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The Gambia: Staff-Monitored Program

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THE GAMBIA

Staff-Monitored Program

Prepared by the African Department
(In consultation with other departments)

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December 21, 2005

- A mission to discuss a Staff-Monitored Program (SMP) visited The Gambia during September 26–October 9, 2005. The staff team comprised Messrs. Tsikata (Head), Srour, Sriram (all AFR), and Wu (PDR). Mr. Steytler (OED) participated in the discussions, and Mr. Soh of the World Bank joined the second half of the mission.

- The mission met with President Jammeh, the Secretary of State for Finance and Economic Affairs, the Governor of the Central Bank of The Gambia (CBG), other senior officials of the government and the CBG, and representatives of the diplomatic and donor communities.

- On July 18, 2005, the Executive Board concluded the 2005 Article IV consultation with The Gambia and also discussed the Ex Post Assessment (EPA) of the country's long-term engagement in Fund-supported programs. Directors agreed that the main medium-term challenge for The Gambia is to make a decisive break from past "stop-go" policies and embark on a comprehensive economic program that would establish the conditions for sustainable growth and poverty reduction.

- A Poverty Reduction and Growth Facility (PRGF) arrangement that was approved in 2002 in an amount equivalent to SDR 20.22 million (65 percent of quota) expired in July 2005 without the completion of a single review.

- Following the discovery (in mid-2003) of evidence of misreporting of data to the Fund under the 1998–2001 Enhanced Structural Adjustment Facility arrangement, the authorities repaid two noncomplying disbursements equivalent to SDR 6.87 million in total in four equal installments during 2004.

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EXECUTIVE SUMMARY

- **A strengthening of fiscal and monetary policies has contributed to a significant improvement in the macroeconomic environment over the last two years.** Inflation has fallen to low single-digit levels, the exchange rate has been stable, international reserves have increased steadily, and interest rates have begun to fall. Real GDP growth has rebounded from a drought-induced decline in 2002 to growth rates of 7 percent and 5 percent in 2003 and 2004, respectively, and is projected to remain at 5 percent in 2005. However, slippages in fiscal policy implementation in 2005 indicate that fiscal discipline is not yet firmly established.

- **Progress in the implementation of structural reforms has been mixed**, ranging from steps to improve governance issues at the CBG to slow progress in the implementation of the government's privatization program. Some progress has also been made in improving public financial management and in enhancing fiscal transparency.

- **Understandings have been reached with the authorities on a Staff-Monitored Program (SMP) covering the period October 1, 2005 to March 31, 2006.** Key objectives of the program include making progress toward fiscal sustainability, strengthening internal controls and the operational independence of the Central Bank of The Gambia, and enhancing public financial management and accountability. Policy discussions were dominated by the fiscal outlook and policies for the remainder of 2005, the 2006 budget, and the pace of easing the monetary stance.

- **Successful implementation of the SMP should pave the way for reaching understandings on a possible new arrangement under the Poverty Reduction and Growth Facility (PRGF).** The authorities have indicated their intention to request a PRGF arrangement in due course, since satisfactory performance under a PRGF arrangement is one of the conditions they must satisfy to reach completion point under the enhanced HIPC Initiative and be eligible for debt relief under the Multilateral Debt Relief Initiative.

- **Fiscal slippages pose the greatest risk to the program**. Specific risks include extrabudgetary spending in 2006 related to forthcoming general elections and significantly larger-than budgeted spending on an African Union summit scheduled to be held in Banjul in June 2006. Other risks include implementation capacity constraints, high turnover of senior government officials (including those responsible for the program), and exogenous shocks related to the weather or renewed tensions with Senegal and the associated disruption to trade flows.

I. Introduction

1. **In the attached letter of intent dated December 20, 2005 (Appendix I), the Gambian authorities request a Staff-Monitored Program (SMP) covering the period October 1, 2005–March 31, 2006,** in support of their economic program spelt out in the accompanying Memorandum on Economic and Financial Policies (MEFP). Successful implementation of the SMP would pave the way for reaching understandings on a possible new arrangement under the Poverty Reduction and Growth Facility (PRGF). The Gambia's last PRGF-supported program went off-track soon after approval of the arrangement in 2002, mainly due to weaknesses in public spending control mechanisms and irregularities at the Central Bank of The Gambia (CBG). Satisfactory performance under a PRGF-supported program is one of the completion point conditions for The Gambia under the enhanced HIPC Initiative.[1]

2. **The principal purpose of the SMP is to assist the authorities re-establish a policy implementation track record with the Fund.** The main objectives of the SMP are to make progress toward fiscal sustainability (by reducing the government's domestic borrowing requirement), strengthening internal controls and the operational independence of the CBG, and enhancing public financial management and accountability (MEFP, paragraph 18).

II. Recent Developments

3. **Tensions in relations between The Gambia and Senegal which threatened to disrupt The Gambia's all important re-export trade have been resolved.** Following a meeting between Presidents Jammeh and Wade in Dakar, the main border crossing between the two countries that had been closed for over two months re-opened in late-October 2005. The border was closed in mid-August when the Gambia Ports Authority doubled the tariffs for ferry crossings. In response, the Senegalese Transport Union organized a boycott of the ferry and instituted a transport blockage that halted the flow of commercial transport between the two countries. The Gambia has rescinded the tariff increase that sparked the problem.

4. **Real per capita GDP has rebounded from a drought-induced decline in 2002.** Real GDP growth is estimated at 7 percent and 5 percent in 2003 and 2004, respectively, and is projected to remain at 5 percent in 2005 (Table 1). These rates outpace annual population growth which is estimated to have averaged about 2.8 percent in recent years. Growth has been led by the agriculture and tourism sectors.

5. **A strengthening of policies has contributed to a significant improvement in the macroeconomic environment over the last two years.** In particular, inflation has fallen to low single-digit levels, the exchange rate has been stable, international reserves have increased steadily, and interest rates have begun to fall. These developments represent a marked turn-around from the acceleration in inflation and sharp depreciation of the exchange rate that occurred in the aftermath of loose fiscal and accommodating monetary policies during 2001–02.

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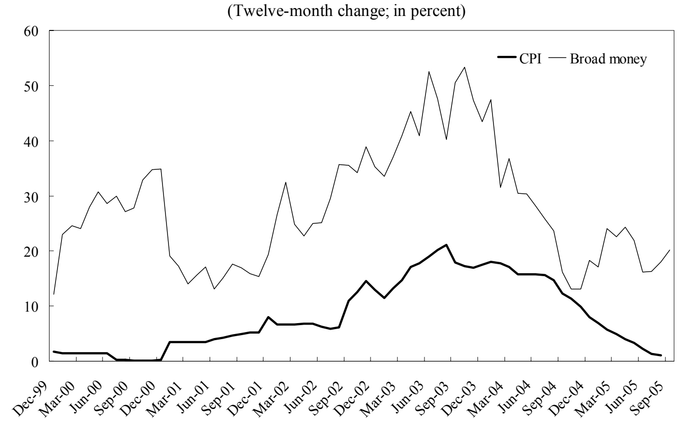
[1] The Gambia reached the decision point under the enhanced HIPC Initiative in December 2000.

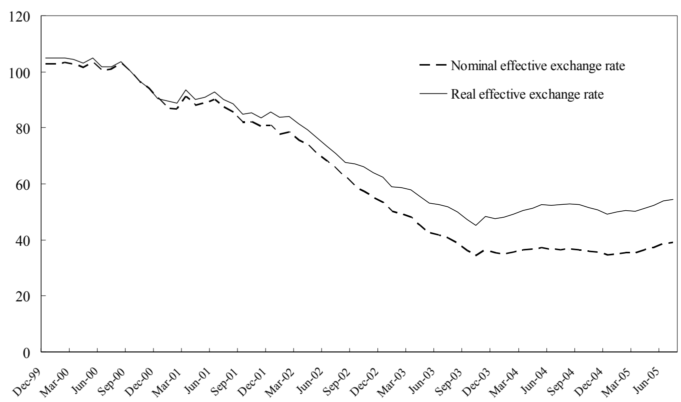
6. **A tightening of monetary policy and the stabilization of the exchange rate contributed to a marked reduction in the inflation rate.** The CBG tightened monetary policy in 2003 and 2004—directly through changes in reserve requirements and indirectly through monetary operations to contain growth in reserve money within its target path (MEFP, paragraph 6). On a year-on-year basis, consumer price inflation fell from a peak of 21 percent in August 2003 to 8 percent in December 2004 and to 1 percent in August 2005. Inflation has tended to track growth in broad money (Figure 1). Growth in broad money slowed from 43 percent in 2003 to 18 percent in 2004. In the first nine months of 2005, broad money growth has fluctuated between 16 percent and 24 percent on a year-on-year basis, while inflation has continued to fall steadily. After sharp depreciations during 2002–03, the dalasi has remained stable in nominal and real effective terms (Figure 2).

Figure 1. The Gambia: CPI and Broad Money, December 1999-September 2005
(Twelve-month change; in percent)



Source: Gambian authorities.

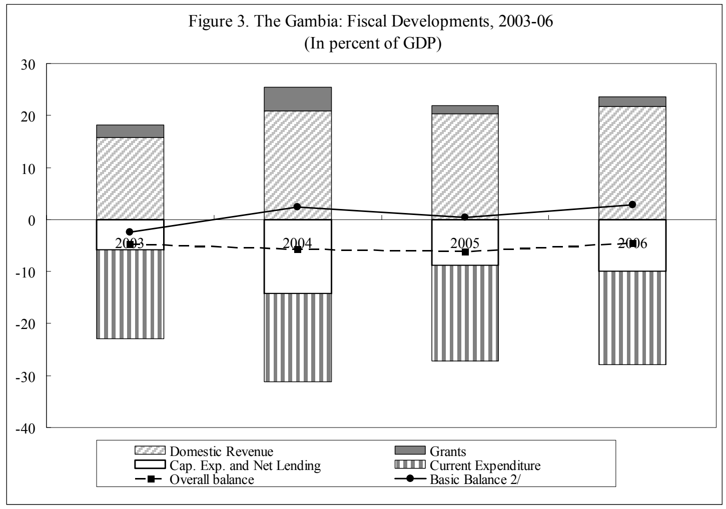
Figure 2. The Gambia: Nominal and Real Effective Exchange Rates, Dec. 1999-July 2005
(Index, 2000=100)



Source: IMF, *Information Notice System* (INS).

7. **Domestic fiscal operations were significantly tightened in 2004, but the overall fiscal deficit widened on account of a large increase in externally financed capital expenditures**. The basic balance improved from a 2.5 percent of GDP deficit in 2003 to a 2.4 percent of GDP surplus in 2004, reflecting improved revenue performance and effective control over discretionary expenditure.[2] The overall fiscal deficit increased by 1 percent of GDP to reach 5.7 percentof GDP; improvement in revenues and grants was morethan offset by an

[2] The basic balance is defined as domestic revenue minus total expenditure and net lending, excluding externally financed capital expenditure.



increase in total expenditure and net lending (Table 2, and Figure 3). The improvement in revenues (5 percent of GDP) came mostly from international trade taxes, and reflected the impact of a sharp depreciation of the exchange rate as well as improved revenue administration (MEFP, paragraph 8). On the expenditure side, all the increase came from capital expenditure, as current expenditure and net lending remained broadly unchanged. Within current expenditure, an increase in interest payments (reflecting a significant increase in domestic debt and high interest rates) was offset by a decrease in "other charges."[3] The higher level of capital expenditure was financed by increased external financing (grants and net borrowing).

8. **The stock of domestic debt increased by over 5 percent of GDP to about 33 percent of GDP at end-2004**, mainly due to the issuance of large amounts of treasury bills for monetary operations purposes (i.e., CBG's sterilization of inflows of net foreign assets).[4] The government's domestic borrowing requirement increased by less than 1 percent of GDP.

9. **Slippages in fiscal policy implementation in 2005 indicate that fiscal discipline is not yet firmly established.** In the first half of 2005, the basic balance in the fiscal accounts recorded a deficit equivalent to nearly 1 percent of GDP, reflecting sizeable extrabudgetary spending (amounting to D 116 million, or 0.9 percent of GDP)[5] and lower-than-projected revenues (Table 3). The revenue shortfalls were mostly in the categories of international trade taxes and nontax revenues, and, in part, reflected falling revenues from petroleum products as retail prices remained fixed while import costs rose significantly. Other notable developments in the first half of the year included lower-than-projected external grants and higher than projected interest payments; the latter mainly reflected the cost of servicing higher domestic debt.

10. **The authorities have implemented measures to redress, at least partially, the fiscal slippages that occurred in the first half of the year.** Specifically, they imposed quarterly

[3] Other charges consist of expenditures on goods and services, and subsidies and transfers.

[4] The CBG's main instrument for mopping up excess liquidity is issuance of 91-day treasury bills.

[5] Most of the extrabudgetary spending (D 101 million of it) was recorded in the first quarter of the year; the composition of this spending is described in paragraph 9 of the MEFP.

ceilings on discretionary spending[6] starting from the second quarter, and increased the retail price of diesel and gasoline in July.[7] The quarterly limits on discretionary expenditures—D 190 million per quarter after the first quarter—represented a 24 percent cut in the budgetary allocation for these items for the year, and also adversely affected social and poverty spending (MEFP, paragraph 20). In order to shore up revenues and avoid budget subsidization of petroleum product prices, the authorities increased the pump price of gasoline from D 22 to D 27 per liter, and the price of diesel from D 21.5 to D 25 per liter. The retail price of kerosene was left unchanged at D 9 per liter in order to provide some relief to the poor. The adjustment in the prices of gasoline and diesel was enough to cross-subsidize the price of kerosene without recourse to the government budget. The authorities remain committed to a monthly review of the pump prices of petroleum products and to adjusting them as needed to avoid subsidies from the budget.

11. **Low inflation and a stable dalasi have allowed the CBG room to ease monetary policy.** The CBG gradually lowered its policy rediscount rate from 34 percent per annum in September 2004 to 19 percent in October 2005.[8] The yield on the benchmark 91-day treasury bill (determined at the weekly auctions) has fallen more sharply, from 31 percent to 9 percent over the same period. The high interest rates that prevailed in 2004 not only placed a heavy burden on the government budget but also contributed to an 11 percent decline in banking system lending to the private sector in 2004 (Table 4). However, some evidence has begun to emerge of a recovery in commercial banks' lending to the private sector in 2005 as interest rates began to come down; outstanding loans to the private sector recovered to the end–2003 level by June 2005 (Table 5).

12. **On the external front, the current account deficit (including official transfers) widened from 5 percent of GDP in 2003 to 12 percent in 2004 (Table 6), driven in large part by strong import growth.** The larger current account deficit was financed by increased foreign direct investment and official (concessional) borrowing. The current account deficit is projected to widen further to 13 percent of GDP in 2005 in spite of a substantial increase in receipts from tourism. Exports are projected to fall slightly, reflecting a significant drop in groundnut and groundnut product exports. Groundnut exports were adversely affected by a government decision to increase substantially the financial requirement for licensing operators.

This decision disrupted marketing arrangements and led to a recently established enterprise—the Gambian Agricultural Marketing Corporation (GAMCO)—monopolizing crop purchases and

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[6] Non-discretionary spending is defined as the sum of wages and salaries, and interest payments. Discretionary spending is defined as the sum of the remaining current expenditures (i.e., "subsidies and transfers," and "other charges") and spending from the Gambia Local Fund (government contribution to development expenditures).

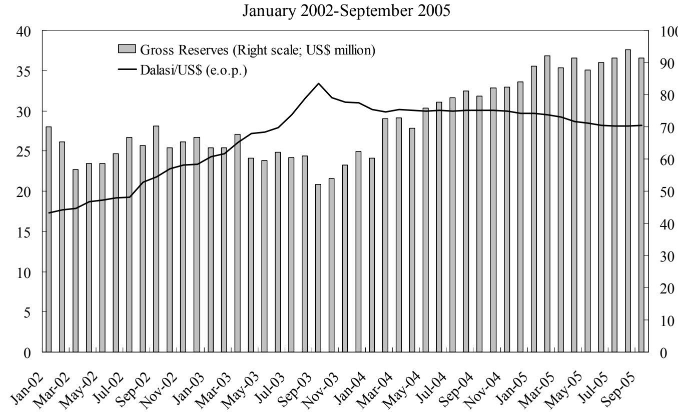
[7] Domestic prices for diesel and kerosene were last increased in October 2004 and for premium gasoline in December 2003.

[8] Since July 2004, the Monetary Policy Committee of the CBG has been meeting every other month. Changes in the monetary policy stance have been signaled mainly by adjustments in the rediscount rate.

processing in the 2004/05 season.[9] The financial requirement for obtaining a license was relaxed in November 2005.

13. **Gross international reserves have grown steadily in U.S. dollar terms since early 2004 (Figure 4).** However, they have fallen slightly in recent years when measured in terms of import coverage (Table 6).

Figure 4. The Gambia: Gross Reserves and Exchange Rate, January 2002-September 2005



Sources: Gambian authorities; and IMF staff estimates.

III. SMP Discussions

14. **The SMP discussions focused on fiscal and monetary policies and related structural reforms aimed at sustaining recent improvements in macroeconomic performance.** On the fiscal side, the discussions were dominated by the outlook and policies for the remainder of 2005 and the 2006 budget. Monetary policy discussions centered on the pace of monetary easing and the relationship between the CBG's policy rediscount rate and the yield on the benchmark 91-day treasury bill. Discussions on structural reforms revolved around: (1) strengthening internal controls and the operational independence of the CBG; (2) strengthening public financial management; and (3) putting in place a credible reporting system for monitoring performance under the SMP and a possible new PRGF-supported program.

A. Medium-Term Macroeconomic Framework

15. **The authorities and staff agreed on the main elements of a medium-term framework within which the SMP should be cast, with the understanding that this framework will be updated and fleshed out more fully in the context of negotiations for a possible PRGF arrangement.**[10] The following broad macroeconomic objectives were set for 2005–08 (Table 1): (1) real GDP growth of 4½–5 percent per annum; (2) inflation in the range of 3–5 percent per annum; (3) reduction in the external current account deficit (including official transfers) from 13.1 percent of GDP in 2005 to 6.7 percent in 2008; (4) increase in gross international reserves from the equivalent of 4.4 months of imports in 2005 to 4.7 months in 2008; and (5) reduction in the stock of domestic public debt from a projected 34.6 percent of GDP at end-2005 to 27.1 percent at end-2008.

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[9] GAMCO's shares are held by a private foreign investor (68 percent), local private investors (1 percent), public enterprises (28 percent), and the Department of State for Finance and Economic Affairs (DoSFEA) (3 percent).

[10] The details of the medium-term projections contained in Tables 2 and 6 represent staff's judgment based on information received during and after the mission from the authorities and The Gambia's development partners (including the World Bank, the African Development Bank (AfDB), and the European Union).

16. **The tourism, trade, and agriculture sectors are projected to be the main sources of growth.** In particular, a marked increase in tourist arrivals in 2005 is expected to be sustained over the medium-term. In terms of infrastructure, two major hotels are expected to be completed in 2006/07.

17. **Fiscal consolidation is expected to contribute substantially to achieving the envisaged external adjustment and to reducing the stock of public debt.** The overall fiscal deficit is projected to fall from 6.1 percent of GDP in 2005 to 0.5 percent in 2008, driven by a large increase in external grants and significant savings in domestic interest payments (Table 2). Grants are projected to increase by 5 percent of GDP, reflecting the impact of HIPC debt relief from 2007, major road projects by the European Development Fund, and a substitution of grants for loans by the World Bank and the AfDB. With respect to interest payments, they are projected to decline by 4 percent of GDP, mainly on account of declining domestic interest rates.[11]

B. Fiscal Policy

18. **The main objective of fiscal policy in the near term is to achieve the basic balance targets set for 2005 and 2006.** The basic balance is targeted to record a surplus equivalent to 1 percent of annual GDP in the second half of 2005 to bring the position for the year as a whole to near balance. To this end, the authorities agreed to limit discretionary spending in the fourth quarter to ensure that such spending does not exceed D 844 million for the year as a whole (a 20 percent cut compared to the budget). The authorities acknowledged that there had been an accumulation of domestic arrears but did not have a firm estimate of its magnitude. They indicated that they had received claims from several construction companies and contractors for outstanding payments dating back several years. Staff advised the authorities to undertake an exercise to establish the magnitude of the problem and come up with a plan for clearing verified arrears. It was agreed that discussion of this plan will form part of the staff assessment of the implementation of the SMP.

19. **The 2006 budget targets a 3 percent of GDP surplus in the basic balance** to allow for some clearing of domestic arrears and to reduce the stock of outstanding domestic public debt. A modest reduction in domestic financing is projected, based on the outlook for external financing. Domestic revenues are projected to increase by 1.5 percent of GDP over the projected 2005 level. Staff estimates that measures announced in the 2006 budget (in December 2005) will yield about 2 percent of GDP in additional revenues.[12] The authorities expect that steps they have taken to improve customs administration (MEFP, paragraph 19) will also yield additional revenues, which have not been included in the staff's estimates.

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[11] The average interest rate on domestic public debt is projected to fall from 20 percent in 2005 to 12 percent in 2008.

[12] The measures include increasing the sales tax on non-oil imports (to bring the rate in line with that on domestic goods), increases in the retail price of petroleum products, and increases in fees for selected government services and licenses.

20. **On the expenditure side, the impact of lower interest payments are counteracted by provisions for two major events—the hosting of an African Union (AU) summit and general elections.** The AU summit is scheduled to be held in Banjul in June 2006. Presidential elections are scheduled to be held in the fourth quarter of 2006 and parliamentary and local elections in early 2007. The authorities indicated that they were expecting external financial aid to supplement their own contributions to defray the costs associated with these events. The mission received confirmation from representatives of the donor community regarding financial support for the elections. President Jammeh assured the mission that only the costs of organizing the elections would be borne by the budget, and that no politically motivated extrabudgetary spending would be undertaken.

21. **The mission urged the authorities to increase the share of poverty-reducing expenditures in total expenditures**, in line with the recommendation of the Joint Staff Advisory Note (JSAN) on the first PRSP annual progress report. The authorities indicated that social and poverty reducing spending had been adversely affected by tight budget ceilings, including those established to offset the effects of extrabudgetary spending in 2005. In order to reverse this trend, the Strategy for Poverty Alleviation Coordination Office (SPACO) was given a greater role in the 2006 budget preparation process to ensure that the composition of government spending reflects the priorities established in the PRSP.

C. Monetary and Exchange Rate Policies

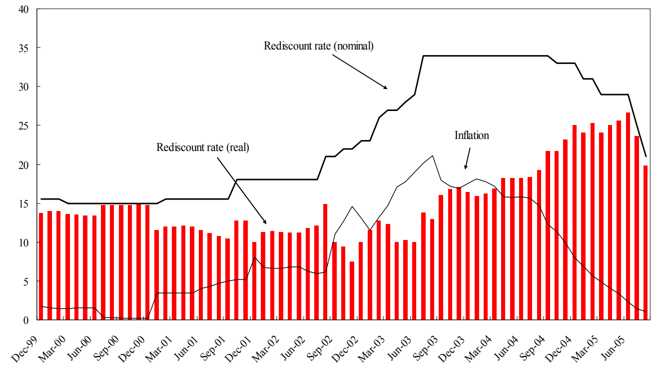
22. **The monetary program has been designed to keep inflation at low single-digit levels.** The CBG employs a monetary targeting framework to pursue its inflation objectives. Specifically, it sets an intermediate target for growth in broad money (the nominal anchor of the system) and uses reserve money as its operational target. The issuance of treasury bills is the main instrument for keeping growth in reserve money within target.[13]

23. **However, the CBG also uses the rediscount rate to signal its monetary policy stance although no transactions have been taking place at the rediscount window.** Staff commended the CBG for the smooth and transparent manner in which the Monetary Policy Committee has been operating, and endorsed the recent downward adjustment in the rediscount

[13] The CBG has full control over the amount of treasury bills issued for monetary policy purposes.

rate. However, given the current high level of the rediscount rate in real terms (Figure 5), and the outlook for inflation to remain at low single-digit levels, the staff was of the view that there was room for some further reduction in the rediscount rate. Staff indicated that the recent substantial widening in the gap between the rediscount rate and the market-determined yield on the 91-day treasury bill (see paragraph 11) might be sending mixed signals about the CBG's intentions. The CBG acknowledged that this might be a problem but preferred to take a more cautious approach to reducing the rediscount rate.

Figure 5. The Gambia: Nominal and Real Rediscount Rates, December 1999-August 2005
(In percent)



Sources: Gambian authorities; and IMF staff estimates.

24. **The exchange rate regime in The Gambia is a managed float, with the CBG limiting its intervention in the foreign exchange market to achieving international reserves targets and to smoothening volatility.** The staff and the authorities share the view that the current level of the exchange rate is broadly appropriate, and that structural bottlenecks pose the main obstacle to stimulating exports. Furthermore, the output of agricultural products (The Gambia's major domestic exports) is more sensitive to weather-related shocks than to exchange rate developments.[14]

D. Debt Sustainability

25. **External debt sustainability could pose a major challenge for The Gambia over the medium term**. Under the assumption that The Gambia borrows only on highly concessional terms and reaches the HIPC completion point in 2007, the net present value (NPV) of the external debt-to-exports ratio is projected to decline from 312 percent in 2005 to 183 percent by 2010.[15] Although all the key ratios for gauging sustainability are projected to decline, they remain well above the sustainability thresholds for poorly performing low-income countries. However, reaching the HIPC completion point will make The Gambia eligible for the Multilateral Debt Relief Initiative (MDRI), under which the country's remaining repayment obligations to the Fund, the International Development Association (IDA), and the African

[14] This reiterates the viewpoint reported in the staff report for the 2005 Article IV consultation (IMF Country Report No. 06/8). Exchange rate policy and competitiveness issues will be revisited in the context of the 2006 Article IV consultations.

[15] See IMF Country Report No. 06/8.

Development Fund (AfDF) on debt disbursed before January 1 2005 would be canceled.[16] The status of the HIPC completion point triggers is summarized in Table 7.

E. Structural Reforms

26. **CBG governance and operational independence.** Implementation of the Action Plan approved by the CBG Board in July 2005 to tighten internal controls is a key component of the SMP. Other specific measures under the SMP include the codification of improvements in accounting practices, and quarterly audits of the accounts underlying the program's net usable international reserves and net domestic assets of the CBG. The new CBG bill designed to strengthen the central bank's operational independence was passed by the national assembly in December 2005.

27. **CBG accounts.** The external auditors rendered a "qualified opinion" on the CBG's 2003 accounts based on limitations in the scope of available information on certain balance sheet items. The limitations included inadequate documentary evidence which made it impossible for the auditors to confirm the accuracy of some accounts. Work has started on auditing the 2004 accounts, which the CBG expects to be completed by end-December 2005. The CBG also expects that audited accounts for 2005 will be ready around end-March 2006.

28. **Monetary operations.** With technical assistance support from the Fund's Monetary and Financial Systems Department (MFD), the CBG is seeking to enhance the conduct of monetary policy by increasing the range of available instruments. Preparations are underway for the introduction of (1) an overnight facility for managing liquidity on a daily basis, (2) a secured credit facility to encourage banks to engage in interbank transactions, and (3) a 14-day instrument aimed at more clearly separating monetary operations from the financing of the government budget. It is expected that the rediscount window will be phased out after the introduction of the new instruments.

29. **Public financial management.** Financial regulations to operationalize the organic budget law passed in 2004 have been completed and are being implemented. Progress has also been made in clearing some of the backlog of unaudited government accounts; the National Audit Office completed and submitted to the national assembly the audited accounts for the fiscal years 1992–99. Submission of the 2000 and 2001 accounts to the Auditor-General has been specified as benchmarks under the SMP. The government is also taking steps to implement measures to enhance expenditure tracking and reporting capabilities, including fully staffing the new donor coordination unit in the Department of State for Finance and Economic Affairs (DoSFEA) in order to better capture aid flows and related expenditures. Efforts are also underway to introduce a commitment control system (MEFP, paragraph 21).

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[16] Debt to IDA, IMF, and AfDF accounts for about 70 percent of The Gambia's total external debt at end-2004.

30. **Groundnut marketing.** The authorities reiterated to the mission their commitment to a competitive private-sector-operated marketing system for the groundnut sector. They reported that a stakeholders workshop organized by the government in September 2005, which was also attended by representatives of all the key actors in the sector (including commercial banks), proposed measures to ensure smoother marketing arrangements for the 2005–06 season.

F. The PRSP process

31. **The authorities noted that implementation of the PRSP had been hampered mainly by absence of donor support, limited capacity, and inadequate prioritization** (MEFP, paragraph 32). The first annual PRSP progress report—covering implementation from mid-2002 to the end of 2003—was submitted to the Fund and the World Bank in January 2005. A draft of the second annual PRSP progress report covering implementation in 2004 has been completed. The authorities have set a target of end-2005 for the preparation of an initial draft of a new PRSP covering the period 2006–08.

G. Capacity Building

32. **Strengthening the country's capacity for economic management, especially in the areas of public financial management and the conduct of monetary and foreign exchange operations,** will continue to be a major focus of the Fund's technical assistance to The Gambia. At the request of the authorities, FAD has approved the extension into 2006 of assistance being provided by a regional advisor who is helping the authorities to institute a commitments control system and to enhance the monitoring and reporting of budget execution. In the areas of monetary operations and foreign exchange management, expert visits and missions are scheduled for the last quarter of 2005 and the first quarter of 2006. They will follow-up on recommendations of earlier missions, including assisting with measures to enhance the operations of the domestic money market and helping to strengthen the risk management framework that guides foreign reserves management. In the latter area, assistance will include market and credit risk identification, measurement, and control.

33. **In the area of macroeconomic statistics, STA will be providing assistance to strengthen the compilation of balance of payments and monetary and financial statistics.** The World Bank has also been providing support in other areas that are urgently in need of technical assistance. These areas include (1) updating of the CPI weights using the 2004 household expenditure survey to better reflect current consumption patterns, and (2) updating the national accounts and expanding its compilation to include independent estimates of gross domestic expenditure.

H. Program Monitoring

34. The program will be monitored through a set of quarterly quantitative indicative targets and a set of structural benchmarks (MEFP, Tables 1 and 2). End-December 2005 and end-March 2006 are test dates for the quantitative targets. Two staff visits are scheduled; one in February 2006 and the other in May 2006. Topics to be covered during the missions include domestic arrears, the government's privatization program (especially progress on privatizing the

Gambia Groundnut Corporation (GGC)), and the status of implementation of the HIPC completion point triggers.

IV. Staff Appraisal

35. **A strengthening of policy implementation since 2003 has been instrumental in The Gambia's macroeconomic stabilization success.** In a marked turn-around from the conditions that prevailed during 2001-03, inflation has fallen to low single-digit levels, the exchange rate has been stable, and international reserves have increased steadily. However, fiscal policy slippages in the first half of 2005 suggest that fiscal discipline is not yet fully established. Staff regrets that corrective measures did not protect poverty-reducing expenditures, and welcomed the greater role given to SPACO in the formulation of the 2006 budget (MEFP, paragraph 20).

36. **The staff has maintained a close policy dialogue with the authorities**. The 2005 Article IV consultation mission that visited Banjul in May/June 2005 discussed with the authorities measures to offset, at least partially, the impact of fiscal slippages that occurred in the first half of the year. In this regard, the authorities have restrained discretionary spending thus far in the second half of the year through the imposition of quarterly ceilings. They also increased the pump price of petroleum products in July 2005 in order to shore up revenues and avoid budgetary subsidization of the price of these products.

37. **Maintaining fiscal discipline in 2006 is going to pose a challenge to the authorities**. Two major events—the hosting of an AU summit and general elections—could put the budget under stress. The authorities assured the mission that they would do their best to stay within budget for the two events, and were optimistic about the prospects for obtaining external assistance to supplement the country's own resources.

38. **While the greatest risks to the program relate to fiscal slippages, there are others.** These include monetary accommodation of fiscal lapses, implementation capacity constraints, high turnover of senior government officials involved with the program, and exogenous shocks. The CBG assured the mission that it stood ready to tighten monetary policy to prevent fiscal slippages from re-igniting inflation. On capacity constraints, the authorities are receiving a wide range of technical assistance to help strengthen capacity at both the CBG and the DoSFEA. Effective assistance in the area of public financial management will be critical for monitoring budget execution and fiscal developments more generally. Finally, there has been a high rate of turnover among senior officials in government, including at the DoSFEA. This can be disruptive to program implementation and monitoring.

Table 1. The Gambia: Selected Economic and Financial Indicators, 2003–08

	2003	2004	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.
	(Annual percentage changes, unless otherwise indicated)					
National income and prices						
Nominal GDP (in millions of dalasi)	10,026	12,037	13,174	14,323	15,602	16,912
Nominal GDP	36.1	20.1	9.4	8.7	8.9	8.4
GDP at constant prices	6.9	5.1	5.0	4.5	5.0	5.0
GDP deflator	27.4	14.3	4.3	4.0	3.8	3.2
Consumer price index (period average)	17.0	14.2	4.3	4.0	3.7	3.2
Consumer price index (end of period)	17.6	8.0	4.0	4.0	3.5	3.0
External sector						
Exports, f.o.b. (in U.S. dollars)	-7.6	25.8	-2.3	6.2	5.3	4.9
Imports, f.o.b. (in U.S. dollars)	-6.2	46.2	7.4	5.3	3.3	2.9
Terms of trade 1/	18.2	-10.2	-16.1	-4.9	...	...
Nominal effective exchange rate (period average)	-37.4	-12.9	...	...	...	...
Real effective exchange rate (period average)	-28.5	-0.5	...	...	...	...
Money and credit	(Change in percent of beginning-of-year broad money)					
Broad money	43.4	18.3	9.4	8.7	8.9	8.4
Net foreign assets	28.2	28.8	4.1	6.6	6.3	6.4
Net domestic assets	15.2	-10.5	5.4	2.1	2.6	2.0
Credit to the government (net) 2/	12.5	-12.6	1.1	1.7	-0.6	-1.0
CBG advances to the government in foreign currencies 3/	0.0	2.0	0.0	-0.6	-0.6	-0.5
Credit to the private sector and public enterprises	20.0	-6.5	8.2	1.3	4.9	4.7
Claims on foreign exchange bureaus	-1.0	-1.2	0.0	0.0	-0.6	-0.4
Other items net	-16.3	7.7	-4.0	-0.2	-0.5	-0.8
Velocity (GDP/end-of-period broad money)	2.2	2.2	2.2	2.2	2.2	2.2
Yields on 91-day Treasury bill (in percent per annum) 4/	30.9	27.5	8.7	...	...	...
Gross investment and savings	(In percent of GDP)					
Gross investment	20.3	28.1	25.0	24.3	25.5	24.1
Gross national savings	15.2	16.4	11.9	12.5	18.7	17.4
	(In percent of GDP)					
Central government budget						
Domestic revenue	15.7	20.9	20.3	21.8	21.7	21.5
Grants	2.5	4.5	1.7	1.7	7.4	6.8
Total expenditure and net lending	22.9	31.2	28.1	28.2	29.4	28.8
Balance, including grants	-4.7	-5.7	-6.1	-4.6	-0.3	-0.5
Basic balance 5/	-2.5	2.4	0.3	2.8	2.7	2.2
Basic primary balance 6/	3.6	9.6	9.0	9.5	7.6	6.9
Net foreign financing	0.6	5.7	3.4	3.4	0.7	1.2
Net domestic financing	5.3	0.5	2.7	1.2	-0.4	-0.7
Stock of domestic public debt	27.6	32.9	34.6	33.3	30.1	27.1
External sector						
Current account balance						
Excluding official transfers	-13.6	-21.6	-19.4	-17.9	-18.4	-17.5
Including official transfers	-5.1	-11.8	-13.1	-11.8	-6.8	-6.7
	(In millions of U.S. dollars, unless otherwise indicated)					
Current account balance						
Excluding official transfers	-48.0	-86.7	-89.1	-87.2	-94.0	-93.8
Including official transfers	-18.0	-47.1	-60.1	-57.3	-35.0	-36.2
Overall balance of payments	-4.9	32.9	11.2	8.0	3.9	4.6
Gross official reserves	62.3	84.0	93.7	99.2	104.7	109.9
In months of imports, c.i.f.	4.6	4.3	4.4	4.5	4.6	4.7
Use of Fund resources	(In millions of SDRs)					
Purchases/disbursements	0.0	0.0	…	…	…	…
Repurchases/repayments	0.0	7.6	…	…	…	…
Credit outstanding	23.5	15.9	…	…	…	…

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

1/ Excluding reexports and imports for reexport.

2/ Excluding advances to the government in foreign currencies.

3/ These advances reflect previously unrecorded public spending and borrowing in 2001, financed by the Central Bank of The Gambia (CBG), and the previously unrecorded depletion of foreign exchange reserves in 2001-03 as reported by the authorities on October 28, 2003.

4/ The 2005 observation is as of end-October 2005.

5/ Defined as domestic revenue minus expenditure and net lending, excluding externally financed capital expenditure.

6/ Defined as domestic revenue minus expenditure and net lending, excluding interest payments and externally financed capital expenditure.

Table 2. The Gambia: Central Government Operations, 2003-08

	2003	2004	2005			2006	2007	2008
	Actual	Actual	Budget	Art. IV (May)	Proj.	Proj.	Proj.	Proj.
	(In millions of dalasis, unless otherwise indicated)							
Revenue and grants	1820.4	3065.0	3064.3	3002.4	2893.0	3373.8	4536.8	4782.9
Domestic revenue	1574.2	2517.8	2818.1	2756.2	2672.9	3123.8	3388.4	3640.3
Tax revenue	1380.7	2244.7	2412.7	2359.8	2336.0	2712.2	2937.3	3169.3
Direct taxes	441.0	606.3	676.7	672.6	672.7	738.3	812.3	889.5
Taxes on domestic goods and services	205.7	291.4	333.9	365.6	409.4	464.3	505.2	546.8
Taxes on international trade	734.0	1347.0	1402.1	1321.7	1253.9	1509.6	1619.8	1733.0
Nontax revenue	193.5	273.1	405.4	396.4	336.9	411.6	451.1	471.0
Grants	246.2	547.2	246.2	246.2	220.1	250.0	1148.4	1142.6
Program	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Projects	132.0	395.7	203.0	203.0	203.0	220.0	960.0	900.0
HIPC	114.2	151.4	43.2	43.2	17.1	0.0	188.4	242.6
Other 1/	0.0	0.0	0.0	0.0	0.0	30.0	0.0	0.0
Expenditure and net lending	2292.7	3750.4	3687.3	3739.4	3698.5	4036.3	4583.4	4873.9
Current expenditure	1707.0	2035.8	2420.7	2394.6	2422.4	2575.3	2582.9	2831.1
Wages and salaries	452.6	517.5	547.5	551.2	544.7	581.0	732.9	824.2
Interest	607.6	867.9	949.7	1157.2	1143.6	954.3	774.0	799.0
External	163.4	234.6	226.9	226.9	252.3	237.3	243.0	256.0
Domestic	444.2	633.3	722.8	930.3	891.3	717.0	531.0	543.0
Other charges 2/	594.5	583.8	906.2	660.8	734.1	1040.0	1000.6	1110.9
HIPC expenditure	52.3	66.6	17.3	25.4	0.0	0.0	75.4	97.0
Capital expenditure and net lending	585.7	1710.1	1266.6	1243.3	1159.6	1431.0	1920.5	1952.8
Capital expenditure	608.3	1733.5	1295.9	1239.6	1182.6	1449.0	1938.5	1969.8
Externally financed	472.7	1517.0	1071.2	1071.2	1071.0	1313.0	1612.0	1602.0
Gambia Local Fund (GLF)	57.2	88.8	198.8	142.5	109.6	136.0	213.4	222.2
HIPC-funded	78.4	127.7	25.9	25.9	2.0	0.0	113.0	145.6
Net lending	-22.6	-23.4	-29.3	3.7	-23.0	-18.0	-18.0	-17.0
Other expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingency	0.0	0.0	0.0	0.0	0.0	30.0	80.0	90.0
Extrabudgetary expenditure	0.0	4.5	0.0	101.5	116.5	0.0	0.0	0.0
Primary balance	135.3	182.4	326.7	420.2	338.1	291.8	727.4	708.0
Basic balance 3/	-245.8	284.4	202.0	88.0	45.4	400.5	417.0	368.4
Basic primary balance 4/	361.8	1152.3	1151.7	1245.2	1189.0	1354.8	1191.0	1167.4
Overall balance	-472.3	-685.5	-623.0	-737.0	-805.5	-662.5	-46.6	-91.0
Statistical discrepancy 5/	-123.6	-62.6	0.5	0.0	0.0	0.0	0.0	0.0
Adjusted overall balance	-595.9	-748.0	-622.5	-737.0	-805.5	-662.5	-46.6	-91.0
Financing	596.0	748.0	622.5	737.0	805.5	662.5	46.6	91.0
External (net)	59.7	690.3	351.7	351.7	445.8	492.0	114.4	204.9
Borrowing	340.7	1121.3	868.2	868.2	868.0	1093.0	652.0	702.0
Project	340.7	1121.3	868.2	868.2	868.0	1093.0	652.0	702.0
Program	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-293.6	-431.0	-516.5	-516.5	-422.2	-647.0	-706.0	-670.0
HIPC debt relief	12.6	0.0	0.0	0.0	0.0	0.0	168.4	172.9
Change in arrears	0.0	0.0	0.0	46.8	0.0	0.0	0.0	0.0
Exceptional financing 6/	0.0	0.0	0.0	0.0	0.0	46.0	0.0	0.0
Domestic	536.3	57.7	270.8	338.5	359.7	170.5	-67.8	-113.9
Net domestic borrowing	0.0	57.7	270.8	338.5	359.7	200.5	-67.8	-113.9
Bank	401.2	-578.0	65.8	65.8	62.4	100.2	-39.9	-67.0
Nonbank	95.1	635.7	205.0	272.7	297.3	100.2	-27.9	-46.9
CBG (unrealized profits)	40.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital revenue	n.a.	n.a.	n.a.	n.a.	n.a.	40.0	0.0	0.0
Change in arrears (- decrease)	0.0	0.0	0.0	0.0	0.0	-70.0	0.0	0.0
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Nominal GDP	10026.0	12036.0	13000.0	13226.3	13174.0	14323.8	15603.0	16913.0
Stock of domestic public debt								
In millions of dalasis	2763.5	3957.2	...	4026.5	4564.0	4767.3	4699.4	4585.5
In percent of GDP	27.6	32.9	...	30.4	34.6	33.3	30.1	27.1

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

1/ For financing the cost of presidential and parliamentary elections in 2006 and early 2007.

2/ Provisions of D 250 million are budgeted in 2006 for hosting the African Union summit and for conducting elections in 2006 and early 2007.

3/ Domestic revenue minus expenditure and net lending, excluding externally financed capital expenditures.

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

5/ The difference between the overall balance calculated from above-the-line and that derived from below-the-line (financing data).

6/ Debt payment due to People's Republic of China. The authorities informed the mission that they had made attempts to settle the arrears since breaking up diplomatic relations with China, but did not receive any response from the Chinese side. Allocation for the (annual) payment is made in the budget every year, but no actual payment is expected.

Table 2. The Gambia: Central Government Operations, 2003-08 (continued)

	2003	2004	2005			2006	2007	2008
	Actual	Actual	Budget	Art. IV (May)	Proj.	Proj	Proj	Proj
	(In percent of GDP, unless otherwise indicated)							
Revenue and grants	18.2	25.5	23.6	22.7	22.0	23.6	29.1	28.3
Domestic revenue	15.7	20.9	21.7	20.8	20.3	21.8	21.7	21.5
Tax revenue	13.8	18.6	18.6	17.8	17.7	18.9	18.8	18.7
Direct taxes	4.4	5.0	5.2	5.1	5.1	5.2	5.2	5.3
Taxes on domestic goods and services	2.1	2.4	2.6	2.8	3.1	3.2	3.2	3.2
Taxes on international trade	7.3	11.2	10.8	10.0	9.5	10.5	10.4	10.2
Nontax revenue	1.9	2.3	3.1	3.0	2.6	2.9	2.9	2.8
Grants	2.5	4.5	1.9	1.9	1.7	1.7	7.4	6.8
Program	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Projects	1.3	3.3	1.6	1.5	1.5	1.5	6.2	5.3
HIPC	1.1	1.3	0.3	0.3	0.1	0.0	1.2	1.4
Other 1/	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0
Expenditure and net lending	22.9	31.2	28.4	28.3	28.1	28.2	29.4	28.8
Current expenditure	17.0	16.9	18.6	18.1	18.4	18.0	16.6	16.7
Wages and salaries	4.5	4.3	4.2	4.2	4.1	4.1	4.7	4.9
Interest	6.1	7.2	7.3	8.7	8.7	6.7	5.0	4.7
External	1.6	1.9	1.7	1.7	1.9	1.7	1.6	1.5
Domestic	4.4	5.3	5.6	7.0	6.8	5.0	3.4	3.2
Other charges 2/	5.9	4.9	7.0	5.0	5.6	7.3	6.4	6.6
HIPC expenditure	0.5	0.6	0.1	0.2	0.0	0.0	0.5	0.6
Capital expenditure and net lending	5.8	14.2	9.7	9.4	8.8	10.0	12.3	11.5
Capital expenditure	6.1	14.4	10.0	9.4	9.0	10.1	12.4	11.6
Externally financed	4.7	12.6	8.2	8.1	8.1	9.2	10.3	9.5
Gambia Local Fund (GLF)	0.6	0.7	1.5	1.1	0.8	0.9	1.4	1.3
HIPC-funded	0.8	1.1	0.2	0.2	0.0	0.0	0.7	0.9
Net lending	-0.2	-0.2	-0.2	0.0	-0.2	-0.1	-0.1	-0.1
Contingency	0.0	0.0	0.0	0.0	0.0	0.2	0.5	0.5
Extrabudgetary expenditure	0.0	0.0	0.0	0.8	0.9	0.0	0.0	0.0
Primary balance	1.3	1.5	2.5	3.2	2.6	2.0	4.7	4.2
Basic balance 3/	-2.5	2.4	1.6	0.7	0.3	2.8	2.7	2.2
Basic primary balance 4/	3.6	9.6	8.9	9.4	9.0	9.5	7.6	6.9
Overall balance	-4.7	-5.7	-4.8	-5.6	-6.1	-4.6	-0.3	-0.5
Statistical discrepancy 5/	-1.2	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted overall balance	-5.9	-6.2	-4.8	-5.6	-6.1	-4.6	-0.3	-0.5
Financing	5.9	6.2	4.8	5.6	6.1	4.6	0.3	0.5
External (net)	0.6	5.7	2.7	2.7	3.4	3.4	0.7	1.2
Borrowing	3.4	9.3	6.7	6.6	6.6	7.6	4.2	4.2
Project	3.4	9.3	6.7	6.6	6.6	7.6	4.2	4.2
Program	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-2.9	-3.6	-4.0	-3.9	-3.2	-4.5	-4.5	-4.0
HIPC debt relief	0.1	0.0	0.0	0.0	0.0	0.0	1.1	1.0
Change in arrears	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0
Exceptional financing 6/	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0
Domestic	5.3	0.5	2.1	2.6	2.7	1.2	-0.4	-0.7
Net domestic borrowing	0.0	0.5	2.1	2.6	2.7	1.4	-0.4	-0.7
Bank	4.0	-4.8	0.5	0.5	0.5	0.7	-0.3	-0.4
Nonbank	0.9	5.3	1.6	2.1	2.3	0.7	-0.2	-0.3
CBG (unrealized profits)	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital revenue	n.a.	n.a.	n.a.	n.a.	n.a.	0.3	0.0	0.0
Change in arrears (- decrease)	0.0	0.0	0.0	0.0	0.0	-0.5	0.0	0.0
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Nominal GDP	10026.0	12036.0	13000.0	13226.3	13174.0	14323.8	15603.0	16913.0
Stock of domestic public debt								
In millions of dalasis	2763.5	3957.2	...	4026.5	4564.0	4767.3	4699.4	4585.5
In percent of GDP	27.6	32.9	...	30.4	34.6	33.3	30.1	27.1

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

1/ For financing the cost of presidential and parliamentary elections in 2006 and early 2007.
2/ Provisions of D 250 million are budgeted in 2006 for hosting the African Union summit and for conducting elections in 2006 and early 2007.
3/ Domestic revenue minus expenditure and net lending, excluding externally financed capital expenditures.
4/ Domestic revenue minus expenditure and net lending, excluding interest payments and externally financed capital expenditures.
5/ The difference between the overall balance calculated from above-the-line and that derived from below-the-line (financing data).
6/ Debt payment due to People's Republic of China. The authorities informed the mission that they had made attempts to settle the arrears since breaking up diplomatic relations with China, but did not receive any response from the Chinese side. Allocation for the (annual) payment is made in the budget every year, but no actual payment is expected.

Table 3. The Gambia: Central Government Operations, 2004-06
(On a quarterly basis, unless otherwise indicated)

	2004 Act.	Q1:05 Act.	Q2:05 Act.	Q3:05 Act.	Q4:05 Proj.	2005 Proj.	Q1:06 Proj.	Q2:06 Proj.	Q3:06 Proj.	Q4:06 Proj.	2006 Proj.
	(In millions of dalasis, unless otherwise indicated)										
Revenue and grants	3065.0	766.1	714.5	655.7	756.7	2893.0	810.2	901.1	770.1	892.6	3373.8
Domestic revenue	2517.8	647.2	697.9	613.4	714.4	2672.9	747.7	838.6	707.6	830.1	3123.8
Tax revenue	2244.7	565.6	614.1	546.1	610.2	2336.0	644.3	734.3	623.5	710.3	2712.2
Direct taxes	606.3	173.5	191.2	144.9	163.1	672.7	190.3	209.9	159.1	179.0	738.3
Taxes on domestic goods and services	291.4	101.4	109.6	83.6	114.7	409.3	113.7	125.1	95.3	130.3	464.3
Taxes on international trade	1347.0	290.7	313.3	317.6	332.4	1254.0	340.3	399.3	369.1	401.0	1509.6
Nontax revenue	273.1	81.6	83.8	67.3	104.2	336.9	103.4	104.3	84.1	119.8	411.6
Grants	547.2	118.9	16.6	42.3	42.3	220.1	62.5	62.5	62.5	62.5	250.0
Program	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Projects	395.7	101.8	16.6	42.3	42.3	203.0	55.0	55.0	55.0	55.0	220.0
HIPC	151.4	17.1	0.0	0.0	0.0	17.1	0.0	0.0	0.0	0.0	0.0
Other 1/	0.0	0.0	0.0	0.0	0.0	0.0	7.5	7.5	7.5	7.5	30.0
Expenditure and net lending	3750.4	1160.2	828.7	846.2	864.0	3698.5	1032.4	1067.6	995.0	933.3	4036.3
Current expenditure	2035.8	694.3	607.3	540.8	580.6	2422.4	662.6	706.9	625.2	572.5	2575.3
Wages and salaries	517.5	156.0	116.8	127.6	144.9	544.7	169.3	127.3	139.3	145.3	581.0
Interest	867.9	345.1	322.9	217.9	257.7	1143.6	246.4	311.2	207.9	188.8	954.3
External	234.6	85.1	46.5	65.0	55.7	252.3	60.9	57.6	59.7	59.2	237.3
Domestic	633.3	260.0	276.4	152.9	202.0	891.3	185.5	253.6	148.2	129.6	717.0
Other charges 2/	583.8	193.2	167.6	195.3	178.0	734.1	247.0	268.4	278.1	238.5	1040.0
HIPC expenditure	66.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure and net lending	1710.1	364.4	206.4	305.4	283.4	1159.6	362.3	353.3	362.3	353.3	1431.0
Capital expenditure	1733.5	364.4	220.0	305.4	292.8	1182.6	362.3	362.3	362.3	362.3	1449.0
Externally financed	1517.0	334.3	201.0	267.9	267.8	1071.0	328.3	328.3	328.3	328.3	1313.0
Gambia Local Fund (GLF)	88.8	28.1	19.0	37.5	25.0	109.6	34.0	34.0	34.0	34.0	136.0
HIPC-funded	127.7	2.0	0.0	0.0	0.0	2.0	0.0	0.0	0.0	0.0	0.0
Net lending	-23.4	0.0	-13.6	0.0	-9.4	-23.0	0.0	-9.0	0.0	-9.0	-18.0
Contingency	0.0	0.0	0.0	0.0	0.0	0.0	7.5	7.5	7.5	7.5	30.0
Extrabudgetary expenditure	4.5	101.5	15.0	0.0	0.0	116.5	0.0	0.0	0.0	0.0	0.0
Primary balance	182.4	-48.9	208.7	27.4	150.4	338.1	24.2	144.6	-17.0	148.1	291.8
Basic balance 3/	284.4	-178.6	70.2	35.1	118.2	45.4	43.6	99.2	40.8	225.1	400.5
Overall balance	-685.5	-394.0	-114.2	-190.5	-107.3	-805.5	-222.2	-166.6	-224.9	-40.7	-662.5
Statistical discrepancy 4/	-62.6	-34.3	-37.6	81.4	-9.4	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted overall balance	-748.0	-428.4	-151.8	-109.1	-116.8	-805.5	-222.2	-166.6	-224.9	-40.7	-662.5
Financing	748.0	428.4	151.8	109.1	116.8	805.5	222.2	166.6	224.9	40.7	662.5
External (net)	690.3	133.4	91.1	100.2	121.1	445.8	143.7	161.2	40.9	146.4	492.0
Borrowing	1121.3	232.5	184.4	225.6	225.5	868.0	273.3	273.3	273.3	273.3	1093.0
Project	1121.3	232.5	184.4	225.6	225.5	868.0	273.3	273.3	273.3	273.3	1093.0
Program	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-431.0	-99.1	-93.3	-125.4	-104.4	-422.2	-149.3	-119.9	-251.0	-126.9	-647.0
HIPC debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 5/	0.0	0.0	0.0	0.0	0.0	0.0	19.7	7.8	18.6	0.0	46.0
Domestic	57.7	295.0	60.7	8.9	-4.3	359.7	78.5	5.4	184.1	-105.7	170.5
Net domestic borrowing	57.7	295.0	60.7	8.9	-4.3	359.7	91.0	12.9	191.6	-103.2	200.5
Bank	-578.0	106.2	-17.8	-66.0	40.0	62.4	-7.0	-28.6	150.0	-14.2	100.2
Nonbank	635.7	188.8	78.5	74.9	-44.3	297.3	98.0	41.5	41.6	-89.0	100.2
CBG (unrealized profits)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.0	10.0	10.0	15.0	40.0
Change in arrears (- decrease)	0.0	0.0	0.0	0.0	0.0	0.0	-17.5	-17.5	-17.5	-17.5	-70.0
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Cumulative basic balance from beginning of year	284.4	-178.6	-108.4	-73.3	44.9	45.4	43.6	142.7	183.6	408.7	400.5
Net domestic borrowing as of end of period	57.7	295.0	355.7	364.6	360.2	359.7	91.0	104.0	295.5	192.3	200.5

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

1/ For financing the cost of presidential and parliamentary elections in 2006 and early 2007.

2/ Provisions of D 250 million are budgeted in 2006 for hosting the African Union summit and for conducting elections in 2006 and early 2007.

3/ Domestic revenue minus expenditure and net lending, excluding externally financed capital expenditures.

4/ The difference between the overall balance calculated from above-the-line and that derived from below-the-line (financing data).

5/ Debt payment due to People's Republic of China. The authorities informed the mission that they had made attempts to settle the arrears since breaking up diplomatic relations with China, but did not receive any response from the Chinese side. Allocation for the (annual) payment is made in the budget every year, but no actual payment is expected.

Table 4. The Gambia: Monetary Survey, December 2003-December 2006
(In millions of dalasis, unless otherwise indicated; end of period)

	2003	2004	2005				2006		
	Dec.	Dec.	Mar.	Jun.	Sep. Proj.	Dec. Proj.	Mar. Proj.	Jun. Proj.	Dec. Proj.
Monetary survey									
Net foreign assets	1,861.4	3,184.5	3,462.1	3,285.5	3,212.6	3,404.6	3,547.2	3,561.0	3,798.5
Net foreign assets (in millions of U.S. dollars)	60.1	107.3	118.5	116.7	114.7	117.4	121.3	120.7	126.6
Net domestic assets	2,731.6	2,247.5	2,485.5	2,589.8	2,600.0	2,540.7	2,523.8	2,638.3	2,665.6
Domestic credit	3,708.9	2,869.5	3,088.0	3,155.2	3,419.8	3,378.3	3,366.7	3,503.6	3,516.0
Claims on government (net) 1/	1,011.9	434.0	540.3	522.4	456.4	496.4	489.4	460.8	596.6
Advances to the government in foreign currencies 2/	482.5	574.8	574.8	574.8	574.8	574.8	574.8	555.6	536.5
Claims on private sector	1,633.8	1,454.1	1,563.0	1,650.1	1,996.6	1,900.5	1,895.9	2,080.5	1,976.3
Claims on foreign exchange bureaus 3/	237.9	183.3	183.3	183.3	183.3	183.3	183.3	183.3	183.3
Claims on public enterprises	342.8	223.4	226.6	224.7	208.7	223.4	223.4	223.4	223.4
Other items (net)	-977.3	-622.0	-602.5	-565.4	-819.8	-837.6	-842.9	-865.4	-850.3
Broad money	4,593.0	5,432.0	5,947.6	5,875.3	5,812.6	5,945.3	6,071.0	6,199.3	6,464.2
Currency outside banks	1,182.9	1,416.3	1,535.2	1,313.0	1,405.3	1,550.1	1,567.1	1,385.4	1,685.4
Deposits	3,410.2	4,015.7	4,412.3	4,562.4	4,407.3	4,395.2	4,503.9	4,813.9	4,778.8
Memorandum items:									
Twelve-month increase in broad money	43.4	18.3	22.6	16.2	20.2	9.4	2.1	5.5	8.7
Twelve-month increase in reserve money	62.7	11.0	15.4	11.3	29.3	14.7	7.5	11.4	7.7
Velocity (GDP/broad money) e.o.p.	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Reserve money multiplier	2.5	2.6	2.6	2.8	2.5	2.5	2.5	2.6	2.5
			Change (in percent of beginning-of-year stocks)						
Broad money	43.4	18.3	9.5	8.2	7.0	9.4	2.1	4.3	8.7
Reserve money	62.7	11.0	9.4	3.3	11.0	14.7	2.5	0.4	7.7
Total deposits	41.8	17.8	9.9	13.6	9.8	9.4	2.5	9.5	8.7
			Contribution to Growth of Broad Money (in percent of beginning-of-period broad money)						
Net foreign assets	28.2	28.8	5.1	1.9	0.5	4.1	2.4	2.6	6.6
Net domestic assets	15.2	-10.5	4.4	6.3	6.5	5.4	-0.3	1.6	2.1
Domestic credit	31.5	-18.3	4.0	5.3	10.1	9.4	-0.2	2.1	2.3
Claims on government (net) 1/	12.5	-12.6	2.0	1.6	0.4	1.1	-0.1	-0.6	1.7
Advances to the government in foreign currencies 2/	0.0	2.0	0.0	0.0	0.0	0.0	0.0	-0.3	-0.6
Claims on private sector	12.0	-3.9	2.0	3.6	10.0	8.2	-0.1	3.0	1.3
Claims on foreign exchange bureaus 3/	-1.0	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on public enterprises	8.0	-2.6	0.1	0.0	-0.3	0.0	0.0	0.0	0.0
Other items (net)	-16.3	7.7	0.4	1.0	-3.6	-4.0	-0.1	-0.5	-0.2
Memorandum items:									
Credit to the private sector and public enterprises	1,976.6	1,677.5	1,789.6	1,874.7	2,205.3	2,123.9	2,119.2	2,303.9	2,199.6
Rate of growth in percent	48.0	-15.1	3.4	23.2	40.2	26.6	18.4	22.9	3.6
In percent of GDP	19.7	13.9	13.6	14.2	17.1	16.1	15.8	16.8	15.4
Percent ratios									
Currency outside banks/broad money	25.8	26.1	25.8	22.3	24.2	26.1	25.8	22.3	26.1
Currency outside banks/deposits	34.7	35.3	34.8	28.8	31.9	35.3	34.8	28.8	35.3
Deposits/broad money	74.2	73.9	74.2	77.7	75.8	73.9	74.2	77.7	73.9
Net foreign assets of monetary authorities (In millions of U.S. dollars)	27.4	59.2	64.7	67.7	70.5	72.6	75.0	77.5	82.4

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

1/ Excluding advances to the government in foreign currencies.

2/ These advances reflect previously unrecorded public spending and borrowing in 2001, financed by the Central Bank of The Gambia (CBG), and the previously unrecorded depletion of foreign exchange reserves in 2001-03 as reported by the authorities on October 28, 2003.

3/ Claims on foreign exchange bureaus reflect the delayed delivery of foreign currency purchased on a spot basis.

Table 5. The Gambia: Summary Accounts of the Central Bank and Commercial Banks, December 2003-December 2006
(In millions of dalasis, unless otherwise indicated; end of period)

	2003	2004	2005				2006		
	Dec.	Dec.	Mar	Jun.	Sep.	Dec.	Mar.	Jun.	Dec.
					Proj.	Proj.	Proj.	Proj.	Proj.
Central Bank of The Gambia									
Net foreign assets	847.5	1,757.8	1,891.4	1,905.6	1,974.6	2,104.6	2,194.0	2,286.0	2,472.5
(In millions of U.S. dollars)	27.4	59.2	64.7	67.7	70.5	72.6	75.0	77.5	82.4
Foreign assets	1,928.7	2,492.5	2,580.0	2,531.1	2,586.0	2,716.2	2,780.4	2,845.3	2,977.3
(in millions of U.S. dollars)	62.3	84.0	88.3	89.9	92.4	93.7	95.1	96.5	99.2
Foreign liabilities	-1,081.1	-734.7	-688.7	-625.5	-611.4	-611.6	-586.4	-559.3	-504.8
(In millions of U.S. dollars)	-34.9	-24.8	-23.6	-22.2	-21.8	-21.1	-20.0	-19.0	-16.8
Net domestic assets	1,008.4	303.0	362.1	224.2	312.1	258.6	228.9	86.2	73.1
Domestic credit	1,229.8	195.9	214.1	77.2	292.8	288.9	272.5	144.2	163.9
Claims on the government (net) 1/	358.0	-761.6	-742.1	-880.9	-880.9	-840.9	-840.9	-869.5	-719.5
Advances to the government in foreign currencies 2/	482.5	574.8	574.8	574.8	574.8	574.8	574.8	555.6	536.5
Claims on private sector	24.8	28.8	29.5	29.5	29.7	29.7	29.7	29.7	29.7
Claims on banks (net) 3/	-10.3	33.6	31.8	33.6	249.0	205.2	188.7	108.3	-2.9
Claims on public enterprises	136.9	136.9	136.9	136.9	136.9	136.9	136.9	136.9	136.9
Claims on forex bureaus 4/	237.9	183.3	183.3	183.3	183.3	183.3	183.3	183.3	183.3
Other items (net)	-221.4	107.1	148.0	146.9	19.4	-30.3	-43.6	-58.0	-90.9
Of which: revaluation account	-536.3	-442.2	29.5	292.3	...	...	...	...	...
Reserve money	1,855.9	2,060.7	2,253.5	2,129.8	2,286.7	2,363.2	2,422.8	2,372.2	2,545.6
Currency outside banks	1,182.9	1,416.3	1,535.2	1,313.0	1,405.3	1,550.1	1,567.1	1,385.4	1,685.4
Bank reserves	673.0	644.5	718.3	816.8	881.5	813.1	855.7	986.9	860.2
Cash	68.0	69.3	98.1	101.9	158.7	158.2	162.1	173.3	172.0
Deposits at the central bank	605.0	575.2	620.2	714.9	722.8	654.9	693.6	813.6	688.1
Commercial banks									
Net foreign assets	1,013.9	1,426.7	1,570.7	1,379.9	1,238.0	1,300.0	1,353.2	1,275.0	1,326.0
(In millions of U.S. dollars)	32.7	48.1	53.8	49.0	44.2	44.8	46.3	43.2	44.2
Foreign assets	1,055.6	1,507.2	1,729.1	1,452.3	1,250.0	1,312.4	1,378.0	1,286.2	1,338.6
Foreign liabilities	-41.7	-80.5	-158.4	-72.4	-12.0	-12.4	-24.8	-11.2	-12.6
Net domestic assets	2,396.3	2,589.0	2,841.6	3,182.5	3,169.3	3,095.2	3,150.7	3,538.9	3,452.8
Domestic credit	2,468.9	2,707.3	2,905.6	3,111.6	3,376.0	3,294.6	3,283.0	3,467.7	3,349.2
Claims on government (net)	654.0	1,195.6	1,282.3	1,403.3	1,337.3	1,337.3	1,330.3	1,330.3	1,316.1
Claims on private sector	1,609.0	1,425.3	1,533.6	1,620.6	1,967.0	1,870.8	1,866.2	2,050.9	1,946.6
Claims on public enterprises	205.9	86.5	89.7	87.8	71.8	86.5	86.5	86.5	86.5
Reserves	673.0	644.5	718.3	816.8	881.5	813.1	855.7	986.9	860.2
Cash	68.0	69.3	98.1	101.9	158.7	158.2	162.1	173.3	172.0
Deposits at the central bank	605.0	575.2	620.2	714.9	722.8	654.9	693.6	813.6	688.1
Net claims on central bank	10.3	-33.6	-31.8	-33.6	-249.0	-205.2	-188.7	-108.3	2.9
Other items (net)	-755.9	-729.2	-750.5	-712.3	-839.2	-807.3	-799.3	-807.3	-759.5
Total deposit liabilities	3,410.2	4,015.7	4,412.3	4,562.4	4,407.3	4,395.2	4,503.9	4,813.9	4,778.8
of which: foreign currency deposits	895.2	675.4	762.2	832.3	…	…	…	…	…
Demand deposits	1,690.1	1,691.4	1,874.3	1,943.1	1,866.1	1,851.2	1,913.2	2,050.2	2,012.7
Savings deposits	1,374.6	1,786.0	1,878.4	1,958.0	1,983.4	1,954.8	1,917.4	2,065.9	2,125.4
Time deposits	345.4	538.3	659.6	661.3	557.8	589.2	673.3	697.7	640.6

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

1/ Excluding advances to the government in foreign currencies.

2/ These advances reflect previously unrecorded public spending and borrowing in 2001, financed by the Central Bank of The Gambia (CBG), and previously unrecorded depletion of foreign exchange reserves in 2001-03 as reported by the authorities on October 28, 2003.

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

4/ Claims on foreign exchange bureaus reflect the delayed delivery of foreign currency purchased on a spot basis.

Table 6. The Gambia: Balance of Payments, 2003–08
(In millions of U.S. dollars, unless otherwise indicated)

	2003	2004 Prel.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.
Trade balance	-60.0	-108.4	-128.7	-134.2	-136.0	-137.2
Exports, f.o.b.	101.0	127.0	124.1	131.9	138.9	145.6
Groundnuts/groundnut products	9.1	16.9	11.3	14.5	16.8	18.6
Other domestic exports	8.4	9.0	9.8	10.5	11.2	11.9
Reexports	83.5	101.2	102.9	106.8	110.9	115.2
Imports, c.i.f.	-161.0	-235.4	-252.8	-266.1	-274.9	-282.8
For domestic use	-100.2	-165.7	-178.0	-187.8	-193.1	-197.9
Of which: oil products	-16.0	-33.8	-46.0	-53.2	-53.3	-53.0
For reexport	-60.7	-69.7	-74.8	-78.2	-81.8	-84.9
Factor services (net)	-19.1	-19.9	-15.6	-17.4	-31.0	-35.5
Net income	-31.3	-38.9	-45.5	-51.5	-67.5	-74.5
Net remittances	12.2	19.0	29.8	34.1	36.5	39.0
Nonfactor services	27.4	37.7	51.1	60.1	68.5	74.4
Of which: travel income	51.1	57.5	75.0	85.6	95.7	103.3
Private unrequited transfers (net)	3.7	3.9	4.1	4.3	4.5	4.5
Official unrequited transfers (net)	30.0	39.6	29.0	29.8	59.0	57.6
Current account balance						
Excluding official transfers	-48.0	-86.7	-89.1	-87.2	-94.0	-93.8
Including official transfers	-18.0	-47.1	-60.1	-57.3	-35.0	-36.2
Capital account	6.7	68.0	71.3	65.3	38.9	40.8
Official loans (net)	16.1	24.9	17.0	17.0	-0.7	2.1
Project-related	26.5	39.2	31.8	38.9	22.4	23.4
Program loans	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-10.3	-14.4	-14.7	-21.9	-23.1	-21.3
Private capital inflow	-9.4	43.2	54.2	48.4	39.6	38.7
Foreign direct investment (net)	12.7	49.7	45.4	43.9	33.5	36.0
Other investment (net)	-22.1	-6.5	8.8	4.4	6.1	2.7
Of which : supplier's credits	4.3	6.3	6.8	7.1	7.3	7.6
Errors and omissions	6.3	12.0	0.0	0.0	0.0	0.0
Overall balance	-4.9	32.9	11.2	8.0	3.9	4.6
Financing	4.9	-32.9	-11.2	-8.0	-3.9	-4.6
Change in gross official reserves (increase = -)	4.9	-21.7	-9.7	-5.6	-5.4	-5.2
Use of IMF resources						
Repayments	0.0	-11.2	-1.5	-4.0	-4.0	-4.9
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 1/	0.0	0.0	0.0	1.6	5.5	5.5
Memorandum items:						
Current account balance (in percent of GDP)						
Excluding official transfers	-13.6	-21.6	-19.4	-17.9	-18.4	-17.5
Including official transfers	-5.1	-11.8	-13.1	-11.8	-6.8	-6.7
Gross official reserves (end of period)						
In millions of U.S. dollars	62.3	84.0	93.7	99.2	104.7	109.9
In months of imports, c.i.f.	4.6	4.3	4.4	4.5	4.6	4.7
External debt-service ratio 2/						
Including the Fund	8.5	15.9	12.8	15.4	10.3	8.8
Excluding the Fund	8.4	9.7	11.9	13.4	8.5	6.7

Sources: Gambian authorities; and IMF staff estimates and projections.
1/ Includes debt relief from Paris Club; interim relief from multilaterals is treated as grants.
2/ As a percentage of exports and travel income. After interim debt relief and HIPC Initiative grants. Excludes any accumulation of external arrears.

Table 7. The Gambia: HIPC Initiative Completion Point Triggers

Measures	Status
1. **Poverty Reduction** (i) A full PRSP has been prepared through a participatory process and satisfactorily implemented for one year, as evidenced by the Joint Staff Assessment of the country's annual progress report.	Met.
(ii) Improvement of the poverty data base and monitoring capacity, as evidenced by progress in restructuring the Central Statistics Department or developing its capacity.	In progress.
2. **Macroeconomic stability** Continued maintenance of macroeconomic stability as evidenced by satisfactory implementation of the PRGF-supported program.	Not met. Requires completion of one review under a new PRGF after at least six months implementation.
3. **Governance** Progress in strengthening public expenditure management as evidenced by the issuance of annual public reports on the overall budget execution and semi-annual reports on the use of interim HIPC Initiative debt relief, the latter to be reviewed by the Task Force and HILEC (cabinet committee).	Not met.
4. **Social sector reforms** (i) Budgetary savings from the HIPC interim debt service will be used in accordance with the annual budgets approved by the Task Force and the HILEC.	In progress.
(ii) Measures and targets regarding progress in implementing education and health reform programs include:	
(a) Increase by at least 45 percent (from 192 graduates in the base academic year 2000/01) the number of teachers for Lower Basic Education graduating from The Gambia College; this measure will help The Gambia raise the quality of teaching in the most important grades;	Met.
(b) Ensure appropriate funding of a trust fund for girls' scholarships in the poorest regions and make progress in raising such rates by expanding this scholarship scheme to no less than 2000 girls annually in at least 3 regions;	Met.
(c) Increase by at least 5 percent each year (from 44 percent in the base year of 1998) the number of births attended by a person trained in antenatal care. This should reduce the relatively high maternal rate; monitoring mechanisms for this indicator have also been defined in the PHPNP (see Chapter IV); and	Preliminary data suggests has been met.
(d) Increase the share of primary and secondary health care within the overall recurrent budget for health. The recurrent budget for primary and secondary health care is understood to comprise: health centers; dispensaries and subdispensaries; health promotion and protection; family health; disease control; and nurses' training. These are covered by budget lines 06 to 11 under heading 21 of the budget, to the exclusion of expenditures incurred directly or indirectly on (i) foreign personnel; and (ii) all the referral hospitals. The base year for measurement is 1999.	Met in 2003; needs to be confirmed for 2004 and 2005.
5. **Structural reforms** Measures to promote private sector development include:	
(i) Establish a functional multi-sector regulatory agency; and	Agency has been established; yet to become fully operational.
(ii) Bring to the point of sale the two major public groundnut processing plants in the country.	In progress.

Banjul, The Gambia,
December 20, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Rato:

1. The Gambia experienced difficult economic problems in the early 2000s as a result of adverse shocks and weak policies. Over the last two years, the macroeconomic environment in the country has improved significantly as the government and the Central Bank of The Gambia (CBG) restored fiscal and monetary discipline and addressed the effects of the earlier policy lapses. Inflation has fallen sharply, the external value of the dalasi has stabilized, and international reserves have risen steadily. Nonetheless, The Gambia still faces many challenges, and we seek the assistance of the International Monetary Fund (IMF) to help us achieve our goals.

2. For this purpose, the government of The Gambia has prepared an economic and financial program which seeks to consolidate the recent gains in macroeconomic stability, foster conditions for sustainable growth and poverty reduction, and move The Gambia toward achieving the Millennium Development Goals. We request that the staff of the IMF monitor this program which spans the period from October 1, 2005 to March 2006.

3. As you know, satisfactory performance under a Poverty Reduction and Growth Facility (PRGF) arrangement is one of the conditions that The Gambia has to meet before it can reach completion point under the enhanced HIPC Initiative. We therefore intend to request a new three-year PRGF arrangement upon completion of the staff-monitored program.

4. The attached Memorandum of Economic and Financial Policies (MEFP) describes the economic and financial policies as well as structural measures that the government intends to implement to meet the objectives of the program (Annex I). Tables 1 and 2 present, respectively, the quantitative indicators and structural benchmarks agreed between the government and the staff of the IMF for monitoring the program. To assist the IMF in assessing progress with implementation of the measures envisaged in the program, the

government undertakes to provide in a timely manner the information specified in the attached Technical Memorandum of Understanding (Annex II).

5. The government believes that the policies and measures set forth in the attached memorandum are adequate to achieve the objectives of the program, but it will take any further measures that may become appropriate for this purpose. Throughout the duration of the program, the government will consult with the Managing Director, on its own initiative, or whenever the Managing Director so requests, to discuss The Gambia's economic and financial policies.

6. In order to gauge progress in implementing the program, the IMF, in conjunction with the government of The Gambia, will conduct an initial staff assessment by end-February 2006, based on the end-December 2005 benchmarks. A second staff assessment will take place by end-May 2006, based on the end-March 2006 benchmarks.

Sincerely yours,

/s/	/s/
Mousa Bala Gaye	Famara Jatta
Secretary of State	Governor
Department of State for Finance and Economic Affairs	Central Bank of The Gambia

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

THE GAMBIA

Memorandum of Economic and Financial Policies

Banjul, December 20, 2005

I. Introduction and Background

1. This memorandum outlines the government of The Gambia's economic and financial program for the period October 1, 2005–March 31, 2006 that will be monitored by the staff of the International Monetary Fund (IMF). The program aims at consolidating recent gains in macroeconomic stability and fostering the conditions for sustainable growth and poverty reduction. The government expects that satisfactory performance under the Staff-Monitored Program (SMP) would pave the way for a new arrangement under the Poverty Reduction and Growth Facility (PRGF), and that The Gambia could reach the completion point under the enhanced HIPC Initiative after at least six months of satisfactory performance under the PRGF arrangement and fulfilling the other completion point triggers.

2. A three-year PRGF arrangement for The Gambia was approved in July 2002 in an amount equivalent to SDR 20.22 million (65 percent of quota). The arrangement expired on July 17, 2005 without the completion of any of the scheduled reviews. The program supported by the arrangement went off-track owing to policy slippages, governance problems (including unrecorded public expenditure in foreign currency and questionable central bank foreign exchange transactions), and the impact of exogenous shocks (especially the drought in 2002). Following the discovery in 2003 of misreporting of data to the IMF under the three-year Enhanced Structural Adjustment Facility (ESAF) arrangement that was approved in 1998, and in keeping with the IMF Executive Board's decision of March 8, 2004, The Gambia repaid the IMF two noncomplying disbursements amounting to SDR 6.87 million in four installments during 2004.

3. The Gambia reached the decision point under the enhanced HIPC Initiative in December 2000, at which time creditors committed to provide debt relief of US$66.6 million in net present value (NPV) terms at the completion point. To date, interim assistance has been provided by the IMF, World Bank, African Development Bank, European Investment Bank, Islamic Development Bank, OPEC Fund, and the Paris Club. Further debt relief and the resumption of budget support from donors would facilitate substantially the implementation of the government's Poverty Reduction Strategy Paper (PRSP)[1] and enhance The Gambia's prospects for achieving the Millennium Development Goals.

[1] The PRSP is also called the Strategy for Poverty Alleviation II (SPA II).

II. Recent Economic Developments

A. Macroeconomic Performance and Policies

4. A combination of large fiscal deficits and loose monetary policy in the early 2000s led to spiraling inflation and a sharp depreciation in the exchange rate of the dalasi. A turning point was reached in 2003, when first monetary policy was tightened and fiscal restraint followed later in the year. Concurrently, real GDP rebounded from a drought-induced decline in 2002 to growth rates of 7 percent and 5 percent in 2003 and 2004, respectively. The growth rate is projected to remain at 5 percent in 2005, with the agriculture and tourism sectors leading the way.

5. Inflation, as measured by the year-on-year increase in the consumer price index, has fallen steadily from a peak of 21 percent in August 2003, to 8 percent in December 2004, and to 1.1 percent in August 2005. The deceleration in inflation has been associated with stabilization in the external value of the dalasi and a declining trend in the growth of money supply. After falling in value from about D 23/US$ at end-2002 to D 33/US$ in September 2003, the exchange rate has fluctuated between D 28 and D 30 per US$ since early 2004.

6. In pursuing the objective of price stability, the CBG has been following a money targeting regime, with broad money as the intermediate target and reserve money as the operating target. Growth in broad money slowed from 43 percent in 2003 to 18 percent in 2004, and after a temporary spike in early 2005, fell back to 18 percent on a year-on-year basis at end-August 2005. Reserve money growth fell more sharply, going from nearly 63 percent in 2003 to 11 percent in 2004, and 12 percent on a year-on-year basis in August 2005. Specific measures taken by the CBG to restrain monetary expansion included broadening the base on which reserve requirements are calculated to include foreign currency deposits and increasing the required ratio from 14 percent to 18 percent during 2003. Since then, the CBG has relied on its open market operations—mainly through the issuance of 91-day treasury bills—to influence the path of reserve money. The CBG succeeded in keeping reserve money below its targeted path for most of 2004 but this pattern was reversed when it accommodated a substantial level of extrabudgetary spending by the government in the first quarter of 2005 (see paragraph 9 below).

7. The CBG also signals its monetary policy stance through changes in its policy rediscount rate. Success in reducing inflation to low single-digit levels and stability of the exchange rate allowed the CBG to gradually lower the rediscount rate from 34 percent in September 2004 to 19 percent in October 2005. The interest rate on the 91-day treasury bills issued at weekly auctions has fallen more sharply, going from 31 percent to 9 percent over the same period. Credit to the private sector, although initially slow to respond to the decline in interest rates, grew by about 16 percent in the year to end-August 2005, in sharp contrast to a contraction of 11 percent in 2004.

8. The fiscal position as measured by the basic balance strengthened in 2004, recording a 2.4 percent of GDP surplus compared to a 2.5 percent deficit in 2003.[2] The improvement reflected stronger revenues (especially international trade and domestic sales tax receipts) and effective containment of recurrent expenditures. Measures taken to strengthen tax administration were partly responsible for the increase in revenues; the Central Revenue Department took over the collection of the sales tax from the Customs and Excise Department, and the Customs Department was placed under new management. On the recurrent expenditure side, the National Emergency Fiscal Committee (NEFCOM) set tight cash ceilings on discretionary spending. However, a huge increase in externally financed capital expenditures led to a widening of the overall fiscal deficit from 4.7 percent of GDP in 2003 to 5.7 percent in 2004.

9. Fiscal performance deteriorated in the first half of 2005, mainly on account of extrabudgetary spending to the tune of D 101 million (3/4 percent of GDP) in the first quarter. The unbudgeted expenditures included the acquisition of two aircrafts to spray insecticides to combat the spread of a locust plague, the provision of a loan to the Gambia International Airlines to repatriate Gambian citizens stranded at the Hajj, and payments of arrears in membership dues to the Economic Community of West African States (ECOWAS). In order to offset the fiscal slippage, the government decided to limit quarterly discretionary expenditure allocations to D 190 million per quarter beginning in the second quarter of the year. Specific measures in support of the ceilings included limits on government travel and new restrictions on the use of government vehicles. The government also stepped up efforts to ensure that scheduled repayments by public enterprises of government loans were made, and that dividends were transferred to government promptly. The IMF mission that held Article IV consultation discussions in Banjul in April/May 2005 endorsed these measures.

10. In July 2005 the government increased the pump prices of gasoline and diesel in order to shore up revenues and to ensure that the budget was not called upon to subsidize the rising cost of imported petroleum products. Gasoline prices were raised from D 22 to D 27 per liter and diesel from D 21.5 to D 25 per liter. These increases were sufficient to cross-subsidize the price of kerosene—which was kept unchanged at D 9 per liter—in order to provide some protection to the poor.

11. The external current account deficit (including grants) grew from 5 percent of GDP in 2003 to 12 percent in 2004, driven mainly by strong import growth. The growing current account deficit was financed by increases in foreign direct investment (FDI) and disbursements of official loans for public capital expenditure. The current account deficit is expected to increase slightly to 13 percent of GDP in 2005; strong growth in tourism receipts and remittances are projected to be more than offset by lower grant inflows and a worsening

[2] The basic balance is defined as domestic revenue minus total expenditure and net lending, excluding externally financed capital expenditure.

in the trade balance as a result of a surge in petroleum and FDI-related imports, and lower groundnut exports.

12. The substantial inflows of FDI and increased remittances in recent years suggest renewed confidence in The Gambia's economic prospects. These inflows and strengthened financial policies have been important factors in the stability of the exchange rate and contributed to a buildup of international reserves. Gross international reserves increased by some US$22 million in 2004 to reach US$84 million at the end of the year, and rose further to US$94 million at end-August 2005.

B. Structural Reforms

13. Progress in the implementation of structural reforms has been mixed, ranging from significant progress in addressing governance issues at the CBG to slow progress in the implementation of the government's privatization program. At the CBG, important steps have been taken to tighten internal controls, in line with the recommendations of the IMF's Safeguards Assessment and those in the report on Selected Internal Controls prepared by the external auditors (following the re-audits of the 2001 and 2002 accounts and the special audit of foreign exchange transactions). Specific actions include the following: (1) formal guidelines for foreign exchange reserves management were approved by the CBG Board in July 2005 and are being implemented; (2) an audit committee, comprising the independent members of the Board, has been formed to oversee the external audit process and the internal control structure of the CBG; (3) the CBG Board has approved an Action Plan for improving internal controls; and (4) monthly reports prepared by the Reforms Implementation Committee (RIC)[3] now cover the implementation status of measures in the Action Plan.

14. Progress is being made in improving public financial management and in enhancing fiscal transparency. An organic budget law, which clarified procedures and responsibilities for the management of public finances, was approved by the National Assembly in August 2004. The financial regulations to make the new law operational, which were drafted with the assistance of the IMF's regional fiscal advisor, have been approved and are currently being implemented. The National Audit Office has completed and submitted to the national assembly audited accounts for the fiscal years 1992–99. Efforts are underway to further reduce the backlog of unaudited accounts.

15. In order to improve coordination between the Department of State for Finance and Economic Affairs (DoSFEA) and the CBG, a number of high-level committees with representation from both institutions have been established, namely: the Macroeconomic Committee, the Monetary Policy Committee, and the Treasury-bill Committee.

[3] The RIC was established in October 2004 to monitor the implementation of reforms at the CBG, including those recommended by the IMF (e.g., by the Safeguards Assessment report and by technical assistance missions from the Monetary and Financial Systems Department).

16. Slow progress in implementing the government's privatization program reflected delays in the establishment of a multisector regulatory agency and in conducting feasibility studies on the larger and monopolistic public enterprises (Track I enterprises).[4] The privatization of these enterprises is essential for facilitating private investment, increasing efficiency, and reducing the financial burden on the government budget. For example, the weak performance of NAWEC—evidenced by frequent power and water outages—represents a considerable stumbling block to the country's development. With the recent establishment of the multisector regulatory agency—the Public Utilities Regulatory Authority (PURA)—and the appointment of its key personnel, the privatization program is set to resume.

III. Program Objectives and Policies

17. The SMP has been cast within a medium-term macroeconomic framework spanning 2005–08. Key objectives include: (1) real GDP growth of 4½–5 percent per annum; (2) inflation in the range of 3–5 percent per annum; (3) reducing the external current account deficit (including official transfers) from 13 percent of GDP in 2005 to less than 7 percent of GDP in 2008; (4) maintaining international reserves at levels equivalent to 4–5 months of imports of goods and services; and (5) reducing the stock of domestic public debt as a share of GDP from 35 percent to 27 percent. In support of these objectives, the overall fiscal deficit (including grants) is projected to decline from 6 percent of GDP in 2005 to less than 1 percent of GDP in 2008.

18. In the near term, the principal objectives of the SMP are the following: (1) to make progress toward fiscal sustainability (by reducing the government's domestic borrowing requirement); (2) to strengthen internal controls and the operational independence of the CBG; and (3) to strengthen public financial management and accountability. The government is committed to maintaining fiscal discipline, notwithstanding pressures that may arise from the hosting of an African Union summit in June 2006 and presidential and parliamentary elections in the last quarter of 2006 and early 2007, respectively.

A. Fiscal Policy and Related Structural Measures

19. In order to begin to reverse the substantial build-up in domestic debt in recent years, the government will take steps to ensure that the basic balance moves from a nearly 1 percent of GDP deficit in the first half of 2005, to near balance for the year as a whole, and to a surplus in 2006 of about 3 percent of GDP. The 2006 target took account of estimated savings in interest payments (from a sharp reduction in domestic interest rates) and measures

[4] These enterprises include the National Water and Electricity Corporation (NAWEC), the Gambia Ports Authority, the Gambia Telecommunications Company Ltd., the Gambia Public Transport Corporation, the Gambia Civil Aviation Authority, the Social Security and Housing Finance Corporation, the Gambia International Airline, the National Printing and Stationary Corporation, and the Gambia Groundnut Corporation (GGC).

that are expected to yield about 2 percent of GDP in additional revenues. Improvements in customs administration are also expected to yield additional revenues. The Customs and Excise Department has recently acquired software that enhances its database and capacity for analyzing revenue collection. The government will continue to review the appropriateness of domestic fuel prices on a monthly basis and to adjust prices as needed to safeguard revenues and to avoid subsidization from budgetary resources.

20. On the expenditure side, the government recognizes that social and poverty reducing spending suffered in the past two years on account of tight budget ceilings (including to offset the effects of extrabudgetary spending in 2005). To ensure effective budget execution, NEFCOM has been extended to end-2005 and has been advised to give priority to PRSP expenditures. The government has also given the Strategy for Poverty Alleviation Coordination Office (SPACO) a greater role in the budget preparation process to ensure that the composition of government spending is in accordance with the priorities established in the PRSP.

21. The government is determined to swiftly implement measures to enhance expenditure tracking and reporting capabilities, including fully staffing the new donor coordination unit in the DoSFEA in order to better capture aid flows and related expenditures. Efforts are also underway, with assistance from donors, to transform the current cash rationing system into a more rational cash planning system. With the help of technical assistance from the IMF, a commitment control system is being introduced on a pilot basis in the DoSFEA and a few other selected departments beginning in the fourth quarter of 2005. If the pilot system operates successfully, the full system could possibly be implemented with effect from January 1, 2006.

B. Monetary Policy, CBG Governance, and Related Structural Reforms

22. The CBG will continue its current stance of a gradual easing of monetary policy as long as the outlook for inflation remains at low single-digit levels. However, it will stand ready to tighten monetary policy should conditions so warrant. In particular, the scope for further reductions in interest rates will depend to a large degree on the government's fiscal stance. The Monetary Policy Committee will continue to operate in a transparent manner, by issuing a press release shortly after each bi-monthly meeting to signal the CBG's monetary policy stance.

23. In line with the recommendations of recent advisory missions from the IMF's Monetary and Financial Systems Department, the CBG is in the process of expanding its range of financial instruments, with a view to enhancing the conduct of monetary policy and more clearly separating monetary operations from financing of the government budget. To this end, it is proposed to introduce a new 14-day instrument that will be dedicated to monetary operations. Other initiatives include the introduction of an overnight instrument to manage liquidity on a daily basis, as well as a secured credit facility designed to promote interbank transactions. It is expected that the rediscount window will be phased out after the introduction of the new instruments.

24. A draft of a new central bank law designed to strengthen the CBG's operational independence was finalized about a year ago, with assistance from the IMF. The national assembly ratified the bill on the new CBG law in December 2005.

25. The external audit of the CBG's financial statements for 2003 was recently completed, and work has begun on auditing the 2004 accounts. The auditors rendered a qualified opinion on the 2003 accounts based on limitations in the scope of available information on certain balance sheet items. The auditing of the 2004 accounts is expected to be completed by end-December 2005, and the CBG expects the audit of the 2005 accounts to be completed by end-March 2006—thus, catching up with the legal requirement that the books be audited within three months of the end of the financial year. In view of lingering concerns about the accounts, the CBG has consented to quarterly external audits of selected accounts (mainly related to international reserves and government balances) required for monitoring the SMP and a possible subsequent PRGF-supported program. The quarterly audits will begin with the accounts for the fourth quarter of 2005 and continue until the auditors are able to issue unqualified opinions on the annual accounts.

26. Starting from June 2006, the government will repay in 30 bi-annual installments the foreign exchange advance it received from the CBG in 2001. The CBG is also stepping up its efforts to recover outstanding claims on foreign exchange bureaus.

C. External Policies

27. The current account deficit is projected to decline slightly from 13 percent of GDP in 2005 to 12 percent of GDP in 2006, reflecting good prospects for continued improvement in tourism receipts and robust remittance inflows. For both years the deficit is expected to be financed largely by FDI and concessional external borrowing.

28. The government aims to enhance The Gambia's external competitiveness through the removal of structural bottlenecks and improvements in infrastructure. To this end, with assistance from the World Bank, work is proceeding to convert the Free Zone into a multiuse Business Park providing serviced facilities for a broad range of investments including manufacturing and commercial activities. The Gambia has also been selected to receive support under the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries. The Diagnostic Trade Integration Studies, being spearheaded by the World Bank, will be completed as a first step to mainstreaming trade into the country's development strategy.

29. The Gambia will continue to follow a flexible exchange rate policy, with central bank intervention in the exchange market limited to smoothing fluctuations in the exchange rate and to achieving international reserves targets. Gross international reserves are projected to remain at the equivalent of about 4½ months of imports during 2005–06.

D. Other Structural Reforms

30. The government will continue to seek ways to improve the investment climate in The Gambia. To this end, several of the recommendations made by the World Bank's recent Diagnostic Assessment of The Gambia's Investment Climate will be implemented, including the centralization of business taxes, the granting of autonomy to the courts to hire and staff themselves appropriately, the review of the legal framework to ensure consistency of the laws and regulations, and the deregulation of the land market.

31. The government convened a stakeholders workshop in September 2005 to chart a path for overcoming the marketing problems that beset the groundnut sector during the 2004/05 season when new regulations introduced by the government led to the creation of a monopoly purchaser and a significant reduction in exports. The government is committed to fully liberalizing the groundnut sector, including the privatization of the GGC—a trigger for reaching the completion point under the HIPC Initiative.

E. The PRSP Process

32. The Gambia's full PRSP which contained programs and projects for the period from mid-2002 to end-2005 was prepared in 2002 through a broad-based participatory process. It sought to promote growth and employment, improve the delivery of social services, and strengthen policies in the areas of gender, HIV/AIDS, and environmental protection. Priorities for poverty reducing expenditures were concentrated on education, health, and agriculture. Implementation of the PRSP has been hampered by limited capacity, absence of donor support, and inadequate prioritization by the government. The first annual PRSP progress report—covering implementation from mid-2002 to the end of 2003—which was submitted to the IMF and the World Bank in January 2005, highlighted a need to increase budgetary resources dedicated to PRSP priority expenditures. The government sought to address this issue in the preparation and execution of the 2005 budget, and has continued to do so in formulating the 2006 budget.

33. A draft of the second annual PRSP progress report covering implementation in 2004 has been completed. The government has set a target of end-2005 for the preparation of an initial draft of a new PRSP. To that end, sectoral consultations involving participation by a broad range of stakeholders has begun.

F. Statistical Issues

34. The quality and timeliness of economic statistics need improvement. Weaknesses persist in the national accounts, the consumer price index, social and poverty indicators, government finance statistics (including the tracking of poverty reducing spending), and balance of payments statistics. Efforts are underway to strengthen the Central Statistics Department (CSD) with assistance from the World Bank (under the Capacity Building for Economic Management Project) and other donors. CSD is currently processing the results of the household budget survey conducted in 2003, which could help in improving the quality

of consumer price and national accounts statistics. During the period of the SMP, the IMF has agreed to provide technical assistance to the CBG in the areas of monetary and financial statistics and balance of payments statistics.

IV. Program Monitoring, Targets, and Staff Assessments

35. Performance under the SMP will be monitored on the basis of quantitative targets for end-December 2005 and end-March 2006 (Table 1) and a set of structural benchmarks (Table 2). The quantitative targets have been set on the following variables: (1) a ceiling on the government's net domestic borrowing; (2) a ceiling on net domestic assets of the central bank; (3) a floor on the basic balance of the central government; (4) the non-accumulation of external payments arrears; (5) a minimum level of net usable international reserves; (6) a zero ceiling on new nonconcessional external debt contracted or guaranteed by the central government with a maturity of more than one year; and (7) a zero ceiling on the outstanding stock of short-term external public debt (excluding normal import-related credits). The target for the non-accumulation of external payments arrears will be applied on a continuous basis. Definitions of all targeted variables are provided in the attached Technical Memorandum of Understanding (TMU). It is expected that there will be two IMF staff assessments to gauge performance against the SMP targets; the first in February 2006 and the second in May 2006.

Table 1. The Gambia: Proposed Quantitative Targets and Projections, End-December 2004-June 2006

	2004	2005				2006	
	End-Dec. Act.	End-Mar. Act.	End-Jun. Act.	End-Sep. Proj.	End-Dec. Target	End-Mar. Target	End-Jun. Proj.
	(Stock)	(change from beginning of calendar year)					
	(In millions of dalasis)						
Net domestic borrowing by the central government (ceiling) 1/	…	…	…	…	359.7	91.0	103.9
Net domestic assets of the central bank (ceiling)	303.0	59.1	-78.8	9.2	-44.3	-29.8	-172.4
Basic balance (floor) 2/	284.4	-178.6	-108.4	-73.3	45.0	43.6	142.7
External payments arrears of the central government (ceiling) 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(In millions of U.S. dollars)						
Net usable international reserves (floor)	55.4	5.5	8.5	11.3	13.3	2.4	4.9
New nonconcessional debt contracted or guaranteed by the government with original maturity of more than one year (ceiling) 4/	5.9	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of external public debt with a maturity of less than one year (ceiling) 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1/ As defined in the Technical Memorandum of Understanding.
2/ Defined as the domestic revenue minus expenditure and net lending, excluding externally financed capital expenditure.
3/ To be applied on a continuous basis.
4/ External debt contracted or guaranteed other than that with a grant element equivalent to 35 percent or more, calculated using a discount rate based on the Organization for Economic Corporation and Development (OECD) commercial interest reference rates (CIRRs). Excludes borrowing from the IMF.
5/ Excluding normal import-related credits.

Table 2. Proposed Structural Benchmarks under the SMP

Measures	Expected Date of Implementation
Strengthening internal controls and operational independence of the CBG	
Provide quarterly audit reports on selected accounts of the CBG to Fund staff as follows: (1) 2005 Q4 report; and (2) 2006 Q1 report	(1) End-February 2006 (2) End-May 2006
Provide to Fund staff a copy of audited financial statements for 2004, including auditors' report and management letter.	End-January 2006
Strengthen controls in foreign reserves management at the CBG, including separation of duties between front and back office functions (in line with Appendix B Section 3.3 of the Action Plan).	End-March 2006
Formalize and implement regulations and procedures to strengthen the accounting function, including specific measures to ensure that (1) all transactions are reviewed and approved, (2) transactions are recorded accurately and on a timely basis, (3) supporting documentation exists and is adequately safeguarded, and (4) reconciliation of foreign balances and of government accounts are performed regularly.1/	End-December 2005
Strengthening public financial management	
Review all below-the-line accounts and develop guidelines for the opening and closing of such accounts.	End-December 2005
Provide to Fund staff with an one-month lag, copies of the following monthly reports: (1) flash reports on government expenditure (from the Treasury Main Accounts) and revenue (from revenue departments); and (2) poverty-reducing expenditures in the development budget.	(1) Starting with provision of October 2005 reports by end-November 2005; (2) Starting with the provision of the January 2006 report by end-February 2006.
Reduce backlog of unaudited public accounts: (1) Submit to the Auditor General, the restated accounts for 2000; and (2) Submit to the Auditor-General, the accounts for 2001.	End-December 2005 End-March 2006

1/ Evidence will include updated operations manuals.

THE GAMBIA

Technical Memorandum of Understanding

(December 20, 2005)

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 indicative targets and structural benchmarks of the Staff-Monitored Program covering the period of October 1, 2005 to March 1, 2006, as well as the related reporting requirements.

II. Quantitative Indicative Targets

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

2. **Definition.** ***Net usable international reserves (NIR)*** of the Central Bank of The Gambia (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.

3. **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.

B. Net Domestic Assets of the Central Bank

4. **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 non-residents and liabilities to non-residents, respectively.

5. For program monitoring purposes, in the calculation of the net domestic assets of the CBG, foreign assets and liabilities will be converted first into U.S. dollars at the prevailing cross-rates and then converted into dalasi using the D/USD program exchange rate.

6. **Supporting material.** Net domestic assets of the central bank will be transmitted as part of the balance sheet of the CBG on a monthly basis within four weeks of the end of each month.

C. Net Domestic Borrowing by the Central Government

7. **Definition.** The central government's net domestic borrowing is defined as: claims on the central government by the banking system minus deposits of the central government with the banking system plus the change in the discounted value of government securities held by nonbanks. Central government excludes local and regional governments and public enterprises. The banking system comprises the CBG and commercial banks.

8. **Supporting material.** Data on the central government's net position with the banking system, and 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 central government's position with the banking system will be contained in the monetary survey (see paragraph 21).

D. Basic Balance of the Central Government

9. **Definition.** The basic balance of the central government is defined as domestic 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.

10. **Supporting material.** Reporting on the basic balance will form part of the consolidated budget report described in paragraph 19 below.

E. External Payments Arrears

11. **Definition.** External payments arrears are defined as the stock of external arrears on loans contracted or guaranteed by the public sector (as defined below in paragraph 13), except on debts subject to rescheduling or a stock of debt operation. They 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 is a continuous indicative target.

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.

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

13. **Definitions.** In this memorandum, the public sector consists of the central and regional governments and other public agencies, including the CBG. This indicative target is on the contracting or guaranteeing of external debt with original maturity of more than one year by the government.[1] Excluded from this indicative target are loans or purchases from the IMF and debts with a grant element of at least 35 percent.[2]

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

G. Short-Term External Public Debt

15. This indicative 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] Excluded from this indicative target are normal import-related credits.

16. **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.

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[1] This indicative target 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.

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

[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).

III. Structural Benchmarks

17. The structural benchmarks for the program period are shown in Table 2 of the Memorandum of Economic and Financial Policies (MEFP).

IV. Other Data Requirements and Reporting Standards

A. Prices

18. The monthly disaggregated consumer price index will be transmitted within four weeks of the end of each month.

B. Government Accounts Data

19. A monthly consolidated budget report of the central government reporting on budget execution during the month and cumulatively from the beginning of the year, will be transmitted to the IMF within six weeks of the end of the month. The report will comprise: (1) revenue data by major item, including tax (direct tax, taxes on domestic goods and services, taxes on international trade) and nontax; (2) external grants by type (e.g., project, program); (3) details of recurrent expenditure (including data on wages and salaries, interest payments, and other charges); (4) details of capital expenditure and net lending (including data on externally financed capital expenditure, expenditures from the Gambia Local Fund, and net lending); (5) the overall balance, and the basic balance (defined in paragraph 9); (6) 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).

20. The following supporting monthly reports will also be transmitted to the IMF within six weeks of the end of the month: (1) flash revenue report (from revenue departments); (2) flash expenditure report (based on transactions in the Treasury Main Account); and (3) report on poverty-reducing expenditures.

C. Monetary Sector Data

21. The balance sheet of the CBG, 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) will be transmitted to the IMF on a monthly basis within six weeks of the end of each month.

D. Treasury Bills and CBG bills

22. Weekly data on the issuance and outstanding stocks of treasury bills and CBG bills, and on the yields (interest rates) of the various instruments will be transmitted on a monthly basis within seven days of the end of the month. The weekly Liquidity Management Reports will be transmitted on weekly within seven days of the end of the week.

E. External Sector Data

23. The following standards will be adhered to: (1) 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; (2) 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; and (3) balance of payments data will be transmitted on a quarterly basis within six weeks of the end of each quarter.

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

24. A program-monitoring committee, composed of senior officials from the Department of State for Finance and Economic Affairs (DOSFEA), the CBG, and other relevant agencies, shall be established. The committee shall be responsible for monitoring the performance under the program, recommending policy responses, informing the IMF regularly about progress under the program, and transmitting the supporting materials necessary for the evaluation of indicative targets and benchmarks as specified in section IV above and elsewhere in this memorandum.

The Gambia: Relations with the Fund
(As of October 28, 2005)

Membership status. Joined September 21, 1967. The Gambia accepted the obligations under Article VIII, Sections 2(a), 3, and 4, of the Fund's Articles of Agreements on January 21, 1993.

General Resources Account	SDR Million	% Quota
Quota	31.10	100.0
Fund holdings of currency	29.62	95.23
Reserve position in Fund	1.48	4.77

SDR Department	SDR Million	% Allocation
Net cumulative allocation	5.12	100.0
Holdings	0.13	2.45

Outstanding Purchases and Loans	SDR Million	% Quota
Poverty Reduction and Growth Facility (PRGF) arrangements	14.91	47.95

Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Jul. 18, 2002	Jul. 17, 2005	20.22	2.89
PRGF	Jun. 29, 1998	Dec. 31, 2001	20.61	20.61
PRGF	Nov. 23, 1988	Nov. 25, 1991	20.52	18.02

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

	Forthcoming				
	2005	2006	2007	2008	2009
Principal	0.34	2.75	2.75	3.33	2.64
Charges/interest	0.07	0.20	0.19	0.17	0.16
Total	0.41	2.95	2.93	3.50	2.80

Implementation of HIPC Initiative

	Enhanced Framework
Commitment of HIPC assistance	
Decision point date[1]	Dec. 11, 2000
Assistance committed (end-2000 NPV terms)[2]	
Total assistance (US$ million)	66.6
Of which: IMF assistance (US$ million)	2.3
SDR equivalent, million	1.8
Completion point date	Floating
Disbursement of IMF assistance (SDR million)	
Assistance disbursed	0.08
Interim assistance	0.08
Completion point balance	…
Additional disbursement of interest income[3]	…

Safeguards assessments

A FIN Safeguards Assessment mission visited The Gambia in March 2003 and in November 2003 to conduct the Stage 1 on-site assessment of the Central Bank of The Gambia (CBG). The assessment was completed on February 3, 2004. A summary of the findings and recommendations of the safeguards assessment is outlined in Box 3 of the 2003 Article IV consultation report (IMF Country Report No. 04/143).

Exchange rate arrangement

Prior to January 20, 1986, the Gambian currency, the dalasi, was pegged to the pound sterling at a rate of D 5 = £1. On January 20, 1986, an interbank market for foreign exchange was introduced, and since then the exchange rate has been determined by market forces. Effective June 30, 2002, the exchange arrangement of The Gambia was reclassified from

[1] Decision was approved by the Fund on 12/15/2000 through Decision 12365-(00/126). World Bank Board decision was taken on 12/14/2000.

[2] Assistance committed under the enhanced HIPC Initiative is expressed in net present value (NPV) terms at the decision point.

[3] Under the enhanced HIPC Initiative, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

independently floating to managed float with no preannounced path for the exchange rate. At end-September 2005, the midpoint exchange rate in the interbank market was D 28.19 per U.S. dollar.

The Gambia has been part of the Exchange Rate Mechanism of the West African Monetary Zone (WAMZ) since April 2002.

Last Article IV consultation

The 2005 Article IV consultation (IMF Country Report No. 06/8) was concluded by the Executive Board on July 18, 2005.

Technical assistance

Recent technical assistance projects:

- An FAD peripatetic regional advisor is assisting the authorities in putting the new organic budget law into effect, strengthening the cash-management system, and improving the reporting of budget execution.

- An MFD advisory mission visited The Gambia in October 2004 and made recommendations for improving monetary and foreign exchange operations and for reorganizing the central bank. A follow-up mission took place in March 2005.

- A Data ROSC mission took place in February 2005 to assess data quality in four main areas of macroeconomic statistics (national accounts, government finance, monetary, and balance of payments) based on the Fund's Data Quality Assessment Framework (DQAF, July 2003). The mission assessed The Gambia's dissemination practices against the recommendations of the General Data Dissemination System (GDDS).

A long-term Fund resident macroeconomic advisor's assignment was extended by another year through April 2004. Initially, this advisor arrived in Banjul in April 2002 for a one-year assignment.

An STA peripatetic statistical advisor assisted the Central Statistics Department in updating the consumer price index (CPI) data and improving national accounts statistics from 2002 to 2004.

An FAD peripatetic advisor assisted the Department of State for Finance and Economic Affairs (DoSFEA) with revenue administration reforms, including customs, implementation of a large taxpayer unit, and establishment of a central revenue authority from November 2001 to October 2003.

The long-term Fund (FAD) resident budget expert's assignment was extended until October 2003. Prior to the extension, the resident budget expert was assisting the authorities in strengthening budgetary expenditure reporting and control during August 2000–August 2001. He later returned to The Gambia in March 2002, for another one-year term.

An FAD mission visited The Gambia in January 2004 to work jointly with the World Bank on the Assessment and Action Plan (AAP).

An STA monetary and banking statistics mission visited The Gambia in May 2003 and successfully developed an integrated database to link automatically data sheets used for all IMF data submissions.

An FAD technical assistance advisor visited The Gambia in December 2002 to assist the authorities in drafting an organic budget bill.

An FAD technical assistance advisor visited The Gambia in October 2002 and April 2003 to review the reform in public expenditure management.

A technical assistance diagnostic mission from MAE visited The Gambia in July 2002 with a focus on financial supervision and the insurance sector. Further assistance was provided in reviewing the Central Bank Act and in drafting the Financial Institutions and Insurance Act.

A technical assistance diagnostic mission from MAE visited The Gambia in December 2001 with a focus on strengthening the central bank, including monetary policy formulation and implementation and its foreign exchange operations, and the financial system.

A technical assistance mission from STA on monetary and financial statistics visited Banjul in August 2001.

A technical assistance mission from FAD visited Banjul in July 2001 to assess the authorities' capacity to track poverty-related spending.

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

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

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

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

An STA mission visited The Gambia in November 1999 to review the statistical collection in order to develop GDDS metadata for The Gambia.

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

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

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

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

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

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

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

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

Resident representative

Provision of a resident representative in The Gambia is currently being discussed with the authorities.

The Gambia: Relations with the World Bank Group
(As of October 25, 2005)

1. The Bank and the Fund cooperate closely cooperate in providing support for the implementation of the country's development strategy. The development strategy is set forth in the country's Poverty Reduction Strategy Paper (PRSP), called the "Strategy for Poverty Alleviation II," which was finalized in April 2002 and endorsed by the Boards of the World Bank and IMF in July 2002. It outlines a medium-term development strategy to reduce poverty through the following five key objectives: (1) macroeconomic stability and effective public resource management; (2) promotion of pro-poor growth and employment through private sector development, particularly in the rural agricultural sector; (3) improved basic social services and infrastructure; (4) capacity building of local communities and civil society organizations (CSOs); and (5) strengthened multisectoral programs to reduce population growth, gender inequality, HIV/AIDS, malnutrition, and environmental degradation. The strategy covers the period from 2003 to 2005. The PRSP included a multidimensional poverty analysis, an outline of a monitoring and evaluation framework, preliminary key performance indicators and targets, cost estimates of implementation, and an indicative financing gap. The authorities finalized their first annual progress report in December 2004, covering the period mid-2002 to end-2003, and the Joint Staff Advisory Note was submitted to the Boards in April 2005.

2. As outlined in its Country Assistance Strategy (CAS), the Bank focuses its support for the implementation of the PRSP in the following areas: (1) establishment of a macroeconomic and sectoral environment conducive to economic growth; (2) rehabilitation and development of infrastructure; (3) development of human capital through the provision of more efficient social services; and (4) capacity building in departments that have a key role in economic management. The Fund has traditionally led the policy dialogue on macroeconomic policy, including fiscal, monetary, and exchange rate policies. Areas of close collaboration include public expenditure management reform and government statistics. In the near future, collaboration on trade issues should increase with the planned Integrated Framework analysis by the Bank.

3. Instruments used in supporting these objectives have been sector-based investment projects. Currently, there are no adjustment credits, although there were two structural adjustment credits in the past, Structural Adjustment Loan (SAL) I and SAL II. In February 2003, the Bank's Board approved the CAS for The Gambia for fiscal-years (FY) 2003–05, which is currently under implementation.

4. As of October 25, 2005, IDA had approved 30 credits worth a total of about US$271 million, of which about US$22 million remain undisbursed. The current portfolio consists of four projects in HIV/AIDS, poverty alleviation (infrastructure), capacity building for economic management, and private sector development (trade gateway), totaling US$61 million.

5. An **HIV/AIDS rapid response operation** was approved in January 2001. The project aims at (1) containing the HIV/AIDS pandemic, (2) reducing the spread of the pandemic and mitigating its effects, and (3) increasing access to prevention services, as well as treatment, care, and support for those infected and affected by HIV/AIDS.

6. A **Poverty Alleviation and Municipal Development** operation was approved in March 1999, with the following objectives: (1) to reduce the backlog in public infrastructure development and improve the maintenance of public assets; (2) to alleviate poverty through the creation of temporary jobs and improvements in the selection of small- and medium-sized investments, which should aim at upgrading the living environment of the poor; and (3) to strengthen the technical and managerial capacity of local authorities (with an emphasis on their financial situation), local private firms (namely, consultants and contractors), and Gamworks (a procurement agency). In addition to the original credit amount of SDR10.7 million (approximately US$15 million), the Bank has recently approved a supplemental credit of SDR2.7 million (US$4.0 million equivalent) to upgrade the infrastructure in water supply, roads and sanitation facilities.

7. A **Capacity Building for Economic Management** Project was approved in July 2001 to help (1) build government capacity for economic planning, policy formulation, and execution, and (2) build the capacity of the judicial and financial systems to facilitate private sector development. Key reforms supported by the project include the establishment of the Revenue Authority, the implementation of the Integrated Financial Management Information System (IFMIS), capacity building and restructuring of the Central Statistics Department (CSD), and the establishment of an alternative dispute resolution (ADR) court system.

8. The **Trade Gateway** Project was approved in February 2002 to help the country establish itself as a globally competitive business park by laying the foundations for expanded private investment, export-oriented production, and employment through the establishment of a free zone and an improved institutional environment.

9. The next education project and a combined community-based rural development and health project are currently being prepared, with expected Board approval in FY 2006.

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

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

Summary of Statement of IDA Credits in The Gambia
(As of October 25, 2005; in millions of U.S. dollars)

Projects	Commitment	Disbursed	Undisbursed
Twenty six credits closed	209.8	213.4	0.6
Ongoing projects			
Gateway	16.0	8.1	9.8
CB for Economic Mgmt Project	15.0	8.7	8.6
HIV/AIDS Rapid Response	15.0	14.6	2.5
Poverty Alleviation and Municipal Dev.	15.0	15.4	0.1
Subtotal	61.0	46.8	21.0
Total	270.8	260.2	21.6

Source: The World Bank Integrated Controller's System.

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

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

Source: IFC.

Bank-Fund Structural Priorities

Measures	Lead Institution	Target Date	Status
Fiscal sector			
Establish a donor coordination unit in the Department of State for Finance and Economic Affairs (DOSFEA) to follow up on pledges made at roundtable, assess requirements against millennium development goals (MDGs), monitor disbursements, and coordinate with debt unit to ensure maintenance of debt database	IMF	Aug. 2004	Pending
Update government accounts to 2001	IMF, Bank	Oct. 2004	Pending
Expand and fully operationalize ASYCUDA, the customs information technology (IT) system	Bank	Nov. 2005	Ongoing
Revitalize tax administration IT system	Bank	Apr. 2006	Ongoing
Establish a national Revenue Authority	Bank	Sep. 2006	Ongoing
Complete phase I of Integrated Financial Management Information System (IFMIS)	Bank	Dec. 2006	Ongoing
Monetary sector			
Submit CBG Law to National Assembly	IMF	Dec. 2004	Done
Receipt by the Fund of the 2003 audited financial statements of the CBG	IMF	Dec. 2004	Done
External sector			
Provide monthly data on imports (cif) by tariff band, exemptions, and duty collected to enable analysis of revenue-collection performance of customs department	IMF	Oct. 2004	Ongoing
Macroeconomic statistics			
Publish analytical reports on 2003/04 integrated household survey	Bank	Nov. 2005	Ongoing
Publish analytical reports on 2003 population census	Bank	Dec. 2005	Ongoing
Enact new Statistics Bill to establish a semi-autonomous Statistics agency	Bank	Dec. 2005	Ongoing
Publish results of 2005 economic census	Bank	Feb. 2006	Ongoing
Publish new national accounts in line with *1993 System of National Accounts*	Bank	Sep. 2006	Ongoing
Establish new semi-autonomous Statistics agency	Bank	Dec. 2006	Ongoing
Legal sector			
Finalize legal sector reform strategy and submit cabinet paper	Bank	Jun. 2005	Pending
Operationalize alternative dispute resolution system	Bank	Oct. 2005	Pending
Prepare registries restructuring strategy	Bank	Dec. 2005	Ongoing
Operationalize court case management system	Bank	Aug. 2006	Ongoing
Enterprises			
Operationalize business park/free trade zone	Bank	Jun. 2006	Ongoing
Divest several Track II enterprises of government's divestiture plan and complete divestiture action plans for Track I enterprises	Bank	Early 2007	Ongoing

Questions may be referred to Mr. Soh Hoon (email: hsoh@worldbank.org).

The Gambia: Relations with the African Development Bank
(As of October 25, 2005)

1. The African Development Bank (AfDB) Group began lending operations in The Gambia in 1974. Since then and as of end-September 2005, it has approved, 48 operations with total commitments, net of cancellations for a total amount of UA 199.3 million (US$298.9 million) in the following sectors: transport (26 percent); agriculture (22.6 percent); social (21.5 percent); public utilities (12.6 percent); multi-sectors (9.1 percent); environment (6.1 percent); and industry (2.1 percent).[1] About 84 percent of the Bank Group's net commitments were made from the resources of African Development Fund (ADF), 9 percent of nonconcessional window of AfDB, and 7 percent of the Nigerian Trust Fund (NTF).

2. As of end-September 2005, 32 operations had been completed, 2 had been cancelled at the government's request, and 14 others are ongoing. The overall implementation of the portfolio continues to be satisfactory, and achieved a rating score of 2.3 (out of a possible maximum of 3.0) during the Bank Group's portfolio review of 2003. This rating remained the same through the *Country Performance Improvement Plan (CPIP) 2005*. The portfolio has a relatively low project-at-risk (PAR) rate, which according to the 2003 Annual Portfolio Performance Review (APPR) was only 9.0 percent, compared with the Bank Group's overall average of 41.7 percent. The total disbursement rates for the portfolio are also satisfactory. By the end of September 2005, they were 81 percent (overall), 100 percent (AfDB-financed projects), 82 percent (ADF), and 44 percent (NTF). The satisfactory performance of the portfolio is attributed to the supervision missions conducted by the AfDB, especially since 2003.

3. The AfDB is also a major participant in The Gambia's enhanced Heavily Indebted Poor Countries (HIPC) Initiative program, under which it is due to grant debt relief of US$15.7 million in net present value (NPV) terms (23.6 percent of the total debt relief under the program).

4. The AfDB's most recent strategy for The Gambia covering the period 2005–09 is still under preparation and is awaiting the finalization of the country's new Poverty Reduction Strategy Paper (PRSP). The draft Country Strategy Paper (CSP) proposes projects to improve productive capacity through microfinance management and credit to enhance economic management. The CSP has yet to be approved. The last CSP for The Gambia covered the period of 2002–04 and aimed at assisting the country in its efforts to meet the Millennium Development Goals (MDGs) by addressing specific institutional and human capacity constraints. The plan is based on The Gambia's poverty reduction strategy (SPA-II), and the base-case scenario focuses on the following lending and nonlending (grant) interventions.

[1] UA stands for unit of account (equivalent to about $1.50).

AfDB Country Strategy 2002–04 for The Gambia

Objective	Instrument and Amount	Focus
Meet the MDGs	Third education project (UA 10.0 million)	Increase access to quality education and skills development, particularly for girls and pupils in the poorest areas of the country.
Improve macroeconomic environment (which was not approved when the Poverty Reduction Growth Facility (PRGF) went off–track)	Budgetary support (UA 4.38 million)	Complement efforts of other donors in consolidating the fragile macroeconomic environment and in meeting The Gambia's exceptional financing needs during 2002–04.
Implement multisector capacity building (an improved version is planned for ADF-10 lending cycle in the context of draft CSP)	Capacity-building project (Grant of UA 2.0 million)	Strengthen capacity of key departments and institutions involved in the preparation and implementation of the PRSP/SPA-II. Support to be extended to institutions dealing in economic and political governance, including the Department of Justice, Auditor General's Department, Public Divestiture Agency, parliament, and the Public Procurement Agency.

5. If the current policy and institutional framework for The Gambia improve—as proxied by the country's performance in implementing the IMF's PRGF arrangement, the fulfillment of some required conditions for reaching the completion point of its HIPC Initiative program, and improvement in the implementation of the AfDB Group portfolio—the country will move to a higher-case scenario, and an additional UA 4.38 million will be allocated to the country to finance an agricultural-related project. Conversely, the low-case scenario will apply if there is a deterioration in the current policy and institutional framework, in which case The Gambia will qualify for only UA 1.74 million of its basic allocation. Under this scenario, the already appraised policy-based operation will not be granted.

6. Implementation of the AfDB's strategy is achieved through lending and nonlending activities. The extent of the former is dependent on finalization of the new PRSP, a satisfactory performance under the IMF-supported PRGF, progress made toward reaching the HIPC Initiative completion point, advances in strengthening public expenditure management, and improved performance of the AfDB-sponsored projects themselves. Intervention through the nonlending program aims at strengthening policy dialogue with the government and stakeholders and focuses mainly on studies, funded through grants, to improve governance, mainstream gender, fight HIV/AIDS and communicable diseases, and improve the energy supply.