current thresholds, a joint World Bank-IMF debt sustainability analysis indicates that The Gambia is at high risk of debt distress. Scheduled reassessments of The Gambia's CPIA and PEFA ratings has the potential to lead to higher thresholds, which would indicate a lowering of the risk of debt distress to moderate.

an estimated current account deficit, including official transfers, of about 14½ percent of GDP. Nevertheless, the nominal exchange rate has remained fairly stable in 2009, trading in the tight range of GMD 26–27 per U.S. dollar, while the CBG has largely refrained from intervening in the FX market. In real effective terms, the Gambian dalasi has appreciated by 2.5 percent since the end of 2008.

III. PERFORMANCE UNDER THE PROGRAM

8. **Performance under the ECF-supported program was generally positive.** All end-September quantitative performance criteria were met, except for the floor on the government's basic balance, which was missed by a wide margin (GMD 403 million or 2.0 percent of GDP). Even adjusted for the SDR allocation, net international reserves exceeded the target by US$11.5 million. Also, the net domestic assets of the Central Bank of The Gambia (CBG) were well below the program ceiling (Table 1).

9. **Structural reforms are broadly on track, albeit with modest delays (Table 2):**

- The credit reference bureau became effective in July.

- The Government's audited accounts for 2005 and 2006 were submitted to the National Assembly in March 2009. In an effort to prevent qualifications of the audits of government accounts for unresolved differences dating back to 1991, a restatement exercise for the 2006 accounts was undertaken and a final report was approved by Cabinet in December 2009. The report will be submitted to the National Assembly by March 2010. As a result the audit of the 2007 accounts has been delayed, but is expected to be completed and submitted to the National Assembly by June 2010.

- The quarterly balance of payments statistics through 2009:Q2 were posted on the CBG's website in October.

- A national medium-term debt management strategy was completed in September and submitted to Cabinet for discussion in November.

10. **The Government has taken corrective actions for the nonobservance of the end-September performance criterion on the government's basic balance.** In particular, the budget for 2010 approved by the National Assembly in December has a near-zero basic balance (GMD -30 million or -0.1 percent of GDP).

IV. MACROECONOMIC POLICIES AND OBJECTIVES FOR 2010

11. **The outlook for the Gambian economy in 2010 is generally positive.** With an expected partial recovery in tourism and remittances, real GDP growth is projected to rise slightly to 4.8 percent and inflation is projected to be in line with its longer-term trend of 5 percent. However, given the uncertainty of the outlook for tourism and remittances and

weather conditions, there are still considerable downside risks to this projection. The external current account deficit is projected to narrow slightly, but remain high, in 2010. Nevertheless, gross international reserves are projected to remain stable, with modest support from the IMF. Gross reserves would end the year at a comfortable level of US$178 million (equivalent to 6 months of imports).

12. **The overriding objective for macroeconomic policies is to maintain a stable economic environment that would support strong growth and poverty reduction.** At the same time, the Government will take steps to increase the resources available for non-interest expenditures, notably by achieving savings on domestic interest costs—through a reduction in domestic debt and, with supporting measures from the CBG, lower T-bill yields—and securing budget support from development partners. Achieving a path for government debt with lower risk of debt distress would also reduce a major element of macroeconomic vulnerability and could eventually create additional space for non-interest expenditures. Lower T-bill yields will also help to reduce interest rates more broadly, which would be beneficial for private sector investment and economic growth, but to avoid any sudden disruptions to banks' balance sheets, the Government and CBG will exercise care to achieve a gradual reduction in yields.

13. **The Government plans to reduce the stock of T-bills slightly in 2010 by achieving a near-zero basic balance, as budgeted**. While this measure has significant potential for reducing yields, highly disciplined budget execution, and avoiding the expenditure overruns of the previous year, will be critical to its success. Under the budget, government revenues are projected to rise by 10.5 percent in 2010 (to GMD 4413 million), representing a slight increase relative to GDP. Total government spending and net lending, excluding foreign-financed projects, is budgeted to be GMD 4443 million in 2010, as donors' budget support grants supplement government revenues. This would allow a net repayment of the Government's domestic debt (including loans and advances from the CBG and other domestic debt obligations assumed by the Government) of GMD 90 million (0.4 percent of GDP) in 2010**.**

14. **Tax and nontax measures included in the 2010 budget are expected to raise revenue by GMD 110 million (0.5 percent of GDP).** They include:

- Corporate tax rate is lowered from 35 percent to 33 percent;
- Import sales tax on rice is re-instated at 5 percent;
- Excise tax on alcohol and tobacco products is raised;
- Road tax for car owners is increased;
- Tax enforcement and compliance will be strengthened.

At the same time, however, higher global fuel prices are projected to reduce the Government's fuel tax receipts by 0.3 percent of GDP.

15. **To enhance future revenues and strengthen the business environment the Government will pursue tax reforms over the medium term (2011-13), which would simplify the tax system, reduce corporate income tax rates, and eliminate exemptions and discretionary investment incentives, in line with recommendations of the Fund's technical assistance on tax policy (March 2009).** Reforming taxes on consumption would also be considered to bolster revenues. Reforms to tax administration are also needed, including measures to improve taxpayer-oriented services by the GRA and protect taxpayers' rights, such as implementing a tax tribunal. These reforms would help to improve The Gambia's investment climate.

16. **Government and the CBG intend to take the following steps consistent with the aim of reducing domestic debt and lowering domestic interest payments:**

- Rely less on sales of T-bills for the sterilization of liquidity generated by donor-financed government spending. Instead, over the course of the year, the CBG could sell the expected foreign exchange receipts from donors' budget support. The sales could be conducted in a gradual manner to minimize the impact on the exchange rate.

- Improve liquidity forecasting and liquidity management procedures to maintain stable money market conditions consistent with low inflation. An inter-agency committee with high-level representation from the CBG and MFEA will be established for this purpose.

- Explore the possibility of a shift to a fortnightly T-bill auction and reforms to the primary dealership arrangements to enhance competition and market development, which should also help to reduce yields. Introduction of repo instruments for daily monetary operations, however, is an essential precondition for this measure. Encouraging development of a liquid secondary market, would help to flatten the yield curve on government securities, which would facilitate the introduction of government bonds with longer maturities.

17. **Government is making some progress toward allocating resources to poverty reducing activities.** Under The Gambia's second Poverty Reduction Strategy Paper (PRSP II), covering 2007-2011, the Government has intended to increase spending on identified poverty reducing activities to 25 percent of domestic revenue, but thus far this target has not been met. Although higher than in 2006, expenditures for these activities amounted to 20.8 percent and 20.1 percent of domestic revenues in 2007 and 2008, respectively.[2] In

[2] Actual figure for 2007. Figure for 2008 based on approved expenditures.

addition to health and education, other major priority areas include agriculture and natural resources, governance and civil service reform, and infrastructure development. In 2010, the Government will seek to develop an indicative target for spending on poverty reducing activities that can be monitored in a timely manner under the ECF-supported program with the IMF.

18. **Government will intensify its efforts to attract greater donor support.** The establishment of a Partnership Framework for budget support between the Government of The Gambia and its Development Partners (AfDB, EU and the World Bank) led to the signing of the budget support agreement in Banjul on 9 December 2009. Actions aimed at strengthening public financial management, combined with disciplined execution of the budget, will be key for maintaining this support. Immediate attention will focus on the EU's requirements for an initial disbursement of budget support, including a Cabinet-approved PFM strategy and action plan, which will be submitted to Cabinet in January 2010. Timely implementation of the PFM action plan could also encourage other development partners to join the framework.

19. **In addition, government will work towards increasing access to concessional external resources. The thresholds on external debt indicators for the DSA are, at present, contingent on the three-year average for a country's World Bank's CPIA rating.** The submission to the National Assembly of the audited accounts for 2007, following the write-off of the unresolved differences in the 2006 closing balances, is an important step, albeit not the only one, toward securing a higher CPIA rating. While The Gambia will still face restrictions on external borrowing and guaranteeing debt on non-concessional terms, the ceiling on concessional borrowing could then be lifted. Until The Gambia officially achieves improved ratings for macroeconomic and public financial management and lowers the risk of debt distress, government will maintain the minimum grant element on external borrowing at 45 percent. Working together with the IMF, the Government will seek to harmonize its DSA with the one prepared by the IMF. In particular, the strengthening and reconciliation of national accounts statistics and projections will be critical.

20. **Monetary policy will be aimed at holding inflation to no more than 5 percent, by targeting reserve money growth to 10 percent during 2010.** Broad money is projected to grow by about 11 percent during the year, while growth in bank credit to the private sector is projected to pick up to 23 percent. The increasing of the minimum capital requirement for banks to D150 million by end-2010 will allow for a strong expansion of banks' portfolios.

21. **The CBG will maintain vigilant supervision of the banking system**. Because of the recent increase in the number of banks, the Banking Supervision Department will add a third team of bank examiners. In addition, the CBG is increasing banks' capital requirements from D60 million in 2009 to D150 million at end-2010 and D200 million at end-2012.

22. **The CBG will maintain a floating exchange rate regime.** While the CBG will institute a systematic process for selling foreign exchange aimed at sterilizing liquidity generated by donor-financed government spending, it may also intervene occasionally to maintain an orderly market. The monetary program for 2010 aims at maintaining the end-year stock of gross international reserves (in U.S. dollars) at the same level as the previous year.

23. **Overdrafts of the treasury main account have resulted in the government breaching the statutory limit on borrowing from the central bank (10 percent of the previous year's tax revenues as set by the CBG Act; but temporarily set at 20 percent by a memorandum of understanding between the Minister of Finance and Central Bank Governor).** Compliance with the statutory limit is a critical element for maintaining central bank independence and was a key recommendation of the November 2009 Safeguards Assessment by the IMF. The Government will reduce its overdrafts to be in full compliance with the statutory limit beginning end-September 2010. Better forecasting of expenditures would help reduce this overdraft and allow the central bank to better plan T-bill auctions.

24. **The government is committed to improving its debt sustainability position, primarily by curbing domestic debt.** It will also continue to reach and finalize agreements with creditors on HIPC debt relief.

25. **The government seeks additional technical assistance from the IMF in the areas of liquidity forecasting, tax administration, fiscal decentralisation, debt management, and national accounts and price statistics.**

V. Program Monitoring

26. **The program will continue to be monitored based on agreed quantitative targets and performance criteria (see Table 1), structural benchmarks (Table 3), and program reviews.** The quantitative financial targets for end-March 2010 and end-September 2010 are performance criteria, and those for end–June 2010 and end-December 2010 are indicative targets. The seventh review and eighth review are scheduled to be completed by end-July 2010 and end-January 2011, respectively. Definitions of all targeted variables and reporting requirements are contained in the attached technical memorandum of understanding (TMU).

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

Table 1. Quantitative Performance Criteria and Indicative Targets, End-December 2006 to End-December 2010

	2006	2007		2008		2009							2010			
	End-Dec.	End-Dec.[1]		End-Dec.		End-Mar.		End-Jun.		End-Sep.		End-Dec.	End-Mar.	End-Jun.	End-Sep	End-Dec
	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Prog.	Prog.	Prog.	Prog.
Performance criteria [2]	(Stock)							(Cumulative change from end-December 2006)								
								(Millions of dalasis)								
Net domestic assets of the central bank (ceiling)	38.7	504.5		-97.0		759.0		859.0		964.6		914.5	767.3	638.6	756.1	983.2
Adjusted for privatization proceeds and budget support[3]		262.5	-270.4	46.0	590.3	905.3	530.4	1,135.1	554.1	984.9	292.3					
Basic balance (floor)[4]	...	659.4		859.3		616.9		745.5		772.7		685.6	204.6	288.6	266.8	141.0
Adjusted for budget support		659.4	613.6	859.3	480.4	616.9	681.3	745.5	342.4	772.7	444.6					
New external payments arrears of the central government (ceiling)[5]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
								(Millions of U.S. dollars)								
Net usable international reserves (floor)	94.9	12.3		36.5		-2.9		-6.1		-5.9		-13.7	50.7	53.5	47.3	47.0
Adjusted for privatization proceeds and budget support[6]		23.3	32.0	30.0	1.3	-9.6	0.9	-18.7	0.3	32.2	43.7					
New nonconcessional debt contracted or guaranteed by the government with original maturity of more than one year (ceiling)[7]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of external public debt with original maturity of one year or less (ceiling)[8]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets								(Millions of dalasis)								
Domestic budgetary arrears[9]	561.5	-440.2	-369.5	-561.5	-561.5	-561.5	-494.3	-531.3	-494.3	-531.3	-494.3	-531.3	-561.5	-561.5	-561.5	-561.5
								(Millions of U.S. dollars)								
Net present value of new contracted external debt (cumulative ceiling)[10]		4.2	0.0	31.7	30.2	40.1	36.7	40.1	42.7	45.6	46.3	45.6	…	…	…	…
Memorandum item:																
Program exchange rate (D/$)		22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
Privatization proceeds ($ millions)	…	17.5	28.5	35.0	28.5	28.5	28.9	29.9	28.9	29.9	28.9	29.9	28.9	28.9	28.9	28.9
Privatization proceeds (D millions at program exchange rate)	…	385.0	627.0	770.0	627.0	627.0	634.7	657.8	634.7	657.8	634.7	657.8	634.7	634.7	634.7	634.7
Expenditure from privatization receipts (D millions)	…	70.0	158.6	612.0	612.0	612.0	612.0	612.0	612.0	657.8	634.7	657.8	634.7	634.7	634.7	634.7
Budget support grants ($ million)		0.0	0.0	0.0	0.0	7.0	0.0	11.5	0.0	11.5	11.6	11.5	11.5	19.3	23.2	23.2
Budget support grants (D millions at program exchange rate)		0.0	0.0	0.0	0.0	154.0	0.0	253.0	0.0	253.0	255.8	253.0	253.0	424.1	509.7	509.7
SDR allocation (SDR millions)										0.0	24.7	24.7	24.7	24.7	24.7	24.7
SDR allocation (dalasi at program exchange rate)										0.0	859.2	859.2	859.2	859.2	859.2	859.2

Source: Gambian authorities.

[1] MDRI debt relief took place in the fourth quarter of 2007.

[2] March 2009, September 2009, March 2010, and September 2010 are performance criteria; December 2007, December 2008, June 2009, December 2009, June 2010, and December 2010 are indicative targets.

[3] Adjusted upward (downward) by the dalasi equivalent of the extent to which actual receipts fall short of (exceed) projected level of privatization receipts and budget support grants.

[4] Defined as domestic revenue minus expenditure and net lending, excluding externally financed capital expenditure. The end-December 2009 outcome is estimated as 168.8; targets for 2010 were calculated on the basis of this estimate. Adjusted downward by the dalasi equivalent of the amount of external budget support in excess of the projected levels up to a cumulative maximum in of US$10 million in 2009 and 2010.

[5] To be applied on a continuous basis.

[6] Adjusted upward (downward) by the extent to which actual receipts exceed (fall short of) projected level of privatization receipts and budget support grants.

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

[8] Excluding normal import-related credits.

[9] Actual domestic budgetary arrears have been revised upwards for December 2007 and March 2008 to exclude loans that were initially included in arrears. Arrears for March 2009 were revised upwards to account for new arrears owed to the National Water and Electricity Corporation (NAWEC).

[10] Cumulative from October 1, 2007.

Table 2: Structural Benchmarks, July-December 2009

Measure	Target date	Status
Public financial management and accountability		
1. Auditing of government accounts: submit to the national assembly audited government accounts for 2005, 2006, and 2007	End-Sept 2009	Delayed. Accounts for 2005 and 2006 were submitted to the National Assembly, but the audit of 2007 accounts has been delayed, because of the restatement exercise for end-2006 balances to account for long-running discrepancies. The restated balance for end-2006 will help prevent qualifications in subsequent audits.
2. Prepare a national debt strategy after receiving TA	End-Sept 2009	Met
Statistics		
3. Publish quarterly balance of payments statistics, with a one quarter lag	(i) End-Sept 2009 (2009 Q2 data) (ii) End-Dec 2009 (2009 Q3 data)	Met

Table 3. Structural Benchmarks, January-December 2010

Measure	Target date
Public financial management and accountability	
1. Establish an internal audit unit at the Ministry of Finance and Economic Affairs and hire core staff.	End-June 2010
Monetary policy	
2. Adopt a MOU that ensures the regular flow of government revenue and expenditure data to the T-bill committee.	End-Mar 2010
Statistics	
3. Improve GDP estimates by developing better indicators of subcomponents (e.g. wholesale and retail trade).	End-Mar 2010
4. Publish quarterly balance of payments statistics, with a one quarter lag	(i) End-March 2010 (2009 Q4 data) (ii) End-June 2010 (2010 Q1 data) (iii) End-Sept. 2010 (2010 Q2 data) (iv) End-Dec. 2010 (2010 Q3 data)

TECHNICAL MEMORANDUM OF UNDERSTANDING

I. INTRODUCTION

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

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Net Domestic Assets of the Central Bank

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

3. For program monitoring purposes, in the calculation of the net domestic assets of the CBG, foreign assets and liabilities will be converted first into U.S. dollars at the prevailing cross-rates and then converted into dalasi using the program exchange rate of D22/US$. This is an accounting exchange rate only and should not be construed as a projection.

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

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

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

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[1] The authorities are requesting an extension of the program by one year. If this extension is approved, this memorandum will also apply to the period of extension.

7. **Supporting material:** The CBG will report data on privatization receipts in the currency it is received in as well as equivalent amounts in U.S. dollars and in dalasis on a monthly basis within two weeks of the end of the month. The Ministry of Finance and Economic Affairs (MOFEA) will report data on a monthly basis within two weeks of the end of the month on expenditures made from the privatization receipts.

B. Basic Balance of the Central Government

8. **Definition:** The basic balance of the central government is defined as revenue (tax and nontax) minus total expenditure and net lending, excluding externally financed capital expenditure. Central government excludes local and regional governments and public enterprises.

9. **Adjuster:** The basic balance will be adjusted downwards by the dalasi equivalent of the amount of external budget support in excess of the projected levels up a cumulative maximum in of US$10 million in 2009 and 2010.

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

C. New External Payments Arrears of the Central Government

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

12. **Supporting material:** An accounting of nonreschedulable external arrears (if any) by creditor countries, with detailed explanations, will be transmitted on a monthly basis within four weeks of the end of each month. This accounting would include, separately, arrears owed by the central government and other public sector entities to Paris Club and non-Paris-Club creditors.

D. Net Usable International Reserves of the Central Bank of The Gambia

13. **Definition:** ***Net usable international reserves (NIR)*** of the CBG are defined as the difference between usable reserve assets and reserve liabilities. ***Usable reserve assets*** are readily available claims on nonresidents denominated in foreign convertible currencies. They include the CBG holdings of SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the IMF. Excluded are any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign

exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals, assets in nonconvertible currencies, and illiquid assets (including capital shares in international organizations). ***Reserve liabilities*** are all foreign exchange liabilities to residents and nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), and all credit outstanding from the IMF.

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

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

16. **Adjuster:** In case of an allocation of SDRs by the IMF, the net usable international reserves of the CBG will be adjusted upward by the amount of the SDR allocation.

17. **Supporting material:** End-month data on net usable international reserves of the CBG will be transmitted within seven days of the end of each month. The CBG will identify the U.S. dollar equivalent of privatization receipts within net usable international reserves as a memorandum item.

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

18. **Definition:** This target refers to new nonconcessional external debt with original maturity of more than one year contracted or guaranteed by the central government. It applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 24, 2000 (Decision No. 12274–00/85), but also to commitments contracted or guaranteed for which value has not been received. Excluded from this target are loans or purchases from the IMF and debts with a grant element of at least 45 percent.[2] Also excluded are two loans from the OPEC Fund for International Development with grant elements of 39.5 percent each, which were approved in the first half of 2007.

19. **Supporting material:** A comprehensive record, including a loan-by-loan accounting of all new concessional and nonconcessional debt contracted or guaranteed by the central

[2] To be considered concessional in IMF arrangements, a loan should have a grant element of at least 35 percent, calculated on the basis of the commercial interest reference rates (CIRR) and following the methodology set out in staff paper on Limits on External Debt or Borrowing in Fund Arrangements – Proposed Change in Implementation of the Revised Guidelines approved by the IMF Executive Board on April 15, 1996.

government with detailed explanations, will be transmitted on a quarterly basis within four weeks of the end of each quarter. Nonconcessional external debt over one year includes financial leases and other instruments giving rise to external liabilities, contingent or otherwise, on nonconcessional terms.

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

20. **Definition**: This target refers to the stock of outstanding external public sector debt with original maturity of one year or less, owed or guaranteed by the central government.[3] Public sector consists of the central and regional governments and other public agencies, including the CBG. Excluded from this target are normal import-related credits.

21. **Supporting material:** A comprehensive record of all external debt with original maturity of less than one year owed or contracted by the public sector, with detailed explanations, will be transmitted on a quarterly basis within four weeks of the end of each quarter.

III. Quantitative Indicative Targets

A. Domestic Budgetary Arrears

22. **Definition:** Domestic budgetary arrears are defined as the sum of all bills that have been received by a central government spending unit or line ministry under the recurrent expenditure budget (including rents and utilities) or the development expenditure budget, and for which payment has not been made within 30 days. Arrears can be cleared in cash or through debt swaps.

23. **Supporting material:** A comprehensive record of all domestic budgetary arrears, with detailed explanations, will be transmitted on a quarterly basis within four weeks of the end of each quarter.

B. Net Present Value of New Contracted External Debt

24. **Definition:** The net present value (NPV) of new external debt contracted or guaranteed by the government from October 2007 onward is calculated by discounting the future stream of payments of debt service due by the country-specific commercial interest reference rates (CIRRs) as published by the Organization for Economic Cooperation and Development (OECD). The new external debt will be measured by the U.S. dollar nominal sum of all loan agreements that have been contracted (ratified by parliament). Disbursed debt

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

will be converted to U.S. dollars, based on prevailing WEO test date exchange rates; for loans contracted but not yet disbursed, the profile disbursement will be measured at the actual exchange rate at the test date, based on the projected drawdown consistent with the medium-term fiscal framework as discussed with the Fund staff.

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

IV. Structural Performance Criteria and Benchmarks

A. Pro-Forma Financial Statements

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

B. Credit Reference Bureau

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

C. Quarterly Balance of Payments Statistics

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

V. Other Data Requirements and Reporting Standards

29. In addition to providing the data needed to monitor program implementation in relation to the program's performance criteria, indicative targets, and benchmarks, as set out above, the authorities will transmit the following data within the time frame specified below:

A. Prices

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

B. Government Accounts Data

31. A monthly consolidated central government budget report (i.e., the analytical table) on budget execution during the month and cumulatively from the beginning of the year, will

be transmitted to the IMF within four weeks of the end of the month. The report will comprise: (i) revenue data by major item, including tax (direct tax, taxes on domestic goods and services, and taxes on international trade) and nontax; (ii) external grants by type (e.g., project, program); (iii) details of recurrent expenditure (including data on wages and salaries, interest payments, and other charges); (iv) details of capital expenditure and net lending (including data on externally financed capital expenditure, expenditures from the Gambia Local Fund, and net lending); (v) the overall balance and the basic balance (defined in paragraph 7); and (vi) details of budget financing (including net domestic borrowing and its gross components, external grants, net external borrowing and its gross components, utilization of privatization proceeds, and arrears).

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

C. Poverty Reducing Expenditures

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

D. Monetary Sector Data

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

35. The consolidated balance sheet of the commercial banks and a monetary survey (i.e., consolidation of the accounts of the CBG and the commercial banks), including foreign currency deposits held by residents of The Gambia with commercial banks, will be transmitted within four weeks of the end of each month.

36. The CBG will also forward, within four weeks of the end of each month, data on banks' reserves held at the CBG to meet statutory reserve requirements during the last week

of each month (broken down by total reserves, and excess reserves or deficits). Data will be provided for each commercial bank as well as for the industry as a whole.

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

38. The CBG will also forward within four weeks at the end of each month, data on transactions in official reserves, including daily data on foreign exchange intervention. Further, the CBG will forward the foreign exchange liquidity forecast following each meeting of the Foreign Reserves Management Committee.

E. Treasury Bills

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

F. External Sector Data

40. The following standards will be adhered to in reporting data on exchange rates: (i) the interbank market exchange rates, defined as the simple average of the weekly weighted average buying and selling rates, will be transmitted on a weekly basis within five business days of the end of the week; and (ii) the CBG's published monthly average and end-month exchange rates, including those for all currencies in which foreign assets and liabilities are denominated, will be transmitted within two weeks of the end of the month.

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

G. CBG Report on Monetary Program Data

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