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November 28, 2000

To: Members of the Executive Board

From: The Secretary

Subject: **The Gambia—Poverty Reduction and Growth Facility—Second Review Under the Second Annual Arrangement and Request for the Third Annual Arrangement, and Request for Extension of Commitment Period**

Attached for consideration by the Executive Directors is a paper on the second review under the second annual arrangement and request for the third annual arrangement for The Gambia under the Poverty Reduction and Growth Facility and The Gambia's request for an extension of the commitment period. Draft decisions appear on pages 25 and 26. This subject, together with the interim poverty reduction strategy paper for The Gambia (EBD/00/99, 11/28/00), the joint staff assessment of the interim poverty reduction strategy paper (EBD/00/100, 11/28/00), and the decision point document for the enhanced HIPC Initiative for The Gambia (EBS/00/242, 11/28/00), is tentatively scheduled for discussion on Monday, December 11, 2000. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of The Gambia indicating whether or not they consent to its publication.

Questions may be referred to Mr. Kibuka (ext. 36941) and Mr. Tjirongo (ext. 34118).

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Wednesday, December 6, 2000; and to the African Development Bank, the European Commission, and the Islamic Development Bank, following its consideration by the Executive Board.

Att: (1)

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Department Heads

## INTERNATIONAL MONETARY FUND

## THE GAMBIA

**Second Review Under the Second Annual Arrangement and Request for  
the Third Annual Arrangement Under the Poverty Reduction and  
Growth Facility, and Request for Extension of the Commitment Period**

Prepared by the African Department

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

Approved by Michael T. Hadjimichael and John Hicklin

November 27, 2000

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## EXECUTIVE SUMMARY

### Recent economic developments

- **The Gambia has requested the third annual arrangement** under the Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 8.6 million (27.6 percent of quota). The final disbursement under the second annual PRGF arrangement is subject to completion of the second review.
- **The mixed performance by early 2000 was strengthened through the third quarter.** While there was progress in implementing a number of structural reforms, there were also budgetary slippages, and as a result, a number of quantitative performance criteria for end-March 2000 were not observed. However, policy response assured the observation of all the quantitative performance criteria and most of the benchmarks through end-September 2000. Moreover, the government reached a settlement to resolve the dispute over its seizure of the property of the Gambia Groundnut Corporation (GCC) in January 1999.
- **Real GDP growth is projected at 5¼ percent in 2000**, while inflation would remain low (at below 3 percent), mainly as a result of good rains. **The external current account deficit** (excluding official transfers) is projected to increase to 12¼ percent of GDP, given the rebound in imports. **The fiscal deficit** (excluding grants) is projected to exceed the program target, even though it would decline to about 3½ percent of GDP from 4¾ percent in 1999. The deficit (including grants) is projected to narrow from 3½ percent of GDP in 1999 to 1 percent in 2000. **Monetary policy has been largely accommodating** as domestic credit expansion is projected to exceed the program target for 2000. The treasury bill rate declined from 14 percent in December 1998 to 12 percent during 2000.
- **A number of structural reforms** were implemented, including two subject to structural performance criteria (to undertake a survey of outstanding government arrears and introduce a short-term liquidity forecasting framework at the central bank) and most of the structural benchmarks were observed. The latter included a further reduction in the maximum external tariff to 18 percent from 20 percent, increases in domestic petroleum prices, further progress in privatizing public enterprises, and a reduction in domestic government arrears.

### Elements of the program for 2000/01

- **The overall macroeconomic objectives**, which are consistent with the interim poverty reduction strategy paper (I-PRSP), are to (i) attain real GDP growth of 5½ percent; (ii) contain inflation at about 2 percent; (iii) reduce the external current account deficit (excluding official transfers) to about 12 percent of GDP; and (iv) maintain gross external reserves above 5¼ months of imports of goods and services. The government budget for 2001 will maintain the overall fiscal deficit

(excluding grants) at about 3½ percent of GDP. The authorities have also prepared a contingency budget for 2001 (about 1 percent of GDP) to be funded by the likely enhanced HIPC Initiative debt relief.

- **Structural reforms follow from** the interim PRSP emphasis on enhancing the productive capacity of the poor and improving the identification and targeting of pro-poor social services. The key agricultural, trade, and tourism sectors will be targeted through reforms that address impediments to private sector activity in order to accelerate growth. In the social sectors, improvement in the budget process and the planned public expenditure reviews for the agriculture, health, and either public works or local government should result in better provision of targeted public services. In addition, supporting legislation is being prepared to strengthen the supervisory and regulatory roles of the central bank and to establish a legal framework that fosters private sector activity through privatization and increased competition. Meanwhile, progress will continue toward completing the full PRSP by end-2001.

#### **Issues highlighted in the staff appraisal**

- The appraisal notes that the Gambian authorities have responded well to the mixed performance in late 1999-early 2000 under the program supported by the second annual PRGF arrangement by implementing a number of corrective measures. It also notes that performance with respect to the implementation of structural reforms has been strengthened and that the authorities have now addressed governance issues by, inter alia, settling the dispute over the government's seizure of the GGC property.
- The staff urges the authorities to continue to strengthen budgetary implementation in order to reduce the overall deficit and the stock of government domestic debt to sustainable levels. It also urges the authorities to pursue a prudent monetary policy while consolidating and deepening reforms in the financial sector.
- The authorities are encouraged to consolidate and broaden other structural reforms in order to promote an environment that is conducive to private sector activity. Noting the progress made in the PRSP process and in data compilation, the staff urges the authorities to adhere to the end-2001 target to complete the PRSP and to continue with efforts to improve the timeliness and quality of data.
- On the basis of broadly encouraging economic and financial developments and the strength of the program for 2000/01, the staff recommends completion of the second review under the second annual PRGF arrangement, approval of the authorities' request for a third annual PRGF arrangement, and an extension of the commitment period.

## I. INTRODUCTION

1. On June 29, 1998, the Executive Board approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in support of The Gambia's adjustment and reform efforts for the period 1998-2001, in an amount equivalent to SDR 20.61 million (66.3 percent of the new quota), and the first annual arrangement thereunder, in an amount equivalent to SDR 6.87 million (22.1 percent of quota) (EBS/98/102, Sup. 1; 6/30/98). However, the midterm review under the first annual arrangement could not be completed because of slippages in the implementation of the budget and structural reforms. Moreover, there were governance problems arising from the government's seizure of the property of the Gambia Groundnut Corporation (GGC)—a private marketing monopoly. On November 19, 1999, the Executive Board approved the second annual PRGF arrangement to support the program for the period October 1, 1999–September 30, 2000, in the amount of SDR 8.6 million (27.6 percent of quota; EBS/99/201, Cor.1; 11/8/99). With the completion of the first review in July 2000 (EBS/00/129), total disbursements under the second annual arrangement amounted to SDR 6.87 million. The last disbursement, in the amount of SDR 1.72 million, will become available subject to the observance of the end-September 2000 performance criteria and completion of the second review.

2. In the attached letter to the Managing Director dated November 27, 2000 (Appendix I), the government of The Gambia requests the third annual arrangement under the PRGF, in an amount equivalent to SDR 8.6 million (27.6 percent of quota).<sup>1</sup> The requested arrangement is in support of policies and measures outlined in the attached memorandum of economic and financial policies (MEFP) for 2000/01 (October-September). The authorities also request an extension of the three-year commitment period from June 28, 2001 to end-December 2001.

3. In concluding the 2000 Article IV consultation and the first review under the second annual PRGF arrangement last July (EBS/00/129, Cor.1; 7/7/00), Executive Directors noted that the authorities had achieved broadly encouraging results on the macroeconomic front through the first half of 2000, notwithstanding the request for waivers for the nonobservance of three quantitative performance criteria for end-March 2000. They also noted that performance with respect to structural reforms had been satisfactory. Directors welcomed the measures to enhance the participatory process for the preparation of the I-PRSP before the end of the year. However, Directors urged the authorities to continue to implement the rest of

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<sup>1</sup> Discussions with the Gambian authorities regarding this request were held in Banjul during September 4–16, 2000. The staff representatives were Mr. Kibuka (head), Mr. Tjirongo, Ms. Kende-Robb, Mr. Christensen, Mr. Maynard (staff assistant) (all AFR), and Mr. Bannister (PDR), and Mr. Fontaine (STA). The mission worked closely with a concurrent World Bank mission.

the program, including strengthening fiscal performance, improving governance, and implementing further structural reforms.

4. On November 2 and 3, 2000, the Executive Boards of the World Bank and the Fund, respectively, discussed the preliminary enhanced Heavily Indebted Poor Countries (HIPC) Initiative document for The Gambia (EBS/00/208; 10/25/00) and agreed that The Gambia qualified for assistance under the Initiative and that a decision point could be reached before end-2000.

5. As of end-September 2000, The Gambia's outstanding use of Fund resources amounted to SDR 10.8 million, or 34.8 percent of quota. If the full amount under the third annual PRGF arrangement is disbursed, and taking into account scheduled repayments, The Gambia's use of Fund resources would rise to 66.3 percent of quota by end-December 2001 (Tables 1 and 2). The Gambia accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the Fund's Articles of Agreement in 1993, and maintains an exchange system that is free of restrictions on payments and transfers for current international transactions. The Gambia's technical memorandum of understanding and summaries of its relations with the Fund, the African Development Bank, and the World Bank Group are contained in Appendices II, III, IV, and V, respectively.

6. The outstanding statistical issues include the need to rebase the national accounts to a more recent period, broaden the coverage of the consumer price index, and improve the timeliness and quality of fiscal, balance of payments, monetary, and social data. While the data weaknesses do not prevent a meaningful assessment of economic policies, they require significant improvement to facilitate the analysis of economic developments (see Appendix VI) and, in this regard, The Gambia has accepted to participate in the Fund's General Data Dissemination System (GDSD).

## II. PERFORMANCE UNDER THE 1999/2000 PROGRAM<sup>2</sup>

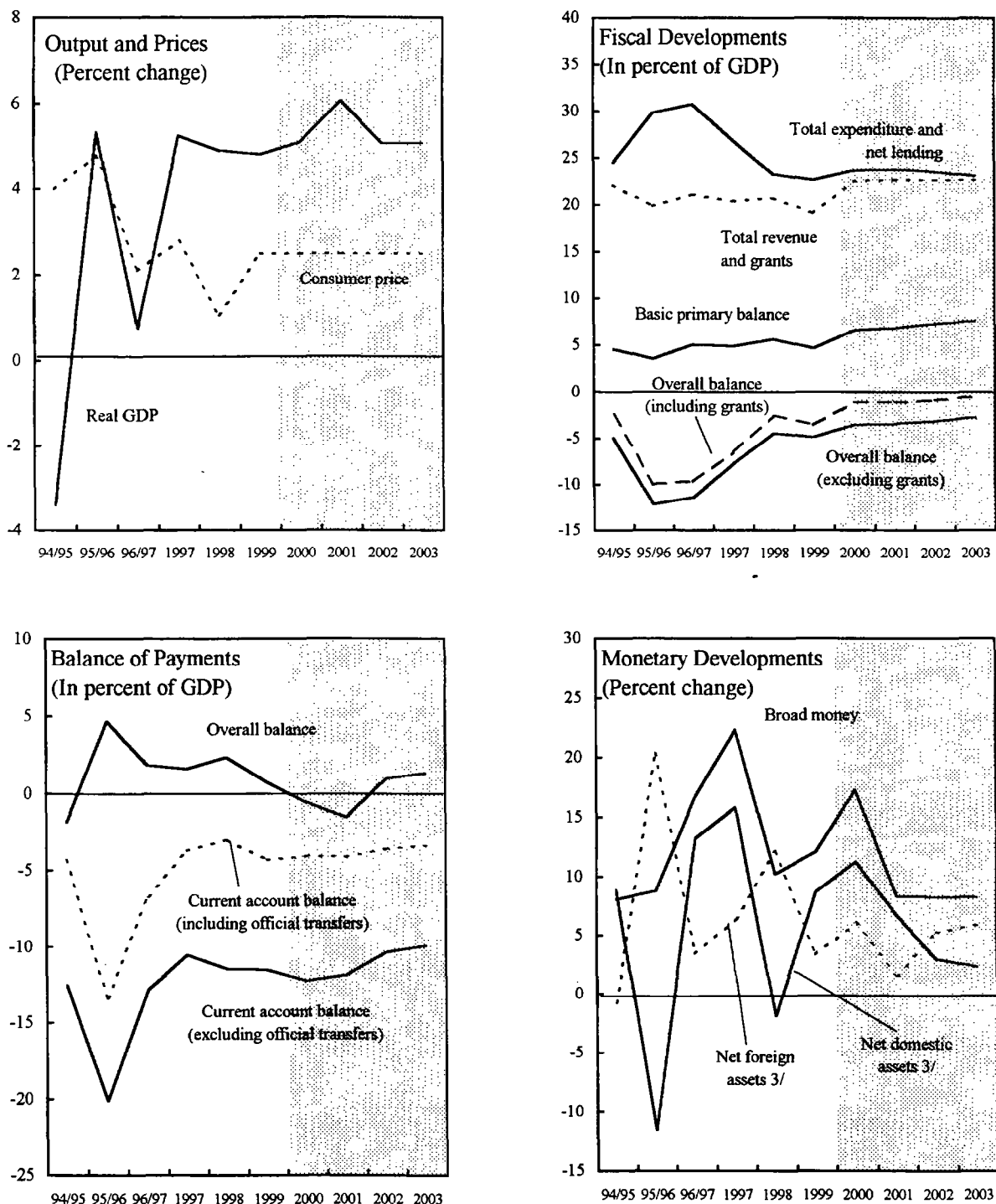
### A. Macroeconomic Performance

7. **Macroeconomic performance was mixed during 1999/2000.** Output growth remained strong (6.4 percent) and inflation low (1.8 percent) in 1999, but slippages occurred in the implementation of the 1999 budget, and the overall fiscal deficit (excluding grants), at 4.8 percent of GDP, exceeded the program target of 3.1 percent (Tables 3, 4, and 5 and Figure 1). This outcome resulted mainly from a shortfall in customs duty receipts in the fourth quarter of the year, and higher-than-expected recurrent expenditure, including interest payments. Monetary policy was largely accommodating, and credit expansion to the

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<sup>2</sup> Details of developments during 1999 through the first half of 2000 can be found in EBS/00/129 (7/7/00), which was discussed by the Executive Board on July 19, 2000, and in the attached MEFP (Appendix I).

Figure 1. The Gambia: Selected Economic Indicators, 1994/95 - 2003 1/ 2/



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

1/ Until 1996/97, fiscal years (July-June); from 1997, calendar years.

2/ Shaded areas represent projections.

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



government and private sector also exceeded the program targets (Tables 6 and 7). The financial policy slippages continued through the first quarter of 2000, contributing to the nonobservance of three quantitative performance criteria for end-March 2000. However, the gross official reserves target for March 2000 was met; gross official reserves increased to SDR 78 million (5.7 months of imports). The real effective exchange rate of the dalasi declined by 2.3 percent during the 21 months ended August 2000 (Table 8 and Figure 2).

8. **In response, the authorities implemented corrective fiscal measures** during the first half of 2000, including large increases in retail petroleum product prices in February, the elimination of the preshipment import inspection (PSI) scheme in July, and the introduction of enhanced expenditure reporting and control procedures. Moreover, the government initiated a program to eliminate the cross arrears with public enterprises and by end-September had paid off D 24 million of its arrears in this respect. At the same time, the government collected (through automatic deductions) the 0.4 percent of GDP in salary advance to civil servants that was granted for the March 2000 Tabaski religious festival.

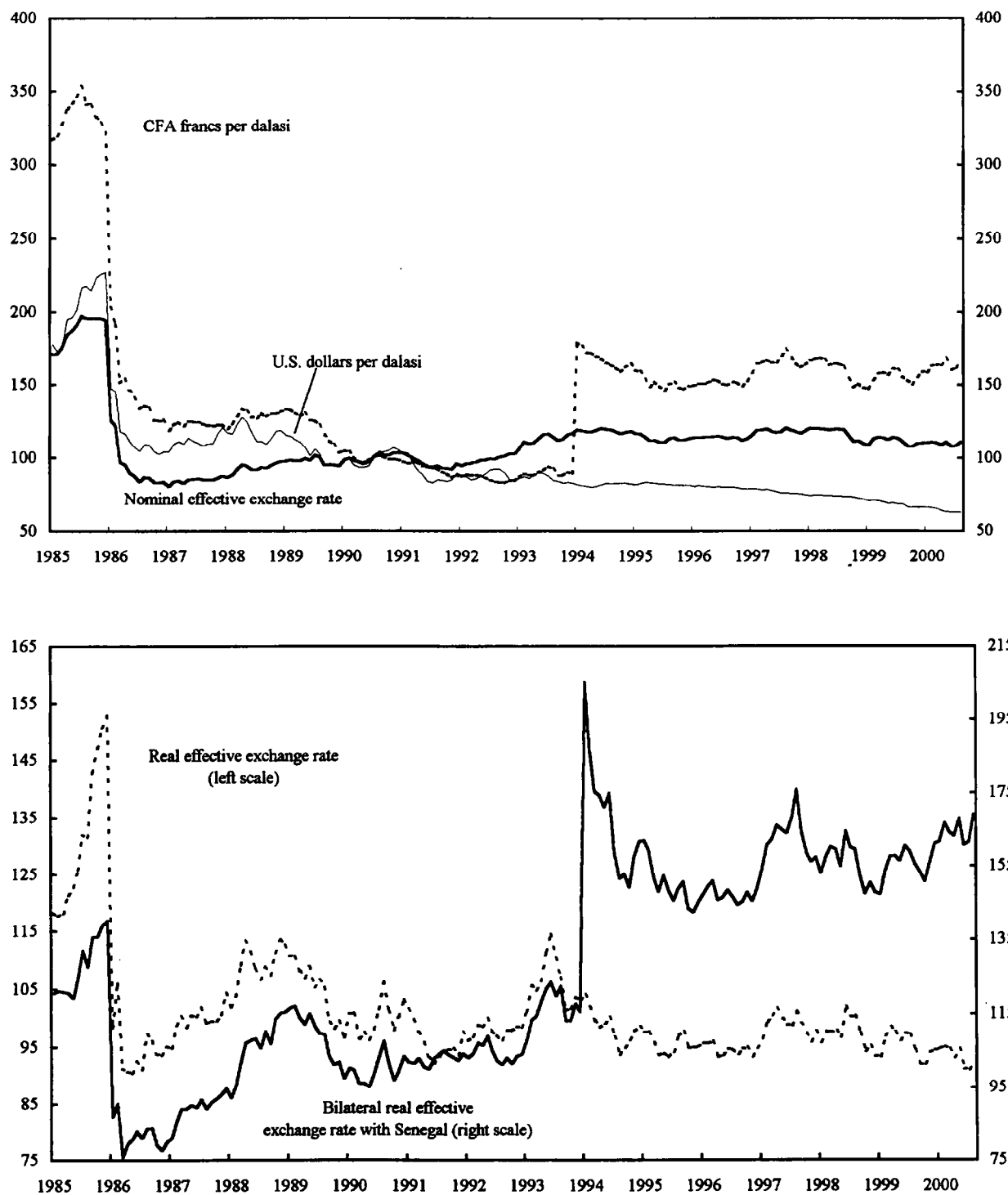
9. The outlook for 2000 shows some signs of improvement from earlier projections, with a revised real GDP growth of  $5\frac{1}{4}$  percent as a result of very good rains and better use of agricultural inputs. However, end-of-period inflation is projected to rise to  $2\frac{3}{4}$  percent with the pass-through of higher petroleum prices, while domestic credit expansion and broad money growth are projected to exceed the original program targets. The settlement of the dispute over the government's seizure of the GGC's groundnut processing plant (see below) should substantially improve groundnut marketing. The reexport sector is continuing to recover following the removal of the PSI scheme, while the external current account deficit (excluding official transfers) is projected to increase to  $12\frac{1}{4}$  percent of GDP, given the strong rebound in imports and the lackluster tourism performance.

10. Fiscal performance through end-September 2000 was satisfactory, mainly as a result of a strong recovery in customs duty, despite a shortfall in the disbursement of external grants. As a result, all the quantitative performance criteria for end-September were met.

11. **Notwithstanding the corrective fiscal measures taken, the overall budget deficit for 2000 is projected to rise to  $3\frac{1}{2}$  percent of GDP** (compared with  $2\frac{1}{2}$  percent in the original program), largely because of higher domestic interest payments (0.6 percent of GDP) due to a delay in the receipt of external grants intended to repay domestic debt. Moreover, the government is paying unanticipated allowances and transport costs for expatriate health workers, and pressures have emerged from increased maintenance costs, especially following two years of inclement weather. Development expenditures are projected to be virtually in line with program estimates.

12. **Under the terms of the settlement with Alimenta (the GGC's parent company)** in November, the government is expected to pay an initial installment of US\$3.5 million (the total settlement amounts to US\$11.4 million) from the proceeds of a European Union (EU) structural adjustment grant and, subject to a bank guarantee on the balance, Alimenta will

Figure 2. The Gambia: Exchange Rate Developments, January 1985 - August 2000  
(Indices, 1990=100)



Source: IMF, Information Notice System.

withdraw the case from arbitration by the International Center for Settlement of Investment Disputes. The balance of the settlement is to be paid off by July 2001.

13. **The projected financing of the overall fiscal deficit through end-December 2000** reflects increased recourse to external resources during the fourth quarter. The government also intends to use about D 24 million (0.4 percent of GDP) in privatization receipts to reduce its domestic debt to about 26 percent of GDP and eliminate a total of D 26 million in arrears to public enterprises.

### **B. Structural Reforms**

14. **The implementation of structural reforms has been satisfactory.** The two structural performance criteria and five out of nine structural benchmarks were implemented broadly on schedule (Appendix Table 12), including the reduction in the maximum external tariff rate from 20 percent to 18 percent in August 2000. The rebasing of the national accounts to 1998 (instead of the current base of 1976/77) and the full implementation of the automated system for customs data (ASYCUDA)—action taken to improve the compilation of trade data—are, with the United Nations Development Program (UNDP) assistance, in the final phases. With regard to privatization, two entities were privatized and a telecommunications company was restructured, while the restructuring of the energy company faced some technical problems, which the World Bank is assisting the authorities in addressing. In addition, the authorities also made progress in drafting legislation to improve the environment for private sector activity and strengthen financial institution regulation, in part with assistance from the Commonwealth Secretariat. Moreover, the government's resolution of the GGC property issue should restore investor confidence and catalyze reforms in groundnut processing and marketing in The Gambia.

## **III. OBJECTIVES AND POLICY FRAMEWORK FOR 2001-03**

15. The Gambian authorities are reviewing their **Strategy for Poverty Alleviation (SPA I)**, which was launched in 1994, as a basis for formulating a more comprehensive **SPA II** and an economic and financial policy framework for the medium term. The SPA II incorporates a significantly broader participatory process, especially with better inputs from the poor (Box 1), as a means to enhance the targeting of social services. Moreover, SPA II includes a better design of program pillars (Box 2), with a greater emphasis on enhancing the productive capacity of the poor, inter alia, to accelerate overall economic growth. In this regard, agriculture—which accounts for a substantial part of employment, especially for women, and generates about 66 percent of household income—is slated to play an even more central role in the efforts to reduce poverty (Box 3). This approach is articulated in the **I-PRSP** that has been forwarded to the Fund and World Bank, and will be elaborated upon in the full **PRSP** that is expected to be completed by end-2001.

**Box 1. Including the Poor in the Definition of Poverty and the National Policy Debate:  
The Gambia's Participatory Poverty Assessment**

In the past, policy analysis focused on household survey data, which measured income and consumption levels, health status, and education levels. Participatory Poverty Assessments (PPAs) have consistently shown that, in addition to income, health, and education, poor people are also concerned with other dimensions of poverty, such as vulnerability, physical and social isolation, lack of security and self-respect, a distrust of state institutions, and powerlessness. PPA data can also help to better interpret household survey data (for example, why people are not using government services), highlight the priorities of the poor and provide data beyond the household unit with a focus on gender, ethnicity, age, and community groups. High-quality PPAs can improve the debate on poverty at the policy level; increase ownership and commitment to policy delivery on the part of different civil society groups; and strengthen the two-way communication between communities and policymakers. Directly consulting the poor through a PPA can contribute toward a poverty reduction strategy paper (PRSP) in three main ways: improving the diagnosis of poverty; including the poor in the participation process for policymaking; and involving the poor in monitoring the implementation of the strategy.

In 1999, the Gambian government launched a three-year (1999/2000 – 2001/02) PPA exercise entailing two annual assessments, for the wet and dry seasons. The first annual report, covering the wet season of 1999 and the dry season of 2000, was completed in June 2000. A total of 29 communities, both rural and urban, and 1,850 households were sampled. Over 15,800 people participated. The communities were drawn from the same sample used in the 1998 National Household Poverty Study in an attempt to integrate as much as possible the two separate exercises. Each of the communities involved in the PPA developed a community action plan; these plans are being reviewed by the District Development Committee and nongovernmental organizations (NGOs) for possible input in the PRSP.

The aim of the PPA was to understand poverty from the perspective of the poor by focusing on their realities, needs, and priorities. The study will be repeated in the dry and wet seasons for the same households over a three-year period. The results from the first set of PPAs highlighted the fact that cash income is not the only indicator of wealth, and that poverty is multidimensional and dynamic. For example, in addition to income, the poor emphasized food security, powerlessness in the decision-making process, the importance of being integrated into the extended family system, and a lack of access to assets (such as land), credit, and basic services (such as health and education). The assessment confirmed that women work longer hours than men and have limited access to assets, credit, and land (women only have usufruct rights to land). This year, the lack of outlets for the groundnut harvest (as a result of the disruption caused by the 1999 government seizure of a private groundnut-processing plant) has worsened household poverty. In order to deal with this increase in poverty, the PPA revealed that households adopted a variety of coping strategies, including selling assets such as livestock; begging; petty trading; reducing household meals; taking credit from neighbors and moneylenders; and increasing the use of child labor.

To better diagnose the problem of poverty, the Government of The Gambia intends to better integrate the data from the 1998 household survey during the remaining two years of the PPA. The objective is to use multiple data sources for clearer policy recommendations. There are three areas that now require further development. First, capacity needs to be built to better analyze the data from the PPAs and make more robust comparisons with the household survey data. Second, the results of the PPA and the integrated poverty analysis need to be linked more closely to the policymaking process. Third, to design better policies, the integrated poverty data can now be used to assess the impact of macroeconomic policy and structural reforms on the poor.

## **Box 2. The Strategy for Poverty Alleviation**

In 1994, The Gambia launched the Strategy for Poverty Alleviation (SPA I) in consultation with a cross-section of the society, including the poor. The SPA I did not live up to expectations, in part because the 1994 military coup led to a suspension of most donor assistance. Moreover, there were problems with public expenditure, including a lack of (i) linkages of SPA I priorities to the budget process; (ii) full costing of priority public actions; and (iii) a clearly defined monitoring system. The authorities are now revising their strategy based on the lessons from SPA I and have prepared an interim PRSP, while the more comprehensive SPA II will be presented to the IMF and World Bank as The Gambia's PRSP by end-2001. A major conclusion of the SPA review is that the problems of inadequate growth and poor targeting and monitoring of social expenditure should be addressed in SPA II, especially in the context of the macroeconomic framework. The SPA identified five areas of intervention for urgent action; these areas, designated pillars of the strategy, comprise ten program areas and components supporting the key objective of each pillar. The latter constituted the National Strategy and Action Program for Poverty Alleviation (NPAP).

- **Pillar I (enhancing the productive capacity of the poor).** This pillar recognizes that expanding the productive capacity is sine qua non in generating employment opportunities for the large youthful population. NPAP-related programs designed to meet this goal include diversifying agricultural production, which has been hitherto dominated by groundnuts; introducing supportive policies to promote microenterprises; improving the eligibility of Gambian contractors for government works and procurement; promoting women-owned businesses; providing financial support for small-scale enterprises; promoting labor-intensive projects in public works; and creating and promoting infrastructure development funds.
- **Pillar II (improving access to, and the performance of, social services).** The programs emphasize gaining access to social services by improving the proximity of health services to communities; strengthening the participation of women and youths in socioeconomic development through expansion of the literacy program, especially for women and girls; enhancing the quality and relevance of basic education; promoting technical and vocational training; and enhancing national capacities to implement the decentralization strategy in the social services.
- **Pillar III (building capacity at local levels for people-centered development management).** This area of intervention focuses on strengthening the capacity of community-based organizations to plan, manage, and sustain their development efforts; and on enhancing the capacity of the administrative hierarchies to operationalize the decentralization policy of the government. It also seeks to improve the communities' access to financial and material resources available in their environment. To this end, a Social Development Fund has been established to support enterprise development initiatives at local levels.
- **Pillar IV (promoting participatory processes and good governance).** All activities envisaged in the SPA are underpinned by the promotion of communication processes. These programs build on the wealth of communication skills and channels that exist in The Gambia to disseminate poverty alleviation information. A series of programs was designed to promote a policy to develop communications, to strengthen local communities' use of information, education, and communication methods, and to facilitate information exchange among key players of the SPA.
- **Pillar V (providing economic and social infrastructure support to the poor).** This is based on the premise that income poverty is affected by unequal distribution of assets, poor asset performance, and limited access to roads and support services. Programs under this pillar aim at improving the targeting of social spending, including public expenditure reviews to ensure that budgetary allocations favor the access of the poor to vital support services.

The implementation of the NPAP is based on an integrated approach that draws from inputs by the national Task Force, the SPA Coordinating Office (SPACO), nongovernmental organizations (NGOs), community-based organizations, local authorities, the donors, and the private sector. SPACO plays the key role of a clearinghouse for coordination and monitoring.

### Box 3. Revitalizing the Agricultural Sector

Agriculture is one of The Gambia's key economic sectors; it employs 70 percent of the population, contributes 27 percent to GDP and generates about 66 percent of household income in the country. Over the years, the sector has experienced significant problems that have contributed to a deterioration in poverty in the country. The government, assisted by donors, is currently undertaking measures to revitalize the sector.

Agriculture was adversely affected by several shocks, leading to a decline in the production of groundnuts, the major cash crop, from a peak of 145,200 metric tons in 1974/75 to 45,820 metric tons in 1996/97.

- **Lack of access to credit.** Direct government intervention to provide credit to farmers was not successful and the burden of unpaid debt contributed to the termination of The Gambia Cooperative Union lending program to farmers during the 1992/93-crop season. According to the 2000 PPA, access to credit continues to be restricted because informal credit is often unavailable when needed most, short repayment periods are imposed, and professional moneylenders charge high interest rates (see Box 1). Traditional revolving fund schemes (*osusus*) tend to be small in scale. Lack of credit contributed to the drop in fertilizer imports to only 62 percent during 1995-98 of the average level attained during 1990-94.
- **Weak marketing institutions.** During 1965-1993, the government operated a marketing board, the Gambia Oilseed, Processing, and Marketing Company, which it sold to Alimenta, a Swiss company, in 1993, without an appropriate regulatory framework in place, nor alternative arrangements to assist farmers with extension, research, and credit services. Following the government's seizure of the Alimenta property in early 1999, farmers were left to rely on an ad-hoc marketing system, comprised of a few small-scale buyers and they have experienced problems receiving payments for their crops. Earnings were further reduced by the 15 percent decline in groundnut export prices during the 1990s.

As a consequence, **livings conditions in rural areas have deteriorated markedly**, with an increasing inability to pay user fees for social services in health and education.

- According to household surveys, the proportion of rural households living in **extreme poverty increased** from about 25 to 70 percent between 1992 and 1998.
- The Gambia suffers from **food-insecurity**. Food security varies with the time of the year, socio-economic status of the household, and the food situation at the national level, as evidenced by a higher incidence of maternal malnutrition in rural areas due to seasonal food shortages in the wet season.
- In particular, women are vulnerable as they have less access to mechanization, credit, education, and the labor market than men.

The review of the national strategy for Poverty alleviation (SPA I) concluded that despite some success in improving the provision of social services, efforts at accelerating output growth have fallen below expectations. In response, the government is taking the following steps:

- **The SPA II emphasizes increasing the productive capacity of the poor**, especially the agricultural sector. The government will promote higher income generation through assistance to small-scale agribusiness development, small cottage industry development, development of savings and credit institutions for the poor, and enhancing eco-tourism in rural areas.
- To address the groundnut marketing system, the **government has settled with Alimenta**, which will restore confidence and catalyze reforms. With EU assistance, it is strengthening marketing institutions through a project that is supporting producers and operators through an association (ASPA) that operates a price stabilization fund and announces producer prices early in each season. The government plans to privatize the two key groundnut-processing plants to attract more competitive private sector participation. Officially marketed groundnuts are expected to increase from 45,000 tons in 2000 to an estimated 75,000 tons in 2001. In addition, EU provided 1,000 tons of seednuts on a credit basis in the 1999/2000 season.
- IFAD is currently **expanding rural financial services** and building capacity for individual farmers through a rural finance and community initiatives project with a total assistance of US\$10 million over a six-year period to benefit about 75,000 individuals from 25,000 rural households in 150 villages by establishing a total of 80 credit associations.
- Farmers are being assisted to **diversify to higher yielding crops** such higher-quality groundnuts and cashew nuts.

16. **The overall macroeconomic objectives for the period 2001-03, consistent with the I-PRSP**, comprise (i) an average annual real GDP growth of 5½ percent; (ii) containing inflation at about 2½ percent; (iii) reducing the external current account deficit (excluding official transfers) to about 10 percent of GDP by 2003; and (iv) maintaining gross external reserves above 5¼ months of imports of goods and services. The attainment of the output growth objective would require an increase in investment from an annual average of 18½ percent of GDP during 1998-2000 to 21 percent over the next three years, with about two-thirds of the increase accounted for by the public sector. The envisaged increase in the government saving-investment balance is expected to contribute to the projected improvement in the external current account.

#### **IV. THE PROGRAM FOR 2000/01<sup>3</sup>**

##### **A. Fiscal Policy**

17. **Fiscal policy aims at reallocating expenditure toward social objectives while maintaining the overall deficit (excluding grants) at about 3½ percent of GDP in 2001.** The deficit is higher than envisaged earlier and the government will now hardly be able to reduce its overall domestic debt because of the higher recurrent expenditure (significantly from a carryover from higher expenditure in 2000) and the financing requirement to settle the balance of the obligations to Alimenta.<sup>4</sup> This also implies that the government will be actually increasing nonbank domestic debt. The deficit (including grants) would also remain unchanged at about 1 percent of GDP. The budget for 2001, which was approved by the cabinet on October 10 (as a **prior action** under the program) and is being debated in parliament, is based on a projected modest growth in revenue to over 20 percent of GDP. This outcome is predicated on the measures taken during 2000, especially the removal of the inadequately implemented PSI scheme in July, which is expected to lead to a recovery in the volume of imports and customs revenue. It also reflects measures to improve tax administration through computerization (including the full implementation of ASYCUDA) and improved coordination among the tax departments. A review of the income tax department and separately, a study of setting up an autonomous revenue authority, are to be undertaken during 2001.

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<sup>3</sup> Details of the program for 2000/01 are provided in the attached MEFP (see Appendix I).

<sup>4</sup> The government is holding discussions with some donors to assist with this payment and expects that the financing gap, reflected in the budget and the balance of payments for 2001, will be filled with additional assistance. Moreover, as in 2000, a part of the EU grant (€4 million) will also be used to pay Alimenta instead of reducing the government's domestic debt. As a result, domestic interest payments and the overall deficit in both 2000 and 2001 are higher by 0.6 percent of GDP and about 0.8 percent, respectively.

18. **On the expenditure side**, the design of the budget for 2001 has incorporated three key features. First, it extends the reporting and control procedures to all expenditures, including to below-the-line (BTL) accounts that had previously been operated without internal audit scrutiny. Moreover, by taking into account unutilized balances in BTL accounts, the budgetary allocations will also impose greater discipline on government departments that operate those accounts. Second, it provides for a modest reduction in the ratio of overall recurrent expenditure to GDP, while shifting priority to maintenance and the provision of social services. In this regard, the budget does not provide for an across-the-board wage increase for 2001 but incorporates instead a 7 percent increase in other charges to ensure better servicing of public facilities. The allocation for education will be increased from an estimated 22½ percent of total recurrent expenditure (excluding interest payments) in 2000 to about 24½ percent in 2001, while the share of health spending will increase to about 16¼ percent in the latter year from an estimated 14½ percent in 2000.<sup>5</sup> Third, the budget provides for an increase in capital expenditure from 6½ percent of GDP in 2000 to 7 percent, in order to improve the capacity for providing social services.

19. **Complementary fiscal reforms** include a reduction of the significant backlog in the auditing of government accounts (the last audited accounts are for 1990/91 (July-June));<sup>6</sup> and the introduction of an accounting framework for expenditure on poverty reduction—the **Poverty Reduction Fund (PRF)**. The PRF is a virtual fund, which will aggregate expenditure within the overall budget to facilitate the monitoring of pro-poor spending. In addition, the Office of the Accountant General will be computerized (likely, over a period of time) to facilitate timely reconciliation of the treasury and central bank accounts and improve macroeconomic policy coordination. The Fund resident budget advisor is assisting the authorities with these reforms, which should result in greater transparency and accountability. The authorities will also implement the contingency budget for 2001 (to be funded from the likely interim debt relief under the enhanced HIPC Initiative; see Box 4), whose broad outlines were agreed with the staff and vetted by the Task Force and the High-Level Economic Committee (HILEC) for consistency with the I-PRSP.<sup>7</sup>

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<sup>5</sup> The allocation for social sectors beyond 2001 will be determined from the prospective social sector expenditure reviews planned by the World Bank and other donors and the projections provided in Table 9 will be revised accordingly.

<sup>6</sup> Delays are due to loss of financial records for the period 1992–97. For details see the MEFP (Appendix 1).

<sup>7</sup> The Task Force (comprising civil servants, donors, nongovernmental organizations (NGOs), and civic society) and the HILEC (a cabinet subcommittee, mostly chaired by the Secretary of State for Finance and Economic Affairs) are the key institutional bodies that oversee SPA II, while the Strategy for Poverty Alleviation Coordinating Office (SPACO) coordinates its various activities. The contingency budget for 2001 will comprise a major component of the PRF monitoring framework in 2001.



Box 4. Contingency Budget for 2001 1/ 2/		
	In millions of Dalasis	As percent of Total
Health	14.8	18.2
Education	17.6	21.7
Rural development	16.5	20.3
Agriculture	5.7	7.0
Artisanal fishing	1.0	1.2
Rural water supply	2.6	3.2
Rural feeder roads	6.0	7.4
Forestry	1.2	1.5
National environment	1.0	1.2
Decentralization (local government)	0.5	0.6
Social welfare	0.5	0.6
Judiciary	3.5	4.3
Public works	25.1	30.9
Central Statistics Department (poverty-related data)	1.7	2.1
Total	81.2	100.0
Memorandum items:		
Fiscal deficit before enhanced HIPC debt relief 3/	-198.7	-3.5
Fiscal deficit after enhanced HIPC debt relief 3/	-237.9	-4.1
Source: The Gambian authorities.		
1/ On the assumption that a HIPC decision point is approved by the Executive Boards of the Fund and the World Bank before end-2000.		
2/ Expected enhanced HIPC debt relief was estimated at US\$5.8 million in 2001. The difference between this amount and actual debt relief will be reflected in the financing gap.		
3/ Fiscal deficit (excluding grants).		

20. The government is also discussing with the World Bank a Capacity Building for Economic Management Project aimed at improving institutional capacity. The project includes a program component to help The Gambia move toward a **medium-term expenditure framework** (MTEF), based on a strategic policy and expenditure framework. In this regard, the line ministries will be provided with greater responsibility for decisions related to resource allocation over the medium term. A forthcoming study will make recommendations for the implementation of the MTEF.

### **B. Monetary Policy and Financial Sector Reforms**

21. **The monetary program for 2001** allows for a reduction in money supply growth, from an estimated 17½ percent for 2000 to 8½ percent, in line with nominal GDP growth. Moreover, the programmed government net repayment to the domestic banking system would provide for adequate growth in private sector credit.

22. The authorities have taken measures to **improve the functioning of the foreign exchange market**, including through more frequent foreign exchange sales (and in smaller volumes), occasionally through auctions. As a result, the spread between the interbank and the parallel (foreign exchange bureau) rates declined from 14 percent in early September to 8½ percent in mid-November. Complementary reforms to broaden the market and reduce foreign exchange transactions costs are discussed below.

23. **Financial sector reforms** will draw on the recommendations of, and further access to, Fund technical assistance to (i) strengthen the auctions in financial securities with the introduction of a book-entry system and more frequent auctions by end-August 2001 (a related step was the abolition of the 5 percent floor on deposit interest rates effective October 2000); (ii) introduce foreign currency deposits by end-June 2001, after appropriate reforms at the central bank and commercial banks, including the introduction of limits on the open foreign exchange positions for the latter; and (iii) strengthen financial institutions supervision with the parliamentary approval of the Financial Institutions and Insurance Bills by end-2000, and continued annual programs to ensure full provisioning by commercial banks for nonperforming loans (which had declined to 14 percent of total outstanding loans by June 2000 from 26 percent at the beginning of 1998) and maintenance of adequate capital ratios. In particular, the authorities indicated that to maintain the downward trend in nonperforming loans would require dealing effectively with the recent problems with groundnut marketing credit.<sup>8</sup> Thus, they intend to work closely with commercial banks to strengthen their management through better risk assessments and improved understanding of the groundnut marketing process. The improved prospects for entry of new international marketing firms

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<sup>8</sup> These problems reflect mainly long delays in processing and exporting the groundnut crop by inexperienced marketing companies and the loans have yet to be classified as nonperforming.

(following the settlement with Alimenta) also augurs well for a more efficient marketing structure.

24. The Gambia is involved in **regional monetary efforts**, under the Accra Declaration, with five other West African countries, to establish a monetary zone by 2003 (see details in EBS/00/129; 7/7/00). A meeting of the Working Group was held in Banjul in October to discuss the main policy and technical issues that need to be advanced in order to meet the stated deadline. The mission discussed this issue briefly. It welcomed the emphasis on promoting regional cooperation and achieving economic convergence through, inter alia, reduced fiscal imbalances and government financing by the central bank.

25. **With regard to the government domestic debt**, the authorities remain concerned about its high level (projected at about 26 percent of GDP at end-2000) and are determined to pursue prudent fiscal policies, including programmed annual repayments (partly from privatization proceeds), to bring the outstanding balance to sustainable levels. In addition to the ongoing support from the EU, the authorities are holding discussions with the World Bank and Fund staff on a possible program to reduce the domestic debt using debt-buyback and/or debt-equity swap arrangements with institutions like the Social Security Fund.

### C. Structural and Sectoral Reforms

26. **With regard to other structural reforms**, the authorities are undertaking an ambitious effort, as detailed in the attached MEFP, to address impediments to efficient private sector activities. Part of this effort entails drafting important legislation for **competition, regulatory, and privatization frameworks** with the assistance of the Commonwealth Secretariat and the World Bank (the Competition, Regulatory, and Privatization Agency Bills) which is expected to be approved by parliament by early 2001. A part of this legislation is key to the **privatization program** supported by the World Bank, which entails the setting up of legal and institutional frameworks and arrangements to restructure and privatize public enterprises, including the Gambia Telecommunications Company Limited (GAMTEL). Moreover as a result of the settlement with Alimenta, two groundnut processing plants will revert to the government, which intends to privatize them to competing firms to complement reforms in the marketing of groundnuts.<sup>9</sup> For the remaining public enterprises, the government intends to implement the terms of the memoranda of understanding (MOUs) agreed with a number of public enterprises in 1998, including timely discharge of obligations to prevent any further accumulation of payments arrears. It will also insist that all public enterprises meet fully their tax, debt-service, and dividend obligations.

27. Concurrently, the authorities are undertaking **judicial reforms**—with the recent appointment of new judges, legal drafters, and other staff and the opening of regional courts

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<sup>9</sup> Proceeds from the sale of these plants could be utilized to reduce the government's domestic debt or pay off the balance to Alimenta.

to reduce the significant backlog of cases, including in the commercial courts—and are implementing a **comprehensive governance program** (see details in the MEFP) which was adopted during the March 2000 roundtable meeting in Banjul.

28. **Sectoral reforms** are designed mainly to give substance to the I-PRSP emphasis on enhancing the productive capacity of the poor and improving the targeting of social services to the poor. Accordingly, the three key productive sectors of the economy—agriculture, tourism, and trade (accounting for about 55 percent of GDP in 2000)—are being targeted for major reforms. In agriculture, the reforms encompass the production and marketing of groundnuts with EU assistance (with the benefit of the recent settlement of the dispute over the GGC property). Efforts are also under way to provide better extension services, inputs, and especially credit facilities, partly through an ongoing six-year US\$10 million International Fund for Agricultural Development (IFAD) Rural Finance and Community Initiative. In addition, the fishing sector should benefit from the ice plant project and measures to improve artisanal facilities.

29. In the tourism sector, the government is working closely with the African Development Bank to develop a 15-year Tourism Master Plan to enhance marketing and the diversification of tourism and to address the problems of beach erosion. The government also plans to set up a National Tourism Board and introduce a comprehensive program to classify all hotels in order to improve services. The trade sector has benefited from the reduction in external tariffs from a maximum rate of 90 percent in 1998 to 18 percent currently, as well as the reduction in the number of tariff bands from 30 in 1998 to only 3 in 2000. It has also improved as a result of the recent abolition of the PSI scheme and should consolidate these gains with the proposed World Bank Trade Gateway Project in order to establish an export processing zone based on the port and airport in Banjul.

30. To monitor the structural reforms, the staff reached understandings with the authorities on a structural performance criterion and benchmarks during 2000/01 based on select key reforms as discussed above and as reflected in Appendix Table 11.

#### **D. Social and Poverty Reduction Policies**

31. The Gambia's PRSP process (for details see EBS/00/129; 7/7/00) continues broadly on schedule with the holding of regional workshops (early October 2000) and the national workshop, which was opened by President Alhaji Yahya Jammeh in Banjul on October 26, 2000. In the meantime, the authorities finalized the I-PRSP in October and forwarded it to the Fund and World Bank after its approval by the HILEC, chaired by the Vice President.

32. **Social sector reforms** will focus on **public expenditure reviews** designed to establish expenditure priorities and monitorable targets that can be linked directly to budgetary expenditure and the provision of public services. The government also intends to use feedback from the PPA to address the problems identified by recipients in the provision of social services. In the priority sectors, namely, agriculture, health, public works, and possibly local government, the authorities are working closely with donors, NGOs, and local

communities to undertake public expenditure reviews. The Department of State for Education has developed a well-articulated public expenditure review process, that could serve as a model for the rest of the public sector.

33. **The improved targeting of social services** is based initially on budgetary expenditure allocations, especially for education and health; meanwhile, the contingency budget for 2001 that will be funded from the likely interim debt relief under the enhanced HIPC Initiative has also targeted expenditures that reduce poverty. The government has established the PRF (a virtual fund) as a comprehensive accounting framework to track all poverty reduction expenditures, in order to ensure that they are fully accounted for and are in line with the budgeted priorities. In order to augment the skills of social sector workers and enhance the provision of social services, the authorities will study the possibility of increasing the retirement age (from 55 to 60 or 62) for civil servants in the education and health sectors on a pilot basis. For the medium term, public expenditure reviews and the MTEF will be implemented (as discussed above) to significantly improve the budgetary links with the objectives outlined in the I-PRSP. The future results from the three-year PPA exercise, the planned household survey (among other things, designed to improve the consumer price index), and the population and housing census (2003) should also provide better inputs for the design of improved targeting and the more efficient delivery of social services.

34. **The updating of the comprehensive poverty reduction strategy is likely to place a considerable burden on institutional capacity and require reforms to improve the environment for private sector activity and enhance the delivery and monitoring of public services.** Accordingly, the authorities intend to intensify collaboration with donors and the Fund to ensure timely access to technical assistance, and they are making efforts to expedite the preparations for the World Bank Capacity Building and Economic Management Project.

#### **E. Medium-Term Balance of Payments Outlook and Capacity to Repay the Fund**

35. The Gambia's adjustment and reform strategy, including the significant reduction and rationalization of the external tariffs, is aimed at improving its external competitiveness and integration into the world economy, while promoting its medium-term financial viability. In the medium term, the external sector is also expected to gain momentum from the increased production and quality of groundnuts and the substantially improved marketing arrangements. Total export volumes are projected to grow by about 10 percent in 2001 and by an average of 5¾ percent in 2002 and 2003. Travel income is expected to recover from the lackluster 2000 tourist season, and tourist arrivals are projected to grow by about 4½ percent a year in 2001-03, benefiting from infrastructural improvements, the planned construction of three new hotels, and the reintroduction of all-inclusive packages. Domestic import volumes are projected to grow by 13 percent in 2001, continuing the upward trend from the low level of 1999 that began with the removal of the PSI scheme, and by an annual average of 3 percent in 2002-03—a level not only in line with domestic demand but also reflecting some import substitution in the food sector.

36. The terms of trade are projected to improve by nearly 6 percent in 2001, owing to projected lower oil prices, and to continue to improve at a moderate rate in 2002-03. In this context and with the continued implementation of prudent financial policies envisaged under the revised program, the current account deficit is projected to narrow gradually to 10 percent of GDP by 2003. The financing gaps projected for 2001 and 2002 (SDR 5.9 million and SDR 1 million, respectively) reflect, inter alia, an estimated US\$5 million needed to pay off the obligations to Alimenta by July 2001. These financing gaps are expected to be covered mostly by donor grants during a roundtable meeting planned for mid-2001 to, inter alia, support the PRSP process. Additional donor support would permit gross official reserves to be maintained at about 5¼ months of import coverage by 2003.

37. In the course of preparing the **enhanced HIPC Initiative decision point document** (EBS/00/242), which has been forwarded to the Fund and World Bank Executive Boards, the **debt sustainability analysis (DSA)** was updated jointly by the Gambian authorities and the IMF and World Bank staff. On the basis of the updated DSA, The Gambia qualifies for assistance under the enhanced HIPC Initiative and meets the requirements for reaching a decision point with the adoption of (i) an I-PRSP (EBD/00/99, 11/28/00) and the joint World Bank and Fund staff assessment of the I-PRSP (EBD/00/100, 11/28/00); (ii) a contingency budget for 2001, to be funded by the enhanced HIPC Initiative debt relief; and (iii) an accounting framework for tracking expenditures for poverty. The enhanced HIPC Initiative debt relief would contribute substantially to making The Gambia's external debt sustainable.

38. In the past several months, the **External Debt Unit** within the Department of State for Finance and Economic Affairs has been strengthened with additional staff, training, and new computers. Additional staff and training are planned to enable the unit to extend its mandate and also compile data on publicly guaranteed external debt, other external contingent liabilities of the government, and government domestic debt by mid-2001.

39. Further **reduction in the external tariff** could be feasible in light of the ongoing discussions with the World Bank for possible budget assistance to compensate for loss of revenue if the authorities opt to reduce the import-weighted average tariff from its current level of 11.8 percent. The authorities recognize also that permanent revenue sources would be needed to compensate for income loss and are committed to taking the necessary reforms. The staff would welcome further reduction in the average external tariff.

40. The authorities intend to continue with prudent management of the external debt. Payments to the Fund in 2001 will total SDR 0.5 million (plus SDR 0.5 million to the Saudi Fund for Development), equivalent to 0.3 percent of projected exports of goods and nonfactor services. The Gambia has an excellent record in meeting its debt-service obligations to the Fund and, given the projected improvement in its financial policies, is expected to discharge its future obligations to the Fund in a timely manner. Meanwhile, it is expected that by early 2001 agreement will be reached on the debt owed to the Norwegian export guarantee agency arising from a government-guaranteed loan to the Senegambia Beach Hotel.

## **F. Technical Assistance and Data Issues**

41. The Gambia's economic and financial statistics remain in need of further improvements, and, as elaborated in the attached MEFP (Appendix I), the authorities have benefited from significant Fund and other technical assistance in this regard. Moreover, the country's participation in the Fund's GDDS augurs well for the continued efforts to address the data problem comprehensively. Further steps were taken during the September 2000 workshop on the institutional assessment and strengthening of the Central Statistics Department (CSD), whose input will be reflected in the final report (expected before end-2000) on restructuring the CSD. In the MEFP, the government has noted that, notwithstanding the improvement in data so far, it still faces great challenges in compiling the broader-quality data essential for improved macroeconomic management and monitoring of poverty-reducing programs, and that it is determined to intensify its efforts in this endeavor.

## **G. Prior Action, Program Monitoring, and Review**

42. To ensure the successful implementation of the program, the cabinet adopted in October a budget for 2001 consistent with the program. The program will be monitored through a set of quantitative and a structural performance criteria and benchmarks that are specified in Appendix Tables 10 and 11 of the MEFP for 2000-01 (Appendix I). Six quantitative performance criteria have been set for end-March 2001. These items will also serve as performance criteria for end-September 2001, with revised targets to be set during the first review, and as benchmarks for end-December 2000 and end-June 2001. One structural performance criterion has been set for end-December 2000, and six structural benchmarks have been set for specific dates during the remainder of the program. A continuous performance criterion on the nonaccumulation of external payments arrears has also been set. Program implementation will be evaluated during two reviews, to be completed by July 1, 2001 and December 1, 2001.

## **V. STAFF APPRAISAL**

43. The Gambia's performance under the first and second annual PRGF arrangements has been mixed. Real GDP growth has recovered, and inflation has been low, in part reflecting favorable weather conditions over the last two years. Efforts to pursue prudent financial policies have been partly successful, with some reduction in the overall fiscal deficit, even as program slippages necessitated waivers during the first review of the second annual PRGF arrangement. In response, the authorities have implemented corrective measures, including broad-based budgetary reforms, supported by Fund technical assistance, to improve transparency and accountability in public finances.

44. Performance with regard to other structural reforms has been stronger, with the implementation of, among other things, the reduction and rationalization of external tariffs, financial sector reforms, and various actions to strengthen the database and privatize or restructure public enterprises. Moreover, the authorities have now addressed important

governance missteps by removing the PSI scheme and settling the dispute regarding the GGC property.

45. Against this background, the authorities have formulated a program for 2000/01 for which they seek the support of the Fund with the third annual PRGF arrangement. The program provides a framework for their continued efforts to consolidate macroeconomic stability, deepen structural reforms, and enhance investor confidence, all of which are essential for achieving a more durable and broad-based economic growth. At the same time, the authorities have drawn on their experience with SPA I in drafting the I-PRSP, which incorporates a more comprehensive framework for poverty alleviation on the basis of a broader public participation. The linking of the medium-term macroeconomic framework to the PRSP process thus ensures not only significantly more program ownership by The Gambia but also a much better coordination of overall economic and social policies critical to a durable reduction in poverty. In order to realize these objectives, it is crucial that the authorities continue with determined policy and reform implementation beyond the first commendable steps that they have already taken in a number of areas.

46. With regard to fiscal policy, the authorities will need to consolidate fiscal retrenchment, which would also permit a reduction in the high level of government domestic debt. Such an outcome is dependent on a timely implementation of reforms both on the revenue side—improvements in tax administration, including computerization and better coordination among the tax departments—and on the expenditure side. For the latter, measures have been introduced to strengthen the expenditure-reporting and control process, computerize accounts, and expedite their reconciliation (including with the accounts of the central bank) and their timely audit. These reforms, and the setting up of an accounting framework for poverty reduction expenditure, as well as measures designed to improve the prioritization and targeting of social services—inter alia, through developing better links between the budget and the social objectives—need to be expeditiously implemented. The staff also urges the authorities to step up their efforts to expedite the resolution of the outstanding issues with regard to the auditing of public accounts and the development of the MTEF.

47. Monetary policy has been accommodating, but would be tightened in the period ahead through the targeted net government repayments to the banking system and use of improved indirect instruments, with a view to keeping a low and stable inflation rate. The central bank plans more timely and regular sale of foreign exchange in the market for smoothing purposes. In addition, it is taking measures to improve the operation of the interbank foreign exchange market that should help minimize the spread between the parallel and interbank foreign exchange rates and thus maintain The Gambia's external competitiveness. These measures need to be supported by prudent financial policies to reduce the pressure on the exchange rate. The staff welcomes the measures to improve the soundness of the financial system and encourages the authorities to broaden the operations of the money market and introduce foreign currency deposits. The staff notes and supports the authorities' request for Fund technical assistance in this regard.



48. The consolidation and broadening of other structural reforms remain key to improved private sector activity and a speedier reduction in poverty. The key reforms include measures designed to accelerate economic growth by targeting the reforms in leading production sectors, namely agriculture, trade, and tourism. The staff urges that timely and coordinated reforms be implemented in these areas to contribute to the attainment of the I-PRSP objectives. It would also welcome further reductions in the external tariffs.

49. The staff has worked closely with the authorities and the World Bank staff in preparing the enhanced HIPC Initiative decision point paper, which is before the Executive Directors for their consideration. On the basis of the updated DSA, The Gambia qualifies for assistance under the enhanced HIPC Initiative and has met the other requirements for reaching the decision point. The challenge for The Gambia is to effectively implement these measures to benefit the poor.

50. The staff notes the considerable progress that has been made with the PRSP process and the authorities' schedule for completing the PRSP by end-2001, and it urges the authorities to adhere to the target date.

51. The staff notes the progress that has been made in improving economic and financial data and The Gambia's commitment to participate in the GDSS; it urges the authorities to continue their efforts to improve the timeliness and quality of data, especially in the national accounts and prices, fiscal, balance of payments, social, and poverty areas. While the provision of data to the Fund does not prevent effective surveillance or program monitoring, the delays in reporting and the quality of data need significant improvement to facilitate the analysis of economic developments.

52. Possible risks to the implementation of the program include delays in implementing a number of structural reforms, especially in the budget area. At the same time, the heavy burden of implementing the broad range of the program measures poses a major test of the limited economic management capacity in the country. Accordingly, the staff welcomes the authorities' intention to intensify collaboration with donors, the World Bank, and the Fund to ensure timely access to technical assistance.

53. The staff notes the broadly encouraging economic and financial developments in The Gambia since the onset of the three-year PRGF arrangement and welcomes the corrective measures and reforms that the authorities have initiated to address the underlying performance problems and deepen structural reforms. On this basis, and on the strength of the program for 2000/01, as described in the attached MEFP, the staff recommends to the Executive Board (i) completion of the second review under the second annual PRGF arrangement; (ii) approval of the extension of the commitment period from June 28, 2001 to end-December 2001; and (iii) approval of the authorities' request for the third annual arrangement under the PRGF.

## **VI. Proposed Decision**

The following draft decision, which may be adopted by a majority of votes cast, is proposed for adoption by the Executive Board:

### **A. Second Review under the Second Annual PRGF Arrangement**

1. The Gambia has consulted with the Fund in accordance with paragraph 2(f) of the second annual arrangement for The Gambia under the Poverty Reduction and Growth Facility (PRGF) in order to review program implementation.

2. The letter dated November 27, 2000 from the Secretary of State for Finance and Economic Affairs and the Governor of the Central Bank of The Gambia, together with its attached Memorandum on Economic and Financial Policies (MEFP), Technical Memorandum of Understanding (TMU) and tables, shall be attached to the second annual PRGF arrangement for The Gambia, and the letter dated November 8, 1999 from the Secretary of State for Finance and Economic Affairs and the Governor of the Central Bank of The Gambia, together with its attached memorandum and tables, shall be read as supplemented and modified by the letter dated November 27, 2000 with its attached MEFP, TMU and tables.

3. The Fund decides that the second review contemplated in paragraph 2(f) of the second annual PRGF arrangement for The Gambia is completed.

### **B. Third Annual PRGF Arrangement and Extension of the Commitment Period**

1. The Government of The Gambia has requested the third annual arrangement under the PRGF in a total amount equivalent to SDR 8.6 million.

2. The Fund determines that the interim Poverty Reduction Strategy Paper (PRSP) for The Gambia set forth in EBD/00/99 provides a sound basis for the development

of a fully participatory PRSP, for reaching the decision point under the enhanced HIPC Initiative and for Fund concessional financial assistance.

3. The Fund extends the commitment period under the PRGF arrangement for The Gambia approved on June 29, 1998 (EBS/98/102; Sup. 1) to December 31, 2001.

4. The Fund approves the third annual arrangement under the PRGF for The Gambia set forth in EBS/00/241 and decides that disbursements may be made under the arrangement, on the condition that the information provided by The Gambia on the implementation of the measure specified as item 1 in Table 11 attached to the letter dated November 27, 2000 from the Secretary of State for Finance and Economic Affairs and the Governor of the Central Bank of The Gambia is accurate.

5. The Fund adopts the decision approving the third annual PRGF arrangement in principle. The decision shall become effective on the date when the Fund decides that the World Bank has concluded that the interim PRSP provides a sound basis for the development of a fully participatory PRSP, for reaching the decision point under the enhanced HIPC Initiative and for World Bank concessional financial assistance.

Table 1. The Gambia: Second and Third Annual Arrangements Under the Existing PRGF Arrangement, 1999-2001

Dates	Event	Disbursement	
		(In millions of SDRs)	(In percent of quota)
October 1, 1999	Program period begins		
November 19, 1999	Second annual arrangement approved	3.435	11.1
March 31, 2000	Test date		
July 19, 2000	First review completed	3.435	11.1
September 30, 2000	Test date		
December 11, 2000	Second review (year-end) completed 1/	1.718	5.5
December 11, 2000	Third annual arrangement approved 1/	1.717	5.5
March 31, 2001	Test date		
July 1, 2001	First midyear review completed		
July 15, 2001		3.435	11.1
September 30, 2001	Test date		
December 1, 2001	Second review completed		
December 15, 2001		3.435	11.1
December 31, 2001	Arrangement expires		

1/ In conjunction with the request for the third annual arrangement, the authorities have also requested an extension of the three-year commitment period through end-December 2001 to allow for the last disbursement.

Table 2. The Gambia: Fund Position During the Period of the PRGF Arrangement, 1999-2001

	Outstanding September 30, 1999	1999 Oct.- Dec.	2000 Jan.- Mar. Apr.- Jun. Jul.- Sep. Oct.- Dec.				2001 Jan.- Mar. Apr.- Jun. Jul.- Sep. Oct.- Dec.			
(In millions of SDRs)										
Net use of Fund credit		2.4	-0.1	2.8	-0.1	3.1	-0.1	3.4	3.3	0.0
Transactions under tranche policies		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchases		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ordinary resources		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowed resources		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ordinary resources		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowed resources		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transactions under special facilities		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans under:		2.4	-0.1	2.8	-0.1	3.1	-0.1	3.4	3.3	0.0
Structural Adjustment Facility		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Drawings		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enhanced Structural Adjustment Facility		2.4	-0.1	2.8	-0.1	3.1	-0.1	3.4	3.3	0.0
Drawings		3.4	0.0	3.4	0.0	3.4	0.0	3.4	3.4	0.0
Repayments		-1.0	-0.1	-0.7	-0.1	-0.3	-0.1	0.0	-0.1	0.0
Total Fund credit outstanding	5.9	8.3	8.2	10.9	10.8	13.9	13.8	17.3	20.6	20.6
Under tranche policies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Under special facilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Under Structural Adjustment Facility	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Under Enhanced Structural Adjustment Facility	5.9	8.3	8.2	10.9	10.8	13.9	13.8	17.3	20.6	20.6
(In percent of quota)										
Total Fund credit outstanding	18.8	26.6	26.3	35.1	34.8	44.8	44.5	55.5	66.3	66.3
Under tranche policies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Under special facilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Under Structural Adjustment Facility	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Under Enhanced Structural Adjustment Facility	18.8	26.6	26.3	35.1	34.8	44.8	44.5	55.5	66.3	66.3

Source: IMF, Treasurer's Department.

Table 3. The Gambia: Selected Economic and Financial Indicators, 1997-2003

	1997	1998	1999		2000		2001		2002	2003
	Est.	Est.	Prog.	Prel.	Prog.	Rev. Est.	Prog.	Rev. Prog.	Rev. Proj.	Rev. Proj.
(Annual percentage changes, unless otherwise indicated)										
National income and prices										
GDP at constant prices	4.9	3.5	4.2	6.4	4.9	5.3	4.9	5.5	5.6	5.6
GDP deflator	2.6	2.5	2.3	4.4	3.5	3.4	3.5	2.7	2.5	2.5
Consumer price index (period average)	2.8	1.1	2.5	3.8	2.5	3.4	2.5	2.5	2.5	2.5
Consumer price index (end of period)	0.3	4.8	2.0	1.7	2.5	2.7	2.5	2.5	2.5	2.5
External sector										
Exports, f.o.b. (in SDRs)	-0.5	21.5	7.2	-8.3	12.7	8.3	14.7	18.0	6.2	5.2
Imports, f.o.b. (in SDRs)	-5.3	19.4	6.6	-7.4	8.1	5.7	12.0	14.3	3.4	4.7
Export volume (excluding reexports)	-26.2	55.5	10.0	-10.7	7.1	20.0	10.7	10.3	5.8	5.6
Import volume (excluding imports for reexport)	-7.6	18.7	2.8	-11.9	4.8	0.5	5.3	13.3	1.9	3.8
Terms of trade 1/	10.8	-0.1	-13.0	-19.8	-0.2	-1.1	...	5.7	2.7	1.0
Nominal effective exchange rate (period average)	3.0	-1.2	...	-5.0	...	...	...	...	...	...
Real effective exchange rate (period average)	4.7	-1.6	...	-2.3	...	...	...	...	...	...
Government budget										
Domestic revenue	11.1	4.0	11.1	5.7	20.7	22.2	10.9	9.5	8.7	8.2
Total expenditure and net lending	-6.3	-8.5	4.2	8.7	37.8	12.8	10.3	8.9	7.3	6.2
Current expenditure	15.8	0.7	4.0	10.9	-0.5	8.7	2.4	3.3	3.5	2.8
Development expenditure and net lending	-35.9	-30.5	5.2	1.1	35.4	28.5	32.3	27.2	17.3	14.0
Money and credit										
Net domestic assets 2/	15.9	-1.9	6.2	8.7	4.4	11.2	3.3	6.7	2.9	2.3
Credit to the government 2/	2.4	-1.7	0.7	5.4	-2.7	-2.7	-2.3	-2.4	-0.8	-6.9
Credit to the private sector 2/3/	9.9	5.6	5.5	8.2	7.1	4.7	5.6	9.1	3.7	9.2
Broad money	22.3	10.2	14.0	12.1	12.3	17.3	8.7	8.4	8.3	8.3
Velocity (GDP relative to broad money)	3.5	3.4	3.2	3.3	3.3	3.1	3.3	3.1	3.1	3.1
Treasury bill rate (in percent; end of period)	16.0	14.0	...	12.5	...	...	...	...	...	...
(In percent of GDP)										
Gross domestic investment and savings										
Gross investment	17.2	18.4	17.8	17.8	18.9	19.1	20.8	20.2	21.4	21.5
Government	8.4	5.9	5.7	5.3	6.6	6.4	7.8	7.2	7.7	8.0
Private 3/	8.8	12.5	12.1	12.5	12.3	12.7	13.0	13.0	13.7	13.5
Gross domestic savings	7.1	7.5	7.4	7.9	8.8	8.4	11.2	10.3	12.8	13.2
Gross national savings	13.5	14.5	14.0	13.5	17.7	16.0	17.8	15.2	17.8	18.2
Central government budget										
Surplus or deficit (-), excluding grants 4/	-7.8	-4.4	-3.1	-4.8	-2.6	-3.5	-2.5	-3.4	-3.1	-2.7
Surplus or deficit (-), including grants 4/	-6.5	-2.4	-1.7	-3.5	-1.1	-1.1	-0.4	-1.1	-0.9	-0.4
Basic primary balance	4.9	5.6	6.6	4.6	7.3	6.6	8.3	6.9	7.4	7.7
Current balance	0.1	0.7	2.0	-0.2	3.3	2.0	4.7	3.1	3.9	4.7
Revenue	19.1	18.8	19.6	17.8	19.7	20.0	20.1	20.3	20.3	20.3
Net foreign financing	4.1	1.2	0.9	0.6	2.0	0.8	1.9	-0.4	1.8	2.4
Net domestic financing	1.5	1.8	0.6	3.3	-0.9	0.3	-1.3	0.6	-0.9	-2.0
External sector										
Current account balance										
Excluding official transfers	-10.6	-11.6	-10.8	-11.5	-10.2	-12.3	-9.9	-11.9	-10.4	-9.9
Including official transfers	-3.7	-3.0	-3.8	-4.3	-1.1	-4.0	-3.0	-4.1	-3.6	-3.4
External debt outstanding, including Fund	104.4	103.3	104.1	98.4	109.2	102.3	99.8	100.6	97.6	94.9
(In percent of exports and travel income)										
External debt service										
Including Fund	13.5	11.4	10.3	11.4	8.8	9.4	8.9	9.1	9.2	8.1
Excluding Fund	9.2	8.5	7.0	8.8	7.6	8.0	8.4	8.6	8.8	7.9
(In millions of SDRs, unless otherwise indicated)										
Current account balance										
Excluding official transfers	-31.4	-35.6	-32.9	-36.4	-32.0	-38.5	-32.9	-39.4	-36.2	-36.6
Including official transfers	-11.0	-9.3	-11.8	-13.5	-3.6	-12.7	-10.1	-13.6	-12.6	-12.4
Overall balance of payments	4.7	7.1	6.6	2.3	1.8	-1.8	-1.2	-5.1	3.3	4.9
Gross official reserves (end of period)	69.6	75.4	82.4	78.1	89.8	81.5	94.9	87.5	91.4	96.2
In months of imports, c.i.f.	5.6	5.1	5.3	5.8	6.0	5.6	5.7	5.3	5.3	5.3
Over the next 12 months	4.7	4.8	5.0	5.4	5.4	4.9	5.4	5.1	5.1	5.1
Plus all other services payments	3.9	3.9	4.2	4.5	4.5	4.1	4.5	4.3	4.3	4.3
As a share of short-term debt in percent 5/	5.7	4.9	5.8	5.3	6.8	3.7	2.5	2.5	2.1	1.6

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

1/ Excluding reexports and imports for reexport.

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

3/ Includes public enterprises.

4/ On a commitment basis.

5/ Only includes principal on public external debt.

Table 4. The Gambia: Selected National Accounts Indicators, 1997-2003

	1997	1998	1999		2000		2001	2002	2003
	Est.	Est.	Prog.	Prel.	Prog.	Rev. Est.	Rev. Prog.	Rev. Proj.	Rev. Proj.
(Annual percentage changes)									
Agriculture	1.4	0.0	4.7	29.4	13.1	6.2	4.6	5.0	5.0
Groundnuts	70.5	-5.9	5.0	67.3	18.9	5.0	4.0	5.0	5.0
Other crops	-16.4	2.9	4.5	31.1	14.9	8.0	5.0	5.0	5.0
Livestock	4.0	4.0	4.0	4.0	4.0	4.0	4.0	5.0	5.0
Forestry	4.4	3.9	4.0	4.1	4.0	4.0	4.0	5.0	5.0
Fishing	-13.4	-13.2	10.0	6.0	8.0	8.0	6.5	5.0	5.0
Industry	1.4	5.3	3.3	2.4	3.9	2.9	3.0	5.0	5.0
Manufacturing	1.5	2.5	2.5	1.5	3.0	2.0	3.0	5.0	5.0
Construction and mining	-1.2	7.8	4.0	3.3	5.0	5.0	3.0	5.0	5.0
Electricity and water supply	20.4	10.0	4.0	2.9	3.3	-3.0	3.0	5.0	5.0
Services	7.2	4.6	4.2	1.9	2.1	3.3	4.4	5.7	5.7
Trade	2.8	7.1	4.6	-4.4	2.0	3.9	5.4	7.2	7.0
Groundnuts	4.9	-5.9	5.0	3.6	9.0	10.0	8.0	8.0	7.0
Others	2.5	9.2	4.5	-5.5	1.0	3.0	5.0	7.0	7.0
Hotels and restaurants	10.3	7.5	6.5	3.4	4.0	-4.0	5.0	7.0	7.0
Transport and communications	11.8	4.4	5.0	4.9	2.8	4.7	5.2	6.0	6.0
Transport	2.5	6.5	5.0	0.0	1.0	3.0	4.0	6.0	6.0
Communications	20.1	2.7	5.0	8.8	4.0	6.0	6.0	6.0	6.0
Real estate and business services	3.6	1.0	2.5	0.5	1.0	4.0	4.0	6.0	6.0
Public administration	5.4	4.0	2.5	2.8	0.0	2.7	2.0	2.0	2.0
Other services	1.0	1.5	1.5	1.0	1.4	3.0	3.0	7.0	7.0
GDP at factor costs	5.2	3.7	4.2	7.7	5.0	4.0	4.3	5.4	5.4
Indirect tax (net)	3.5	2.5	4.0	-2.7	4.0	14.7	13.2	6.8	6.8
GDP at market prices	4.9	3.5	4.2	6.4	4.9	5.3	5.5	5.6	5.6
GDP deflator	2.6	2.5	2.3	4.4	3.5	3.4	2.7	2.5	2.5
(In percent of nominal GDP)									
Gross domestic investment	17.2	18.4	17.8	17.8	18.9	19.1	20.2	21.4	21.5
Government investment	8.4	5.9	5.7	5.3	6.6	6.4	7.2	7.7	8.0
Private investment	8.8	12.5	12.1	12.5	12.3	12.7	13.0	13.7	13.5
Gross domestic savings	7.1	7.5	7.4	7.9	8.8	8.4	10.3	12.8	13.2
Government domestic savings	1.5	2.0	3.6	1.4	4.3	3.2	4.3	5.1	5.8
Private domestic savings	5.6	5.5	3.8	6.5	4.5	5.2	6.1	7.7	7.4
Investment-saving balance	-10.6	-11.1	-10.5	-11.5	-10.2	-12.3	-11.9	-10.4	-10.0
Government	-6.8	-3.9	-2.2	-3.9	-2.3	-3.2	-2.9	-2.6	-2.2
Private	-3.7	-7.2	-8.3	-7.7	-7.9	-9.0	-8.9	-7.8	-7.8
External current account balance	-3.7	-3.8	-3.8	-4.3	-1.1	-4.0	-4.1	-3.6	-3.4
Gross national savings	13.5	14.5	14.0	13.5	17.7	16.0	15.2	17.8	18.2

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

Table 5. The Gambia: Central Government Financial Operations, 1997 - 2003

	1997	1998	1999	2000						2001		2002	2003	
				Q1		Q3		Q1-Q4						
	Est.	Prel.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Rev. Est.	Prog.	Rev. Prog.	Rev. Proj.	
	(In millions of dalasis)													
Revenue and grants	852.5	919.9	989.8	944.5	255.1	279.5	271.9	287.8	1,143.4	1,205.0	1301.0	1,312.3	1,421.3	1,537.6
Domestic revenue	799.5	831.5	924.3	878.7	229.3	257.2	237.5	252.9	1,060.7	1,073.7	1176.6	1,176.0	1,278.3	1,382.6
Tax revenue	714.7	751.1	822.8	773.7	203.9	231.7	200.3	219.9	894.5	915.5	1015.7	1,030.9	1,125.0	1,225.5
Direct tax	168.5	185.1	198.0	201.8	44.6	67.4	47.6	53.0	221.0	221.0	242.6	240.4	259.4	277.6
Indirect tax	546.2	566.0	624.8	571.8	159.3	164.3	152.8	166.9	673.5	694.5	773.1	790.5	865.6	948.0
Domestic tax on goods and services	71.5	65.3	72.8	77.3	20.7	18.7	13.8	16.8	60.0	73.0	109.8	99.0	105.0	111.3
Tax on international trade	474.7	500.7	552.0	494.5	138.6	145.6	138.9	150.1	613.5	621.5	663.3	691.5	760.6	836.7
Nontax revenue	84.8	80.4	101.5	105.0	25.5	25.5	37.2	33.0	166.2	158.2	160.9	145.2	153.2	157.0
Grants	53.0	88.5	65.5	65.8	25.8	22.3	34.4	34.9	82.7	131.3	124.4	136.3	143.0	155.0
Program	0.0	25.6	11.3	11.3	18.0	0.0	25.5	0.0	45.3	60.0	57.5	65.0	65.0	65.0
Projects	53.0	62.9	54.2	54.5	7.8	22.3	8.9	34.9	37.4	71.3	66.9	71.3	78.0	90.0
Expenditure and net lending	1,123.6	1,028.4	1,072.1	1,118.2	254.2	297.0	287.2	296.6	1,201.2	1,262.4	1324.7	1,374.8	1,475.1	1,566.0
Current expenditure	794.6	799.8	831.6	887.0	204.8	252.6	214.7	215.7	882.6	965.2	903.3	996.9	1,031.8	1,060.6
Wages and salaries	269.3	282.9	296.0	301.7	78.2	101.1	69.7	71.8	320.0	330.0	328.0	346.5	355.1	380.0
Other charges	310.6	279.9	304.0	336.9	77.3	91.4	81.8	88.9	336.8	383.9	347.6	410.7	433.1	446.9
Interest	214.7	236.9	231.6	248.3	49.2	60.1	63.2	55.0	225.8	251.4	227.7	239.7	243.7	233.7
External	59.5	56.4	57.6	60.9	22.5	19.5	23.8	22.4	65.8	60.1	67.7	67.7	73.7	73.7
Domestic	155.2	180.4	174.0	187.5	26.7	40.6	39.4	32.6	160.0	191.3	160.0	172.0	170.0	160.0
Capital expenditure and net lending	329.0	228.7	240.5	231.2	49.4	44.4	72.5	80.9	318.6	297.2	421.4	377.9	443.3	505.4
Capital expenditure	289.3	259.9	270.5	261.0	53.5	46.5	75.5	81.4	353.6	342.2	456.4	417.9	483.3	545.4
External	252.5	211.2	225.5	221.0	45.6	42.8	62.3	66.5	304.8	293.4	403.9	356.9	415.4	470.4
Loans	199.5	148.3	160.0	155.2	37.8	20.5	53.4	31.6	222.1	222.1	279.5	240.6	292.4	333.4
Grants	53.0	62.9	65.5	65.8	7.8	22.3	8.9	34.9	82.7	71.3	124.4	116.3	123.0	137.0
The Gambia Local Fund	36.8	48.7	45.0	40.1	8.0	3.7	13.2	14.9	48.8	48.8	52.5	61.0	67.9	75.0
Extrabudgetary expenditure	60.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	-20.9	-31.2	-30.0	-29.8	-4.2	-2.1	-3.0	-0.5	-35.0	-45.0	-35.0	-40.0	-40.0	-40.0
Overall balance (commitment basis)														
Excluding grants	-324.1	-197.0	-147.7	-239.5	-24.8	-39.8	-49.7	-43.7	-140.5	-188.7	-148.1	-198.7	-196.8	-183.3
Including grants	-271.1	-108.5	-82.2	-173.7	1.0	-17.5	-15.3	-8.8	-57.8	-57.4	-23.7	-62.4	-53.8	-28.3
Adjustment to cash basis (float)	0.0	6.1	8.9	-34.5	0.0	-0.8	10.0	2.1	0.0	0.0	-13.0	0.0	0.0	0.0
Errors and omissions	38.6	-30.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)														
Including grants	-232.5	-133.0	-73.3	-208.2	1.0	-18.3	-5.3	-6.7	-57.8	-57.4	-36.7	-62.4	-53.8	-28.3
Financing	232.5	133.0	73.3	208.2	-1.0	18.3	5.3	6.7	57.8	57.4	36.7	62.4	53.8	28.3
External (net)	171.9	54.5	44.4	30.0	0.1	-4.7	22.1	-9.8	105.9	40.2	110.1	-23.5	111.3	165.1
Borrowing	260.1	148.3	160.0	155.2	37.8	20.5	53.4	31.6	222.1	222.1	279.5	240.6	292.4	333.4
Project	199.5	148.3	160.0	155.2	37.8	20.5	53.4	31.6	222.1	222.1	279.5	240.6	292.4	333.4
Other loans 1/	60.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-95.4	-93.8	-115.6	-125.2	-37.6	-25.2	-31.3	-41.4	-116.2	-137.0	-169.5	-264.0	-181.1	-168.3
Of which: payment to Aliment	...	...	...	...	...	...	...	...	...	-44.8	0.0	-103.1	...	...
Domestic	60.6	78.5	28.9	178.2	-1.1	23.0	-16.7	16.5	-48.1	17.2	-73.4	10.0	-57.5	-136.8
Bank	23.1	-20.0	8.9	71.2	-1.0	12.3	-30.0	-28.3	-40.1	-15.2	-40.1	-40.1	-38.9	-67.7
Nonbank	37.5	86.5	20.0	93.2	-0.1	17.7	10.3	52.7	-6.1	34.3	-33.3	30.1	-18.6	-69.1
Accumulation of arrears	0.0	12.0	0.0	13.9	0.0	-7.0	-7.0	-7.9	-25.9	-25.9	0.0	0.0	0.0	0.0
Privatization proceeds	0.0	...	...	0.0	...	...	10.0	0.0	24.0	24.0	0.0	20.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	75.9	0.0	0.0



Table 5. The Gambia: Central Government Financial Operations, 1997 - 2003 (concluded)

	1997	1998	1999	2000						2001		2002	2003
				Q1		Q3		Q1-Q4					
	Est.	Prel.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Rev. Est.	Prog.	Rev. Prog.	Rev. Proj.
Memorandum items:													
(In percent of GDP, unless otherwise indicated)													
Domestic revenue	19.1	18.8	19.6	17.8	5.1	4.8	4.4	4.7	19.7	20.0	20.1	20.3	20.3
Total expenditure and net lending	26.9	23.2	22.7	22.6	5.7	5.5	5.4	5.5	22.3	23.6	22.7	23.7	23.5
Current expenditure	19.0	18.0	17.6	17.9	4.6	4.7	4.0	4.0	16.4	18.0	15.5	17.2	16.4
Primary current expenditure	13.9	12.7	12.7	12.9	3.5	3.6	2.8	3.0	12.2	13.3	11.6	13.0	12.5
Capital expenditure	6.9	5.9	5.7	5.3	1.2	0.9	1.4	1.5	6.6	6.4	7.8	7.2	7.7
Overall fiscal deficit													
Excluding grants	-7.8	-4.4	-3.1	-4.8	-0.6	-0.7	-0.9	-0.8	-2.6	-3.5	-2.5	-3.4	-3.1
Including grants	-6.5	-2.4	-1.7	-3.5	0.0	-0.3	-0.3	-0.2	-1.1	-1.1	-1.1	-1.1	-0.9
Basic primary balance 2/	4.9	5.7	6.6	4.6	1.6	1.2	1.4	1.5	7.3	6.6	8.3	6.9	7.4
Basic primary balance (in dalasis) 2/	203.7	251.1	309.4	229.8	70.0	63.1	75.7	77.8	390.1	356.1	483.5	397.8	462.2
Current balance	0.1	0.7	2.0	-0.2	0.5	0.1	0.4	0.7	3.3	2.0	4.7	3.1	3.9
Stock of domestic debt	0.0	25.9	...	27.0	...	27.6	...	29.2	...	26.6	25.3	24.6	22.7
Tax on international trade													
In percent of imports, c.i.f.	22.7	20.0	21.2	19.0	4.8	4.8	4.6	4.9	20.2	20.4	21.7	22.6	24.9
Of which: Duty	14.2	12.9	13.6	12.1	3.0	3.0	3.0	3.0	12.5	12.4	13.8	13.6	15.0
(In percent of current spending)													
Education 3/	25.9	23.2	23.3	...	...	...	...	...	24.3	22.4	...	24.4	25.8
Health 3/	10.9	14.5	14.8	...	...	...	...	...	14.4	14.4	...	16.2	16.7
Defense 3/	...	7.7	6.4	...	...	...	...	...	6.5	5.9	...	5.8	5.7
(In millions of dalasis)													
Treasury bills outstanding	868.7	1,020.8	1,049.7	1,201.6	...	1,231.0	...	1,439.6	...	1,300.0	...	1,300.0	1,300.0

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

1/ To finance extrabudgetary expenditures carried out during 1995/96 and 1996/97 (July-June).

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

3/ Current spending only (wages and other charges).

4/ Privatization receipts will offset nonbank borrowing and any excess will be used to pay off the existing stock of domestic debt.

Table 6. The Gambia: Monetary Survey, December 1997-December 2003

	1997	1998	1999	2000						2001				2002	2003
	Dec.	Dec.	Dec.	Mar.	June	Sep.	Dec.	Dec.	Rev.	Mar.	Jun.	Sep.	Dec.	Dec.	Dec.
		Prel.	Prel.	Prel.	Prel.	Prog.	Prel.	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.	Proj.	Proj.
(In millions of dalasis, unless otherwise indicated; end of period)															
<b>Monetary survey</b>															
Net foreign assets	807.2	951.6	996.0	1,175.9	1,091.0	1,044.8	1,062.2	1,112.5	1,085.0	1,120.5	1,185.7	1,167.7	1,112.9	1,211.4	1,330.9
Net domestic assets	382.8	360.0	474.3	593.1	737.4	585.2	683.6	538.1	639.6	660.4	661.0	562.0	756.0	811.8	859.4
Domestic credit	434.7	481.7	660.9	713.0	774.7	771.8	703.6	724.7	714.2	735.0	735.5	636.5	830.5	886.3	933.9
Claims on government (net)	-12.8	-32.8	38.4	50.7	39.8	12.0	11.5	-1.8	23.2	-18.2	-64.4	-60.7	-16.9	-55.8	-123.5
Claims on private sector and public enterprises	447.5	514.5	622.5	662.3	734.9	759.8	692.1	726.5	690.9	753.1	799.9	697.2	847.4	942.1	1,057.4
Other items (net)	-51.9	-121.7	-186.6	-119.9	-37.3	-186.6	-20.0	-186.6	-74.5	-74.5	-74.5	-74.5	-74.5	-74.5	-74.5
Broad money	1,190.1	1,311.6	1,470.3	1,769.0	1,828.5	1,630.0	1,745.8	1,650.6	1,724.7	1,780.9	1,846.7	1,729.6	1,868.9	2,023.1	2,190.3
Currency	360.5	347.6	379.7	486.3	441.0	401.6	419.9	453.1	413.9	452.4	472.1	403.0	467.2	505.8	547.6
Deposits	829.5	964.0	1,090.6	1,282.7	1,387.5	1,228.4	1,325.9	1,197.5	1,310.7	1,328.5	1,374.6	1,326.6	1,401.7	1,517.3	1,642.7
(In units indicated)															
<b>Memorandum items:</b>															
Nominal GDP															
(in millions of dalasis)	4,178.8	4,433.4	4,922.2	5,357.8	5,357.8	5,376.6	5,357.8	5,376.6	5,357.8	5,805.9	5,805.9	5,805.9	5,805.9	6,285.0	6,804.2
(percentage change)	9.2	6.1	11.0	8.9	8.9	8.5	8.9	8.5	8.9	8.4	8.4	8.4	8.4	8.3	8.3
Velocity (GDP/broad money)	3.5	3.4	3.3	3.0	2.9	3.3	3.1	3.3	3.1	...	...	...	3.1	3.1	3.1
Reserve money multiplier	2.4	2.5	2.4	2.4	2.6	2.7	2.6	2.5	2.8	2.7	2.6	2.5	2.8	2.7	2.7
Annual percentage changes															
Broad money	22.3	10.2	12.1	24.1	28.6	19.3	23.4	12.3	17.3	0.7	1.0	-0.9	8.4	8.3	8.3
Reserve money	26.8	7.2	14.5	18.9	33.3	39.5	27.4	9.0	2.6	-11.7	0.8	-0.4	10.1	11.5	6.8
Credit to private sector 1/	27.3	15.0	21.0	30.9	46.0	19.2	10.4	16.7	11.0	13.7	8.8	0.7	22.6	11.2	12.2
Total deposits	15.5	16.2	13.1	27.7	27.9	18.6	24.0	9.8	20.2	...	...	...	6.9	8.3	8.3
Percent ratios															
Currency/broad money	30.3	26.5	25.8	27.5	24.1	24.6	24.1	...	24.0	25.4	25.6	23.3	25.0	25.0	25.0
Currency/deposits	43.5	36.1	34.8	37.9	31.8	32.7	31.7	...	31.6	34.1	34.3	30.4	33.3	33.3	33.3
Deposits/broad money	69.7	73.5	74.2	72.5	75.9	75.4	75.9	...	76.0	74.6	74.4	76.7	75.0	75.0	75.0
Excess reserves/total liabilities	2.5	4.5	6.4	5.8	5.4	2.1	6.0	...	1.5	1.8	3.7	7.0	1.1	2.6	1.9
Required reserves 2/	109.4	135.0	152.7	179.6	194.2	172.0	185.6	167.7	183.5	178.1	192.4	185.7	196.2	212.4	230.0
Net foreign assets of monetary authorities															
(in millions of SDRs)	59.7	66.0	66.5	79.6	67.1	65.3	69.2	69.7	62.2	63.9	67.3	64.8	61.3	65.2	70.0

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

1/ Includes claims on public enterprises.

2/ Exchange rate in accordance with program.

Table 7. The Gambia: Summary Accounts of the Central Bank and Commercial Banks, December 1997-December 2003

	1997 Dec.	1998 Dec. Prel.	1999 Dec. Prel. 1/	2000						2001				2002 Dec. Proj.	2003 Dec. Proj.
				Mar. Prel.	June Prel.	Sep. Prog.	Prel.	Dec. Prog.	Rev. Prog.	Mar. Rev. Prog.	Jun. Rev. Prog.	Sep. Rev. Prog.	Dec. Rev. Prog.		
(In millions of dalasis, unless otherwise indicated; end of period)															
Central Bank of The Gambia															
Net foreign assets	847.6	1,020.8	1,066.4	1,232.3	1,106.5	1,109.8	1,175.6	1,171.7	1,063.8	1,099.3	1,164.5	1,146.5	1,091.7	1,190.1	1,309.7
(in millions of SDRs)	59.7	66.0	66.5	79.6	67.1	65.3	69.2	69.7	62.2	63.9	67.3	64.8	61.3	65.2	70.0
Foreign assets	989.0	1,166.8	1,253.4	1,414.1	1,317.8	1,359.9	1,437.3	1,476.6	1,393.7	1,431.0	1,498.2	1,548.8	1,557.5	1,667.6	1,799.0
(in millions of SDR)	69.6	75.4	78.1	87.8	79.9	80.0	84.5	87.9	81.5	83.2	86.6	87.5	87.5	91.4	96.2
Foreign liabilities	-141.4	-146.0	-187.0	-181.7	-211.3	-250.1	-261.6	-304.9	-329.8	-331.8	-333.7	-402.3	-465.8	-477.4	-489.4
(in millions of SDR)	-10.0	-9.4	-11.7	-11.3	-12.8	-14.7	-15.4	-18.1	-19.3	-19.3	-19.3	-22.7	-26.2	-26.2	-26.2
Net domestic assets	-357.2	-495.2	-464.8	-491.5	-396.0	-510.3	-491.0	-516.0	-446.7	-445.1	-448.4	-464.6	-412.2	-432.7	-500.4
Domestic credit	-433.9	-557.2	-572.6	-711.8	-647.6	-630.3	-748.4	-636.1	-686.7	-685.1	-688.4	-704.6	-652.2	-672.7	-740.4
Claims on the government (net)	-456.1	-545.5	-545.6	-549.7	-593.2	-567.7	-694.7	-578.4	-629.5	-627.9	-631.2	-647.4	-595.0	-615.5	-683.2
Claims	261.9	262.3	262.9	253.5	258.5	...	262.1	...	...	...	...	...	...	...	...
Deposits	-718.0	-807.7	-808.5	-803.3	-851.7	...	-956.8	...	...	...	...	...	...	...	...
Claims on private sector	21.1	20.9	21.9	22.5	22.8	22.5	23.2	22.5	22.8	22.8	22.8	22.8	22.8	22.8	22.8
Claims on banks (net) 2/	1.1	-32.6	-49.0	-184.6	-77.2	-85.0	-76.9	-80.1	-80.0	-80.0	-80.0	-80.0	-80.0	-80.0	-80.0
Of which: central bank bills	-2.2	-39.1	-49.0	-184.6	-77.2	-85.0	-76.9	-80.1	-80.0	-80.0	-80.0	-80.0	-80.0	-80.0	-80.0
Other items (net)	76.8	61.9	107.9	220.4	251.7	120.0	257.4	120.1	240.0	240.0	240.0	240.0	240.0	240.0	240.0
Of which: central bank bills	-21.0	-25.2	-32.8	-2.4	-11.9	-20.0	-0.7	-19.9	-5.2	-5.2	-5.2	-5.2	-5.2	-5.2	-5.2
Reserve money	490.4	525.6	601.7	740.9	710.5	599.6	684.6	655.8	617.1	654.1	716.0	681.8	679.5	757.4	809.2
Currency outside banks	360.5	347.6	379.7	486.3	441.0	401.6	419.9	453.1	413.9	452.4	472.1	403.0	467.2	505.8	547.6
Bank reserves	129.9	178.1	221.9	254.6	269.5	198.0	264.7	202.7	203.2	201.7	244.0	278.8	212.2	251.6	261.7
Cash	28.6	14.6	32.3	35.2	26.9	35.0	31.2	20.0	29.2	29.2	29.2	29.2	29.2	29.2	29.2
Deposits at the central bank	101.3	163.5	189.6	219.4	242.6	163.0	233.5	182.7	174.0	172.5	214.8	249.7	183.1	222.5	232.5
Required reserves	109.4	135.0	152.7	179.6	194.2	172.0	185.6	167.7	183.5	178.1	192.4	185.7	196.2	212.4	230.0
Excess reserves	20.5	43.1	69.3	75.0	75.2	26.0	79.1	35.0	19.7	23.6	51.5	93.1	16.0	39.2	31.7
Deposit money banks															
Net foreign assets	-40.4	-69.3	-70.4	-56.4	-15.4	-65.0	-113.4	-59.3	21.2	21.2	21.2	21.2	21.2	21.2	21.2
Foreign assets	112.5	72.9	126.1	145.6	134.5	...	97.1	152.9	...	...	...	...	...	...	...
Foreign liabilities	-152.9	-142.2	-196.5	-202.1	-149.9	...	-210.5	-212.2	...	...	...	...	...	...	...
Net domestic assets	869.9	1,033.3	1,161.0	1,339.2	1,402.9	1,293.4	1,439.3	1,256.8	1,289.5	1,307.2	1,353.4	1,305.4	1,380.5	1,496.1	1,621.5
Domestic credit	869.7	1,006.3	1,184.5	1,240.3	1,345.1	1,317.0	1,375.0	1,280.6	1,320.9	1,340.1	1,344.0	1,261.1	1,402.8	1,479.0	1,594.4
Claims on government (net)	443.3	512.7	583.9	600.4	633.0	579.7	706.2	576.6	652.7	609.7	566.8	586.7	578.1	559.7	559.7
Claims	447.3	516.6	587.9	604.4	637.0	583.7	710.2	580.6	656.7	613.7	570.8	590.7	582.1	563.7	563.7
Deposits	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0
Claims on private sector	425.3	489.8	591.4	632.6	698.1	733.4	655.6	700.1	664.3	726.5	773.3	670.5	820.8	915.4	1,030.8
Of which: in foreign currency	73.5	88.7	129.0	134.2	133.6	...	104.3	140.9	...	...	...	...	...	...	...
Claims on public enterprises	1.1	3.9	9.2	7.3	14.1	3.9	13.3	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Reserves	129.9	178.1	221.9	254.6	269.5	198.0	264.7	202.7	203.2	201.7	244.0	278.8	212.2	251.6	261.7
Net claims on central bank 2/	-1.1	32.6	49.0	184.6	77.2	85.0	76.9	80.1	80.0	80.0	80.0	80.0	80.0	80.0	80.0
Other items (net)	-128.6	-183.7	-294.5	-340.3	-288.9	-306.6	-277.3	-306.7	-314.5	-314.5	-314.5	-314.5	-314.5	-314.5	-314.5
Total deposit liabilities	829.5	964.0	1,090.6	1,282.7	1,387.5	1,228.4	1,325.9	1,197.5	1,310.7	1,328.5	1,374.6	1,326.6	1,401.7	1,517.3	1,642.7
Demand deposits	268.9	279.0	336.3	416.0	483.7	398.3	399.9	388.3	425.0	368.3	438.0	430.2	454.5	492.0	532.7
Savings deposits	392.8	462.3	556.1	589.8	630.4	564.8	650.1	550.6	602.7	610.2	640.6	610.0	644.5	697.7	755.3
Time deposits	167.8	222.7	198.1	277.0	273.4	265.3	275.8	258.6	283.0	293.9	295.9	286.5	302.7	327.6	354.7

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

1/ Exchange rate in accordance with program.

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

Table 8. The Gambia: Balance of Payments, 1997-2003  
(In millions of SDRs, unless otherwise indicated)

	1997	1998	1999	2000		2001	2002	2003
	Rev. Est.	Rev. Est.	Rev. Est.	Prog.	Rev. Est.	Rev. Prog.	Rev. Proj.	Rev. Proj.
Trade balance	-49.0	-56.9	-53.6	-53.9	-54.4	-58.7	-57.7	-59.8
Exports, f.o.b.	78.8	95.8	87.9	99.1	95.2	112.3	119.2	125.5
Groundnuts/groundnut products	3.5	9.6	7.3	9.2	9.5	11.6	12.4	12.7
Other domestic exports	6.5	5.6	4.3	4.9	4.9	5.4	5.9	6.3
Reexports	68.8	80.6	76.3	84.9	80.7	95.3	100.9	106.4
Imports, f.o.b.	-127.9	-152.7	-141.5	-153.0	-149.6	-171.0	-176.9	-185.3
For domestic use	-84.3	-97.7	-91.9	-99.2	-97.2	-110.7	-113.1	-117.9
Of which: oil products	-7.6	-9.2	-11.6	-13.6	-13.7	-13.1	-12.0	-11.5
For reexport	-43.6	-55.0	-49.6	-53.7	-52.4	-60.3	-63.9	-67.4
Factor service (net)	-6.0	-5.2	-5.0	-4.5	-4.7	-5.3	-5.2	-5.4
Nonfactor service balance	11.2	9.0	7.3	8.4	7.1	11.1	12.3	13.5
Of which: Travel income	46.0	51.0	46.6	49.5	45.0	53.3	56.9	60.3
Private unrequited transfers (net)	12.4	17.5	14.8	18.0	13.5	13.6	14.4	15.1
Official unrequited transfers (net)	20.4	26.3	22.9	28.5	25.8	25.7	23.6	24.3
Current account balance								
Excluding official transfers	-31.4	-35.6	-36.4	-32.0	-38.5	-39.4	-36.2	-36.6
Including official transfers	-11.0	-9.3	-13.5	-3.6	-12.7	-13.6	-12.6	-12.4
Capital account	15.7	16.4	15.9	8.1	10.9	7.5	15.9	17.2
Official loans (net)	8.4	3.8	3.1	6.4	3.8	0.9	8.4	10.6
Project-related	15.2	10.4	10.0	12.5	12.5	16.0	18.5	19.8
Amortizations	-6.8	-6.6	-6.9	-6.1	-8.7	-15.1	-10.1	-9.2
Private capital inflow	7.3	12.6	12.8	1.7	7.1	6.6	7.5	6.5
Foreign direct investment (net)	6.2	8.8	5.4	4.2	2.5	4.3	5.5	6.4
Commercial loans (net)	-0.5	-0.3	-0.8	-0.9	-0.9	-0.9	-1.4	-1.4
Short-term capital (net) 1/	1.6	-2.4	0.1	-3.8	1.3	-2.6	-2.7	-4.8
Suppliers' credits	0.0	6.5	8.1	2.2	4.2	5.8	6.0	6.3
Overall balance	4.7	7.1	2.3	4.5	-1.8	-6.1	3.3	4.8
Financing	-4.7	-7.1	-2.3	-4.5	1.8	6.1	-3.3	-4.8
Change in gross official reserves (increase = -)	0.0	-6.4	-2.7	-9.8	-3.4	-6.0	-3.9	-4.7
Repurchases/repayments (IMF)	-5.1	-4.0	-3.1	-1.7	-1.7	-0.6	-0.4	-0.1
Purchases/loans (IMF)	0.0	3.3	3.4	6.9	6.9	6.9	0.0	0.0
London Club	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.5 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	5.9	1.0	0.0
Memorandum items:								
Current account balance (in percent of GDP)								
Excluding official transfers	-10.6	-11.6	-11.5	-10.2	-12.3	-11.9	-10.4	-9.9
Including official transfers	-3.7	-3.0	-4.3	-1.1	-4.0	-4.1	-3.6	-3.4
Gross official reserves (end of period)								
In millions of SDRs	69.6	75.4	78.1	89.8	81.5	87.5	91.4	96.2
In months of imports, c.i.f.	5.6	5.1	5.8	6.0	5.6	5.3	5.3	5.3
In months of imports, c.i.f.								
Over the next 12 months	4.7	4.8	5.4	5.4	4.9	5.1	5.1	5.1
Plus all other services payments	3.9	3.9	4.5	4.5	4.1	4.3	4.3	4.3
Debt-service ratio 3/								
Including the Fund	13.5	11.4	11.4	8.7	9.4	9.1	9.2	8.1
Excluding the Fund	9.2	8.5	8.8	7.5	8.0	8.6	8.8	7.9
Nominal GDP	297.7	307.2	315.9	315.4	314.3	331.8	348.8	368.4
Nominal GDP (in millions of dalasis)	4,178.8	4,433.4	4,922.2	5,376.6	5,357.8	5,805.9	6,285.0	6,804.2
Exchange rate (dalasis per SDR)	14.04	14.43	15.58	...	...	...	...	...

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

1/ Including errors and omissions.

2/ Forgiveness of a D 7.2 million interest payment by Taiwan Province of China.

3/ In percent of exports and travel income.

Table 9. The Gambia: Income and Social Indicators, 1970 - 2003

	Unit of Measurement	Latest Single Year			1998	1999	2000	2001	2002	2003
		1970-75	1980-85	1992-97						
Proj.										
Population										
Total population	Millions	0.5	0.7	1.2	1.2	1.3	1.3	1.4	1.4	1.4
Population (midyear)	Millions	0.5	0.7	1.2	1.2	1.3	1.3	1.3	1.4	1.4
Population growth rate	Percent	3.3	3.0	2.8	3.0	4.2	3.0	3.0	3.0	3.0
Total fertility rate	Births per woman	6.5	6.5	5.7	...	...	...	...	...	...
Poverty										
Total	Percent of population	...	...	40.0	70.0	...	...	...	...	...
Urban poverty	Percent of population	...	...	37.0	56.3	...	...	...	...	...
Rural poverty	Percent of population	...	...	41.0	79.0	...	...	...	...	...
National head count index	Percent of population	...	...	64.0	...	...	...	...	...	...
Income										
GNP per capita	U.S. dollars	230.0	240.0	340.0	336.8	340.0	359.0	380.2	402.5	423.0
Index of real wages	1974=100	...	...	...	...	...	...	...	...	...
Agricultural	1974=100	...	...	...	...	...	...	...	...	...
Nonagricultural	1974=100	...	...	...	...	...	...	...	...	...
Consumer price index	1974=100	126.0	384.0	1,441.3	1,457.3	1,523.8	1,575.6	1,615.0	1,655.4	1,696.8
Food price index	1974=100	...	...	1,512.7	1,565.8	1,630.8	1,686.2	1,728.4	1,771.6	1,815.9
Social indicators										
Government current expenditures										
Education	Percent of GDP	...	...	...	...	3.0	3.0	3.2	3.2	3.4
Health	Percent of GDP	...	...	...	...	1.8	1.9	2.1	2.1	2.1
Net primary school enrollment										
Total	Percent of age group	21.0	62.0	65.0	...	...	...	...	...	...
Male	Percent of age group	...	77.0	72.0	...	...	...	...	...	...
Female	Percent of age group	...	48.0	57.0	...	...	...	...	...	...
Access to safe water										
Total	Percent of population	12.0	45.0	50.0	...	...	...	...	...	...
Urban	Percent of population	97.0	100.0	64.0	...	...	...	...	...	...
Rural	Percent of population	3.0	33.0	39.0	...	...	...	...	...	...
Immunization rate										
Measles	Percent under 12 months	...	75.0	91.0	...	...	...	...	...	...
DPT	Percent under 12 months	...	77.0	96.0	...	...	...	...	...	...
Children's (under age of 5) malnutrition rate	Percent	...	20.0	26.0	...	...	...	...	...	...
Life expectancy at birth										
Total	Years	37.0	41.0	53.0	53.2	...	...	...	...	...
Male	Years	36.0	39.0	51.0	51.4	...	...	...	...	...
Female	Years	39.0	43.0	55.0	55.0	...	...	...	...	...
Mortality										
Infant mortality rate	Per thousand live births	179.0	154.0	78.0	76.4	...	...	...	...	...
Under age of 5 mortality rate	Per thousand live births	319.0	216.0	110.0	...	...	...	...	...	...
Male	Per thousand live births	...	...	138.0	...	...	...	...	...	...
Female	Per thousand live births	...	...	120.0	...	...	...	...	...	...
Adult (ages 15-59) mortality rate	Per thousand population	...	...	...	...	...	...	...	...	...
Male	Per thousand population	655.0	584.0	404.0	408.0	...	...	...	...	...
Female	Per thousand population	519.0	466.0	339.0	344.0	...	...	...	...	...
Maternal mortality ratio	Per thousand live births	...	15.0	11.0	...	...	...	...	...	...

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

## **The Gambia**

### **Third Annual Arrangement under the Poverty Reduction and Growth Facility**

Attached hereto is a letter (the "Letter") dated November 27, 2000, with its annexed Memorandum on Economic and Financial Policies for 2000/2001 (the "Memorandum") and Technical Memorandum of Understanding, from the Secretary of State for Finance and Economy and the Governor of the Central Bank of The Gambia requesting from the International Monetary Fund as Trustee of the Poverty Reduction and Growth Facility Trust (the "Trustee") the third annual arrangement under the Poverty Reduction and Growth Facility, and setting forth the objectives and policies of the program to be supported by the arrangement.

To support these objectives and policies, the Trustee grants the requested arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Facility Trust, as amended.

1. Under the third annual arrangement, The Gambia will have the right to request three loan disbursements in a total amount equivalent to SDR 8.6 million, as follows:

(a) the first loan, in an amount equivalent to SDR 1.717 million, will be available on December 11, 2000 at the request of The Gambia;

(b) the second loan, in an amount equivalent to SDR 3.435 million, will be available on July 15, 2001 at the request of The Gambia subject to paragraph 2 below; and

(c) the third loan, in an amount equivalent to SDR 3.435 million, will be available on December 15, 2001 at the request of The Gambia subject to paragraph 2 below.

2. The Gambia will not request disbursement of the second or third loan specified respectively in paragraphs 1(b) and 1(c) above:

(a) if the Managing Director of the Trustee finds that, with respect to the second loan, the data as of end-March 2001, and with respect to the third loan, the data as of end-September 2001, indicate that:

(i) the ceiling on the net bank credit to the central government, or

(ii) the ceiling on the net domestic assets of the Central Bank of The Gambia, or

(iii) the floor on the basic primary balance of the central government, or

- (iv) the floor on the net official international reserves, or
- (v) the ceiling on contracting or guaranteeing by the public sector of new non-concessional external debt with a maturity of one year and up to and including five years, or
- (vi) the ceiling on contracting or guaranteeing by the public sector of new non-concessional external debt with a maturity of one year and up to and including twelve years, or
- (v) the ceiling on the outstanding stock of short-term external debt with a maturity of less than one year owed by the public sector,

referred to in paragraph 38 and Table 10 of the Memorandum, was not observed; or

(b) if, by end-December 2000, The Gambia has not established and started the implementation of an accounting framework to monitor expenditure on poverty reduction, including expenditure funded from debt relief under the enhanced HIPC Initiative, as specified in paragraph 38 and Table 11 of the Memorandum; or

(c) if, at any time during the period of the third annual arrangement, the central government accumulates any external payment arrears as specified in paragraph 38 and Table 10 of the Memorandum; or

(d) if The Gambia has:

- (i) imposed or intensified restrictions on payments and transfers for current international transactions, or
- (ii) introduced or modified multiple currency practices, or
- (iii) concluded bilateral payments agreements that are inconsistent with Article VIII, or
- (iv) imposed or intensified import restrictions for balance of payments reasons; or

(e) until the Trustee has determined that with regard to the second loan, the first review of The Gambia's program scheduled for completion no later than July 1, 2001, and with regard to the third loan, the second program review scheduled for completion no later than December 1, 2001, referred to in paragraph 39 of the Memorandum has been completed.

If The Gambia is prevented from requesting disbursements under this arrangement because of this paragraph 2, such disbursements may be made available only after consultation has

taken place between the Trustee and The Gambia and understandings have been reached regarding the circumstances in which The Gambia may request further disbursements.

3. In accordance with paragraph 3 of the Letter, The Gambia will provide the Trustee with such information as the Trustee requests in connection with the progress of The Gambia in implementing the policies and reaching the objectives of the program supported by this arrangement.

4. In accordance with paragraph 4 of the Letter, during the period of this arrangement, The Gambia shall consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of this arrangement and while The Gambia has outstanding financial obligations to the Trustee arising from loan disbursements under this arrangement, The Gambia will consult with the Trustee from time to time, at the initiative of the government or whenever the Managing Director of the Trustee requests consultation on The Gambia's economic and financial policies. These consultations may include correspondence and visits of officials of the Trustee to The Gambia or of representatives of The Gambia to the Trustee.



November 27, 2000

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

Dear Mr. Köhler:

1. The attached memorandum of economic and financial policies (MEFP) of the government of The Gambia describes the progress made in implementing the 1999/2000 program supported by the second annual arrangement (October–September) under the Poverty Reduction and Growth Facility (PRGF), which was approved by the Executive Board of the Fund on November 19, 1999. The MEFP also sets out the objectives and policies that the government intends to pursue during 2000/01 for the program for the third annual arrangement under the PRGF, and for the medium term. The government intends to make the contents of this letter, and those of the attached MEFP and Technical Memorandum of Understanding (TMU) available to the public and authorizes you to arrange for them to be posted on the IMF website, subsequent to Board approval.
2. In support of these objectives and policies, the government of The Gambia hereby requests the third arrangement under the PRGF, in an amount equivalent to SDR 8.6 million (27.6 percent of quota). The government is also requesting the extension of the three-year commitment period from June 28, 2001 to end-December 2001. Moreover, in support of the economic program, the government will also be requesting support from the World Bank and from bilateral and multilateral donors and creditors.
3. The government of The Gambia will provide the Fund with such information as the Fund requests in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.
4. The government of The Gambia believes that the policies and measures set forth in the attached memorandum are adequate to achieve the objectives of the program, but it will take any further measures that may prove necessary to this end. During the period of the third annual PRGF arrangement, the government will consult with the Managing Director on the adoption of any measures that may be appropriate, at the initiative of The Gambia or whenever the Managing Director requests such a consultation. Moreover, after the period of the third annual arrangement and while The Gambia has outstanding financial obligations to the Fund arising from loans under that arrangement, The Gambia will consult with the Fund

from time to time, at the initiative of the government or whenever the Managing Director requests consultation on The Gambia's economic and financial policies.

Sincerely yours,

/s/

Famara L. Jatta  
Secretary of State for  
Finance and Economic Affairs

/s/

Momodou C. Bajo  
Governor  
Central Bank of The Gambia

Attachments: Memorandum on Economic and Financial Policies for 2000/01  
and Technical Memorandum of Understanding

## THE GAMBIA

### Memorandum of Economic and Financial Policies for 2000-2001

#### I. INTRODUCTION

1. In the context of its continued reform efforts to promote economic growth and poverty reduction, the government of The Gambia adopted a medium-term economic and financial program (April 1, 1998-March 31, 2001), supported under a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) from the IMF. This memorandum reviews performance under the program supported by the second annual PRGF arrangement, approved by the Executive Board on November 19, 1999 (EBS/99/201; 11/8/99, Cor 1), as modified at the completion of the first review thereunder (EBS/00/129, Cor. 1; 7/7/00), and outlines the government's objectives and policies for 2001.

#### II. PERFORMANCE DURING THE SECOND ANNUAL ARRANGEMENT

2. Overall economic performance under the second annual PRGF arrangement was mixed. Notwithstanding robust real GDP growth with low inflation and good progress in a number of structural reforms, there were slippages in implementing the budget during the fourth quarter of 1999 and in early 2000. Consequently, the government had to request waivers with respect to the nonobservance of three quantitative performance criteria for end-March 2000 in order to complete the first review of the arrangement. Performance since then has improved significantly as evidenced by the observance of all the quantitative performance criteria and most of the benchmarks through end-September 2000. The government remains determined to consolidate the overall economic gains made in 1999 and thus far in 2000. Accordingly, it is implementing measures to strengthen the fiscal program. Moreover, the government has resolved a key governance issue concerning the property of the Gambia Groundnut Corporation (GGC) and initiated policy measures to address impediments to improved performance in the key agricultural, trade, and tourism sectors.

3. In 1999, real GDP grew by 6.4 percent thanks to the robust performance of the tourism and agricultural sectors. The good harvest contributed to a moderation in end-of-period inflation to 1.8 percent compared with a target of 2 percent. The external current account deficit (excluding official transfers) remained at about 1 1/2 percent of GDP in 1999 as the significant decline in imports, following the introduction of preshipment inspection,<sup>1</sup> more than offset the impact of weaker export performance. Gross official reserves also fell short of the 1999 target. The Dalasi depreciated further in real effective terms by 2.3 percent in 1999, after a cumulative depreciation of 4.3 percent during 1997-98.

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<sup>1</sup> A contract was signed with BIVAC to introduce preshipment inspection effective October 1999 on imports into The Gambia, resulting in a substantial decline in imports reexported to the region and in customs receipts. Details are provided in EBS/00/129.

4. Slippages occurred in the implementation of the 1999 budget; the deficit (excluding grants) was 4.8 percent of GDP, exceeding the revised target of 3.1 percent of GDP. This was mainly the result of a shortfall of 1.2 percent of GDP in customs duty receipts in the fourth quarter of 1999, but recurrent expenditure, including interest payments, also exceeded the program target. The budget deficit was financed in part by domestic borrowing, and outstanding government domestic debt rose by 1 percentage point of GDP to about 27 percent at end-1999.

5. Given the fiscal slippages in 1999 and continued shortfalls in customs receipts through the first quarter of 2000, the quantitative performance criteria for end-March 2000 with respect to net bank credit to the central government, net domestic assets of the Central Bank, and the basic primary balance of the government were not observed. However, the gross official reserve target for March 2000 was met, as the Central Bank limited its intervention in the foreign exchange market; gross official reserves increased to SDR 78 million (5¾ months of imports). Efforts by the Central Bank to mop up commercial banks' excess liquidity through open market operations were unsuccessful as banks' excess reserves increased to about 6 percent of the banks' total liabilities by end-March 2000. Interest rates on treasury bills declined from 14 percent in 1998 to 12.5 percent by end-1999. The health of the banking sector continued to improve, with nonperforming loans declining to 15 percent of total loans by end-December 1999 compared with 26 percent at the beginning of 1998. Banks have also been provisioning fully for nonperforming loans.

6. During the first half of 2000, the government implemented several corrective measures designed to bring the fiscal deficit (excluding grants) in line with the program target. These included: (i) an 8 percent increase in diesel prices and an average 28 percent increase in the domestic duty-free prices of petroleum products, both effective February 2000; (ii) the removal of the preshipment inspection (PSI) scheme, effective July 1, 2000 (this is expected to result in a recovery of revenue during 2000 estimated at 0.6 percent of GDP, owing to a pick-up in imports and to collection of delayed duty payments); (iii) the collection of tax arrears from the proceeds of the sale of two hotels that have tax arrears; (iv) an undertaking of a comprehensive census of government arrears vis-à-vis public enterprises in February 2000, followed by steps to settle these arrears on a bilateral basis with public enterprises (by end-September, the government had paid a total of D 24 million to settle outstanding domestic arrears); (v) the issuance in May 2000 of a circular stopping further creation of below-the-line (BTL) accounts and imposing stringent reporting and control procedures on existing BTL accounts; and (vi) the completion by the Accountant General's Office (AGO) of the reconciliation of treasury accounts with those of the Central Bank. Moreover, by end-September, the government had fully collected (through automatic salary deductions) the D 19.8 million (0.4 percent of GDP) salary advances to civil servants that was granted in March 2000 for the Tabaski religious festival.

7. The external and fiscal outturn through end-September reflect improved performance, despite a delay in the disbursement of external grants; as a result, all quantitative performance criteria for end-September 2000 were observed. However, a number of pressures have emerged that are likely to result in additional government recurrent

expenditures during 2000, estimated at 0.9 percent of GDP. These comprise: (i) purchases of medicines and vehicles, (ii) travel expenses and allowances for expatriate health workers, (iii) higher-than-programmed maintenance costs, as a result of two consecutive years of inclement weather; and (iv) higher-than-projected domestic interest payments (0.6 percent of GDP) because of the delay in external grant disbursements. Consequently, the overall budget deficit for 2000 is now projected at about 3.5 percent of GDP, compared with the program target of 2.6 percent.

8. During the last quarter of 2000, the government has applied a part of the European Union (EU) grant (1.1 percent of GDP, which was received in October) to make a first installment payment to settle the GGC property dispute (see below). The balance, together with some of the privatization receipts, will be applied to reduce the government domestic debt by an estimated 0.2 percent of GDP, and the government intends to adhere to the program target to eliminate arrears (0.5 percent of GDP) to the public enterprises.

9. The outlook for the balance of 2000 reflects a number of positive developments. Increased agricultural acreage, together with better use of fertilizers and improved seeds as well as good rains, have led to an upward revision in real GDP growth to 5¼ percent. Inflation will remain low at 2¾ percent, notwithstanding the pass-through of the increased prices for domestic petroleum products. While the recovery in tourism is likely to be slow, the trade sector has performed well, reflecting the removal of the PSI in July and further reduction and simplification of the external tariff regime in August (see below). Moreover, the settlement of the dispute over the GGC property is likely to boost the share of marketed (and recorded) groundnut exports with the expected increased activity in The Gambia by international groundnut marketing companies (see below). However, domestic credit expansion and broad money growth are likely to exceed the program targets for end-December 2000, reflecting stronger than expected economic activity, especially in agriculture and the reexport trade. The recovery in the level of imports is expected to contribute to an increase in the external current account deficit (excluding official transfers) to about 12¼ percent of GDP.

10. The government has also implemented a number of structural measures including: (i) the sale of the Atlantic Hotel in 1999 and the Trust Bank Building in February 2000 (part of the proceeds from these have been earmarked for repayment of domestic debt); and (ii) the maximum external tariff rate was lowered from 20 percent to 18 percent, effective August 2, 2000, including a reduction in the number of tariff bands from 18 to 3 and the import-weighted average tariff rate was reduced slightly to 12 percent. Of the remaining six structural benchmarks, two were met broadly on schedule. The implementation of ASYCUDA and the releasing of the national accounts to a later date were delayed for reasons beyond the control of the government and are now expected to be completed by April 2001. The restructuring and privatization of public enterprises has been delayed by technical problems, but progress has been made with supporting legislation (Table 12).

11. In July 2000, the government approached Alimenta (the parent company of the GGC whose property was seized by the government in January 1999) seeking an out-of-court

settlement. Agreement was reached in October under which the government agreed to pay a total of US\$11.4 million to Alimenta to settle the uncontested past obligations, the value of the seized property, as well as lost earnings. To this end, the government is committed to making three payments, the first of which was effected in November in the amount of US\$3.5 million, while the second (about US\$5.5 million) and third (about US\$2.5 million) installments will be paid by end-June and end-July 2001, respectively.

12. The government is in discussions with donors to seek additional financial assistance, likely in the context of the planned roundtable meeting before mid-2001, to settle these obligations on a timely basis. Following payment of the first installment and receipt of a bank guarantee, for the balance, Alimenta will withdraw the case from arbitration by the International Center for the settlement of Investment Disputes. Both the Denton Bridge and Kaur groundnut processing plants will revert to government ownership and will be accessible for use by new marketing firms entering into the Gambian market. The government expects that settlement of this dispute should go a long way to restoring investor confidence in the Gambian economy and intends to privatize the two processing plants as part of the planned marketing reforms.

### **III. OBJECTIVES AND POLICIES FOR 2001-2003**

13. The government intends to play a more active role in setting the economic objectives and policies for the medium-term, which will be informed by a substantially broadened participation of Gambians, especially the poor. To this end, the government has consulted extensively in reviewing its Strategy for Poverty Alleviation (SPA) that was launched in 1994. The government is formulating a new, more comprehensive SPA II (see below). In the meantime, it has completed an interim PRSP that has been forwarded to the Fund and the World Bank that provides the government's broad context of the objectives and policies for 2001-2003. Within this framework, the government's overall macroeconomic objectives are to (i) achieve real GDP growth of about 5.5 percent a year; (ii) contain inflation at about 2½ percent a year; (iii) contain the external current account deficit (excluding official transfers) to 10 percent of GDP by 2003; and (iv) maintain gross external reserves above 5¼ months of imports of goods and services. Consistent with these objectives, investment is projected to increase from an estimated 19¼ percent of GDP in 2000 to 21.5 percent by 2003.

### **IV. THE PROGRAM FOR 2000/2001**

#### **A. Fiscal Policy**

14. The government intends to continue with efforts to enhance expenditure allocation to the social sectors and improve public finances through further reduction in the overall deficit (excluding grants) to about 3.5 percent of GDP in 2000 and contain it at that level in 2001. The budget for 2001 was approved by the cabinet in October and is now before parliament. The government has formulated a contingency budget for 2001 (about 1.5 percent of GDP) to be funded by the likely interim debt relief under the enhanced HIPC Initiative, which should

provide added support for its efforts to reduce poverty. It also intends to implement reforms to strengthen revenue and the budgetary process. Total revenues are projected to increase slightly to about 20.3 percent of GDP, reflecting measures to improve tax administration through computerization and the full implementation of the automated system for customs data (ASYCUDA), and better coordination among the tax departments. In addition, the government has started to implement the recommendation of the Fund resident budget advisor to introduce regular reconciliation of the accounts of the revenue departments with those of the Central Bank and stiffen sanctions against the issue of bad checks so as to improve tax compliance.

15. On the expenditure side, the aim is to reduce the level of primary recurrent expenditure from an estimated 13.3 percent of GDP in 2000, to about 13 percent in 2001 through stringent control on wages and other charges, excluding the additional outlays on poverty reduction measures that would be financed by the likely interim HIPC debt relief. The 2001 budget provides for stricter guidelines on promotions to enable increased hiring and training of agricultural and social sector workers, together with increased allocations for infrastructural maintenance and priority sectors such as health and education. Capital expenditure is slated to increase from an estimated 6½ percent of GDP in 2000 to 7 percent in 2001.

16. The government will continue to implement measures to improve the timely reporting and control of expenditure, especially on the below-the-line (BTL) accounts, which until May 2000 were not subject to review by internal audit. These measures, together with the ongoing computerization of the office of the Accountant General, should also facilitate timely reconciliation of the treasury and central bank accounts and improve coordination of macroeconomic policies. The implementation of these reforms will be assisted by the IMF resident budget advisor.

17. Further improvement in public financial transparency is expected from the planned significant reduction in the backlog in the auditing of the government accounts. To this end, the focus will be the public accounts for 1992-97, whose audit is pending because of missing records as a result of several commissions of inquiry that may have misplaced some documents. A resolution of this impasse needs to be agreed to permit progress with the preparation and audit of the accounts for subsequent years to eliminate the remaining backlog. Effective September 2000, the Department of State for Finance and Economic Affairs has introduced guidelines that link the release of budgetary allocations to the submission of better quality and timely annual budget proposals, so as to provide incentives to the rest of the public sector and facilitate overall budget preparations.

18. Starting with fiscal year 2001, the government will establish a Poverty Reduction Fund (PRF), a comprehensive accounting framework for public expenditure targeted at poverty reduction, including expenditures funded from the interim debt relief under Enhanced HIPC Initiative and reduction in domestic interest payments (see below). The PRF is a virtual accounting framework and will be part of the regular budget and subject to all the regular budgetary procedures.

## **B. Monetary Policy and Financial Sector Reforms**

19. The monetary program will aim at containing end-of-period inflation at about 2½ percent during 2000-01 and maintaining foreign reserves at about 5¼ months of imports. The growth in money supply is projected at 8½ percent by 2001 in line with nominal GDP growth, from about 15¾ percent in 2000. The programmed government net repayment to the banking sector, including divestiture proceeds, would allow private sector credit to grow by 11 percent in 2000 and 22 percent in 2001.

20. Reforms in the financial sector will aim at improving the operation of the money market and enhance efficiency of the banking system. The government intends to speed up the implementation of the liquidity forecasting system following the technical assistance received from a Fund expert in May 2000. Steps will be taken to introduce a book-entry system by end-June 2001 to make the current, paper-intensive auction of securities more cost-effective and to facilitate tenders on a weekly, instead of bi-weekly basis, to improve liquidity management. To complete the transition to market-determined interest rates, effective October 2000, the Central Bank abolished the 5 percent floor on deposit interest rates.

21. The Gambia has joined other regional countries in signing the "Accra Declaration" to establish a monetary zone by 2003. Discussions are continuing among the partner countries to work out the details of the specific measures that will need to be coordinated to achieve the various targets and objectives with regard to economic convergence.

22. To reduce foreign exchange transactions costs, especially in the reexport trade sector, the Central Bank has been considering introducing foreign currency deposits (FCD), a move supported by private banks. However, in November 1999, an MAE technical expert, concluded that all but one of the five banks were then ill-equipped to handle this new product. Accordingly, the Central Bank has adopted a cautious time-table, allowing for training of bank staff and issuing guidelines, including foreign exchange exposure limits, before introducing FCDs by mid-2001. The Central Bank will step up efforts to improve the functioning of the foreign market, including through appropriate intervention.

23. The Central Bank will continue to strengthen its regulatory and supervisory role in the financial sector through staff training and an improved legal framework with the expected parliamentary approval of the Financial Institutions and Insurance Bills before end-2000. It will also continue enforcing the requirement for banks to maintain full provisioning for nonperforming loans and maintain their capital ratios above the legal requirement of 8 percent. Of concern, are the recent problems in retiring a part of the groundnut crop financing loans for the 1999/2000-crop season. The Central Bank will work closely with banks to address this problem, including measures to improve management and the monitoring of activities in crop marketing. The settlement of the GGC dispute should also provide an opportunity to attract more experienced groundnut marketing companies into the country.



24. To address the problem of the large stock of government domestic debt, (27 percent of GDP at end-1999), whose service absorbs more than 20 percent of government domestic revenue, the government has focused on efforts to reduce the fiscal deficit to sustainable levels. Furthermore, the government has used proceeds from privatization and a part of the European Union grant to reduce domestic debt and is actively discussing with the World Bank a program to further reduce the stock of domestic debt. Since a sizable part of this debt is held by commercial banks, it will be important to avoid an injection of liquidity in the economy. A solution may lie in establishing an offshore entity that would take over the debt, or through debt/equity swaps for selected public institutions.

### **C. Structural and Sectoral Policies**

25. To speed up the modernization of business-related legislation and regulation, the government has introduced additional reforms in the judicial system to reduce the backlog of court cases, including those in the commercial branch of the high court, by increasing the number of high court judges by 50 percent in October 2000 and opening four regional courts. The Department of State for Justice recently increased its legal drafting staff to significantly relieve a severe bottleneck in this area. Following the cabinet approval in late 1999 of an interim procurement code to enhance transparency and efficiency in government purchases, the government is seeking technical assistance to complete the drafting of a new comprehensive code that meets the latest international standards. Currently the government is receiving technical assistance from the Commonwealth Secretariat to develop a competition policy, which, once approved, will provide a basis for a Competition Bill, that in turn will foster an environment that is conducive to competitive business activities. The Commonwealth Secretariat has also assisted in drafting a Regulatory Bill, currently under review by the Department of State for Justice, pending its submission to the cabinet by end-2000 and to parliament by early 2001. This omnibus bill will establish a multisectoral regulatory agency and a legal framework to accompany the proposed privatization of utilities and transport sectors, and regulation of the petroleum sector.

26. Regarding the public enterprise sector, the Privatization Agency Bill, which was submitted to the cabinet in April 2000 and was submitted to parliament for approval in October 2000, provides for the establishment of an agency that will oversee privatization. This bill duly recognizes the existence of a divestiture account at the Central Bank into which the government intends to deposit the proceeds from privatization. In 2000, a minimum of D 24 million will be transferred from the divestiture account to pay some of the government's domestic debt. In the meantime, the government intends to rigorously implement the terms of the Memoranda of Understanding (MOU) that were agreed upon with a number of public enterprises in 1998. Thus, the government will take the necessary measures to prevent any further accumulation of domestic payment arrears, and insist that all public enterprises fully meet their tax, debt service, and dividend obligations. With regard to GAMTEL, steps have been taken to separate its broadcasting activities from the telecommunications business by establishing an interim board for the former pending their establishment into a separate legal entity. The government is considering several options to privatize GAMTEL, which will be finalized after consultations with the World Bank.

27. In agriculture, the institutional reforms in the marketing arrangements of the groundnut crop to replace the ad hoc arrangements during 1999/2000 remain a priority. To this end, the government has succeeded in reaching a settlement with Alimenta. Moreover, the government is continuing to work with the EU and the Agri-business Service Plan Association (ASPA, farmers and buyers) to improve the marketing of the groundnuts and encouraged ASPA to publicly announce producer prices early in the planting season; timely crop financing arrangements for local crop buyers will also be promoted. With EU assistance, the government will continue to provide improved seed varieties, fertilizer and credit facilities, the latter through the six-year US\$10 million IFAD Rural Finance and Community Initiative. Significant support for the fishing sector will be provided by projects, worth some US\$8 million, to build cold storage (at Tanji village) and artisanal facilities in The Gambia by 2001.

28. The government is implementing a governance program adopted during the March 2000 Roundtable meeting in Banjul, including reforms to (i) strengthen the constitutional and electoral processes; (ii) strengthen the parliamentary structures and processes; (iii) promote civic education and enhance civil participation in the political process (iv) improve the legal and judicial processes; (v) decentralize and reform the local government system; and (vi) improve the management and transparency of public finances. A number of these reforms are being implemented in the context of the PRSP process as discussed in detail in the I-PRSP, which has been forwarded to the World Bank and the Fund.

29. As part of implementing the PRGF-supported program, the government intends to put in place measures that comprise a structural performance criterion and structural benchmarks outlined in the attached Table 11.

#### **D. Social and Poverty Reduction Policies**

30. In the past year, the government has undertaken a participatory review of the lessons learned from the 1994 Strategy for Poverty Alleviation (SPA). The review included civil society organizations, local and central government, the Fund, the World Bank, and other donors. The government now intends to formulate a new more comprehensive strategy, the Strategy for Poverty Alleviation II (I-SPA II) learning from the experiences of SPA I. The interim SPA II has been submitted as the interim PRSP, thereby building on the strong existing country ownership developed during SPA I. The I-SPA II was prepared in consultation with the civil society organizations and local authorities. Regional workshops were convened (in early October) and a national workshop was conducted in Banjul in late October and was opened by H.E. The President Alhaji Yahya Jammeh. The workshops were complemented by the results of a Participatory Poverty Assessment (PPA), where the poor were directly consulted in a systematic way. The PPA is part of a three year project whose first annual report was issued in August 2000. The SPA II (PRSP) is expected to be finalized by end-2001 and will draw on the second annual PPA report and a donor Roundtable meeting planned by mid-2001, as well as updated sectoral and other studies (on gender, agriculture, education, and health issues), including public expenditure reviews that may also cover the Department of State for Local Government.

31. In the meantime, the budget for 2001 provides for increased allocations for the social sectors and for development expenditure. The contingency budget has identified other key social measures that could be funded from the enhanced HIPC Initiative debt relief and possibly a reduction in domestic debt service. As indicated above, the government is in the process of establishing during 2001 a comprehensive accounting framework to monitor public resources that will be directed toward poverty reduction.

32. The government is aware that the updating of the comprehensive poverty reduction strategy will place a considerable burden on institutional capacity and necessitate further reforms to improve the delivery and monitoring of enhanced public services. In this regard, it intends to intensify collaboration with donors, including the Fund, to ensure timely access to technical assistance. In order to increase and/or maintain the available pool of skilled social sector workers, the government will undertake a study to review the possibility of extending the retirement age for civil servants from 55 to 60-62 for the Departments of State for Education and Health on a pilot basis.

#### **E. External Sector Policies**

33. In the context of the economic policies detailed above, the external current account deficit (excluding official transfers) is projected to increase slightly to about 12½ percent of GDP in 2000 then decline to about 12 percent in 2001. The volume of total exports is projected to increase by about 9 percent and 15 percent in 2000 and 2001 respectively, reflecting a recovery in groundnut production, fish exports, and the re-export trade and for 2001 in the tourism sector. It is also expected that high quality nuts will comprise a larger proportion of groundnut exports. Total import volumes are projected to grow by about 2 percent in 2000, largely because of the recovery in the re-export trade following the substantial reduction in the scope of preshipment inspection and the lowering of the external tariffs. For 2001, the growth of import volume is projected at 13 percent. In view of the modest recovery in groundnut prices, the terms of trade for domestic exports and imports are projected to remain virtually unchanged in 2000 and to improve slightly in 2001. Receipts from tourism are projected to decline by 3½ percent because of the low summer activity in 2000 and to recover by 18 percent in 2001 with the implementation of new investment projects. Assistance from donors is projected to increase and to cover the modest financing gap (including the pending payments to Alimenta) for 2001. This will permit an increase of gross official reserves by an amount equivalent to SDR 3.4 million in 2000 and by SDR 6 million in 2001 to a level equivalent to about 5¼ months of import cover.

34. For 2002-03, import volumes are expected to grow at around 3 percent, while exports and tourism receipts are expected to grow more quickly as the improved investment climate attracts foreign investment in the agriculture and tourism sectors. As a result, the current account deficit (excluding grants) is expected to decline to 10 percent of GDP by 2003. In the capital account, project-related loans are expected to increase, while foreign direct investment inflows are expected to rebound from the low levels of 2000-01. Inflows will be sufficient to provide for a moderate increase in reserves to maintain a cover of 5¼ months of imports of goods and services.

35. The government remains committed to a liberal trade and exchange system. To this end, it reduced the maximum external tariff and rationalized the tariff system. The government is discussing with the World Bank possible budgetary assistance to compensate for further reductions in the import weighted tariff rate. These measures, together with the virtual elimination of preshipment inspection in July and the pursuit of a market-based flexible exchange rate, should continue to benefit The Gambia's external competitiveness and facilitate the recovery in the important re-export trade.

36. To further improve its debt-service profile, The Gambia will need to continue to manage its external debt prudently and rely exclusively on external grants or long-term loans on highly concessional terms. Moreover, the government will continue to meet its external debt service obligations in a timely manner. It has also made progress in collaborating with the Fund and World Bank staff in improving the external debt data that was used to assess The Gambia's eligibility under the enhanced HIPC Initiative. Meanwhile, it is expected that by early 2001, understandings will be reached on the debt owed to the Norwegian export guarantee agency arising from a government-guaranteed loan to the Senegambia Beach Hotel.

#### **F. Statistical Issues**

37. The Gambia's economic and financial statistics remain in need of improvement, especially with regard to the major components of the balance of payments, the national accounts and prices, public investment, the public enterprise sector, and employment. The government has benefited from the recommendations of various recent Fund technical assistance missions to strengthen the compilation of economic data. Based on these recommendations, the government intends to implement a range of concrete actions in the period ahead, including (a) the establishment of a balance of payments unit in the Central Bank and improved bank and financial sector reporting of balance of payments and monetary data; (b) the rebasing of the national income accounts to 1998 in place of the prevailing base of 1976/77; (c) the conducting of a household expenditure survey to provide a basis for the compilation of a comprehensive price index; (d) the full implementation of ASYCUDA, inter alia, to improve balance of payments data compilation; and (e) the participation in the Fund's General Data Dissemination System (GDDS). The Gambia has also benefited from recent Fund and World Bank technical assistance to strengthen the external debt data. While these steps are likely to yield significant improvements, the government faces much greater challenges in generating the broader quality data essential for a successful pursuit of an enhanced poverty reduction strategy and is determined to intensify efforts towards this endeavor.

#### **V. PROGRAM MONITORING AND REVIEW**

38. To monitor policy implementation under the program, a number of quantitative performance criteria and benchmarks for end-March 2001, a structural performance criterion, and quantitative benchmarks have been identified. The proposed quantitative performance criteria comprise the following (Table 10): (a) a ceiling on net bank credit to the central

government; (b) a ceiling on net domestic assets of the Central Bank; (c) a floor on the basic primary balance of the central government, defined to exclude interest payments and foreign-financed investment spending; (d) the nonaccumulation of external payment arrears of the central government; (e) a floor on the minimum the official international reserves; (f) a ceiling on new nonconcessional external debt contracted or guaranteed by the public sector for maturities over 1 year; and (g) a zero ceiling on the outstanding stock of short-term external debt owed or contracted by the public sector (excluding normal import-related credits). The criterion on the nonaccumulation of external payments arrears applies on a continuous basis. Limits on items (a)-(g) above for end-March 2001 will serve as quantitative performance criteria; the benchmarks for end-June and end-September 2001 are indicative. Definitive targets for end-June and quantitative performance criteria for end-September 2001 will be set at the time of the first review. In addition, a number of measures have been identified as structural performance criteria and benchmarks (Table 11). Furthermore, quarterly financial indicators will be established on total government revenue and the wage bill.

39. In addition, policy implementation under the third annual PRGF arrangement will be assessed by two reviews. Disbursement of the second loan under the third annual PRGF arrangement will be conditional on the observance of the end-March 2001 performance criteria and the completion of the first review no later than July 1, 2001. The disbursement of the third loan will be subject to the observance of the end-September 2001 performance criteria and completion of the second review no later than December 1, 2001.

Table 10. The Gambia: Quantitative Performance Criteria and Benchmarks Under the Second and Third Annual Arrangements Under the Poverty Reduction and Growth Facility, October 1, 1999 - December 31, 2000.

	1999	2000									2001			
	Amount at End-Dec.	End-Mar. Performance Criteria			End-Jun. Benchmarks		End-Sep. Performance Criteria			End-Dec. Benchmarks	End-Mar. Performance Criteria	End-Jun. Benchmarks	End-Sep.	
	Prel.	Prog.	Adj.	Prel.	Prog.	Prel.	Prog.	Adj.	Prel.	Rev. Prog.	Rev. Prog.	Rev. Prog.	Rev. Prog.	
(In millions of dalasis; change from beginning of calendar year)														
Performance criteria														
Net bank credit to the central government (ceiling) 1/ 2/	38.4	-1.0	2.5	74.6	3.6	1.4	-26.4	-6.1	-26.9	-40.1	-41.4	-87.6	-83.8	
Net domestic assets of the central bank (ceiling) 1/ 3/	-464.8	-20.1	-16.6	45.4	-7.3	68.8	-45.5	-25.2	-26.3	-7.0	1.6	-1.7	-17.8	
Basic primary balance of the central government (floor) 1/ 4/	229.8	73.4	69.9	63.1	180.7	163.6	246.8	226.5	246.2	356.9	133.4	299.7	380.2	
External payments arrears of the central government (ceiling) 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(In millions of SDRs; change from beginning of calendar year)														
Net foreign assets of the central bank (floor) 6/	66.5	0.7	0.5	7.0	-0.8	0.6	-1.2	-2.4	2.7	-4.3	1.7	4.6	-1.7	
New nonconcessional debt contracted or guaranteed by the public sector (ceiling), 1-12 year maturity 7/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Outstanding stock of external debt owed by the public sector with a maturity of less than one year (ceiling) 8/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
(In millions of dalasis; change from beginning of calendar year)														
Financial indicators														
Total domestic government revenue (floor)	878.7	229.3		257.1	522.5	528.9	750.3		786.9	1073.7	332.6	646.5	912.5	
Government wage bill (ceiling)	301.7	78.2		79.6	170.8	181.0	240.5		252.8	330.0	110.6	185.2	259.8	
Memorandum item:														
External budgetary assistance 9/	0.0	18.0	3.5	14.5	9.3	0.0	34.8	20.3	14.5	45.3	16.0	29.0	49.0	

1/ The ceilings will be adjusted downward by the amount of external budgetary assistance in excess of that programmed. In the event of a shortfall in external budgetary assistance (as defined above), the ceilings will be adjusted upward by the amount of the shortfall.

2/ Defined as claims on government (net) in the monetary survey.

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

4/ The basic primary balance is defined as domestic revenue minus total expenditure and net lending, excluding interest payments and externally financed capital expenditure.

5/ To be applied on a continuous basis.

6/ The floor will be adjusted upward by the amount of external budgetary assistance in excess of that programmed. In the event of a shortfall in external budgetary assistance (as defined above), the floor will be adjusted downward by the amount of the shortfall.

7/ This performance criterion 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 Fund on August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received.

Excluded from this performance criterion is debt with a grant element equivalent to 35 percent or more, calculated using a discount rate based on OECD commercial interest reference rates.

8/ 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 Fund on August 24, 2000. The public sector consists of central government and regional governments and other public agencies, including the Central Bank of The Gambia. Excluded from this performance criterion are normal import-related credits.

9/ Including grants, loans, and debt relief, but excluding project aid.

Table 11. The Gambia: Prior Actions, Structural Performance Criterion, and Benchmarks Under the Third Annual Arrangement Under the Poverty Reduction and Growth Facility, October 1, 2000—September 30, 2001

Measures	Target Date
<b>Prior action</b>	
Obtain cabinet approval of the 2001 budget that is consistent with the program.	October 2000
<b>Structural performance criterion</b>	
Establish and begin to implement an accounting framework—the Poverty Reduction Fund—to monitor expenditure on poverty reduction, including expenditure funded from enhanced HIPC Initiative debt relief.	End-December 2000
<b>Structural benchmarks</b>	
Initiate a register of establishments involved in balance of payments transactions and complete surveys of these establishments	End-February 2001
Extend the mandate of the External Debt Unit of the Department of State for Finance and Economic Affairs and have it start to also compile publicly guaranteed external debt, other external contingent liabilities of the government, and domestic debt.	End-June 2001
Complete the full installation of the automated system for customs data (ASYCUDA II) and use it also to generate trade data reclassified by economic categories.	End-March 2001
Complete the rebasing of national income accounts to 1998.	End-April 2001
Issue guidelines and authorize commercial banks to establish foreign currency deposits.	End- June 2001
Introduce a book-entry system for treasury bill auction and finalize plans for introducing longer-term treasury bills and government bonds.	End-August 2001

Table 12. The Gambia: Prior Actions, Structural Performance Criteria, and Benchmarks Under the Second Annual Arrangement Under the Poverty Reduction and Growth Facility, October 1, 1999 - September 30, 2000

Measures	Target Date	Date of Completion
<b>Prior actions</b>		
Set up a monitoring program for the payment of government arrears to public enterprises and settle D 11 million of these arrears by end-June 2000. 1/		June 2000
Issue a government circular to curtail the creation of "below-the-line (BTL)" accounts (which lack reporting and control measures) and impose reporting and control safeguards on existing BTL accounts.		May 2000
Abolish preshipment inspection scheme effective July 2000.		July 2000
<b>Structural performance criteria</b>		
Develop and implement a framework for short-term liquidity forecasting and transform the Treasury Bill Committee into an Open Market Committee.	End-June 2000	End-May 2000
Undertake a comprehensive census of government domestic arrears outstanding as of end-June 1999.	End-February 2000	Mid-February 2000
<b>Structural benchmarks</b>		
Ensure that the Accountant General's Office completes the reconciliation of its quarterly balances from September 1997 to December 31, 1999 with those of the CBG.	End-June 2000	End-March 2000
Provide for the full implementation of the various balance of payments surveys of establishments and commercial banks by the central bank.	End-December 1999	End-December 1999
Rebase the national accounts to a more recent date.	End-April 2000	End-April 2001 2/
Fully implement ASYCUDA in the customs department.	End-April 2000	End-March 2001 2/
Compile export and reexport trade data using ASYCUDA.	End-July 2000	End-April 2001 2/
Further streamline the tariff system by classifying commodities according to the Harmonized System of Customs Classification and reduce maximum rate to 18 percent.	End-June 2000	End-August 2000
Bring to point of sale at least four public enterprises or transform these enterprises into private limited companies (PLC) and restructure (unbundle) at least two public enterprises into component units for their eventual privatization.	End-August 2000	Pending
Finalize plan of action for monthly reconciliation of the accounts of the revenue departments with those of the central bank to facilitate identification of late tax payments and improve compliance.	End-September 2000	End-October 2000
Settle arrears of D 18 million in government arrears to public enterprises. 1/	End-September 2000	End-September 2000.

1/ On a cumulative basis during calendar year.

2/ Delay due to lengthy negotiations with the UNDP on a project to implement this reform measure.



**The Gambia: Technical Memorandum of Understanding  
November 2000**

**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 and structural performance criteria and benchmarks for the third annual arrangement under the Poverty Reduction and Growth Facility (PRGF), as well as the related reporting requirements. A table with the latest actual data for the monetary aggregates, as well as the preliminary estimates for July 2000 used for the derivation of the flows for the program period, is attached (Tables 6 and 7).

**II. QUANTITATIVE PERFORMANCE CRITERIA: DEFINITIONS AND REPORTING STANDARDS**

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

2. **Definition.** Net international reserves (NIR) are defined as reserve assets less liabilities to foreign residents of maturity of 1 year or less and less borrowing from the IMF. Gold holdings will be valued at U.S. dollar market prices, together with foreign currency holdings, at the bilateral exchange rates prevailing on July 31, 2000. The NIR shall be converted into dalasis at the exchange rate prevailing on July 31, 2000 (estimated at D 16.4993 per SDR). Reserve assets are defined for this purpose as external assets readily available to, or controlled by, the Central Bank of The Gambia (CBG). Pledged or otherwise encumbered reserves assets, including, but not limited to, reserves assets used as collateral or guarantee for third-party external liability, are to be excluded.

3. **Adjustment clauses.** The floor on the net international reserves of the central bank will be adjusted **upward (downward)** by the amount of disbursed external budgetary support (comprising non-project-related loans and grants) at the end of each quarter **in excess (in shortfall)** of the programmed amounts in the budget (Table 10).

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

**B. Net Domestic Assets of the Central Bank of The Gambia**

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

6. **Adjustment clauses.** The ceiling on net domestic assets of the central bank will be adjusted **downward (upward)** by the amount of disbursed external budgetary support (comprising non-project-related loans and grants) at the end of each quarter **in excess (in shortfall)** of the programmed amounts in the budget (Table 10).

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

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

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

9. **Adjustment clauses.** The ceiling on net claims on the central government by the central bank will be adjusted **downward (upward)** by the amount of disbursed external budgetary support (comprising non-project-related loans and grants) at the end of each quarter **in excess (in shortfall)** of the programmed amounts in the central government budget (Table 10).

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

### **D. Basic Primary Balance of the Central Government**

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

### **E. External Payments Arrears**

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

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

### **F. New Nonconcessional External Debt Contracted or Guaranteed by the Public Sector**

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

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

### **G. Outstanding Stock of External Public Debt**

16. This performance criterion is the outstanding stock of external debt with original maturity of less than one year owed or contracted by the public sector.<sup>2</sup> Excluded from this performance criterion are normal import-related credits.

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

## **III. PRIOR ACTIONS AND QUANTITATIVE PERFORMANCE CRITERIA AND BENCHMARKS**

18. To monitor policy implementation under the program, a prior action and a number of quantitative benchmarks have been proposed, over the course of the program, as well as

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<sup>1</sup> This performance criterion applies not only to debt as defined in point No. 9 of the "IMF Guidelines on Performance Criteria with Respect to Foreign Debt" (adopted by the Executive Board of the Fund on August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received.

<sup>2</sup> The term "debt" has the meaning set forth in point No.9 of the "IMF Guidelines on Performance Criteria with Respect to Foreign Debt", adopted on August 24, 2000.

quantitative performance criteria and benchmarks for end-March 2001 (see Table 11). The prior action entails the approval of an appropriate budget for 2001 by the cabinet. The proposed quantitative performance criteria will comprise the following: (i) a ceiling on net bank credit to the central government; (ii) a ceiling on net domestic assets of the Central Bank of The Gambia; (iii) a floor on the basic primary balance of the central government, defined to exclude interest payments and foreign financed investment spending; (iv) the nonaccumulation of external payment arrears; (v) a floor on net official international reserves; (vi) a ceiling on new nonconcessional external loans contracted or guaranteed by the public sector in the maturity ranges of 1-5 years and 1-12 years; and (vii) a zero ceiling on the outstanding stock of short-term external debt owed or contracted by the public sector (excluding normal import-related credits). The criterion on the nonaccumulation of external payments arrears will be applied on a continuous basis. Limits on items (i)-(vii) above for end-March 2001 will serve as quantitative performance criteria. In addition, the reform measures indicated in Table 11 have been adopted as structural performance criteria and benchmarks for the program.

#### **IV. STRUCTURAL PERFORMANCE CRITERIA AND BENCHMARKS**

Lastly, the authorities will notify the African Department of the Fund of developments on structural performance criteria and benchmarks as soon as they occur. The authorities will provide the following documentation, according to dates in Table 11, elaborating steps taken to (i) establish and begin to implement a comprehensive accounting framework to monitor expenditure on poverty reduction, including expenditure funded from enhanced HIPC Initiative debt relief; (ii) initiate a register of establishment involved in balance of payments transactions and complete implementation of surveys of these establishments; (iii) extend the mandate of the external debt unit of the Department of State for Finance and Economic Affairs and have it start to also compile publicly guaranteed external debt, other external contingent liability of the government, and domestic debt; (iv) complete the full installation of the automated system for customs data (ASYCUDA II) and use it also to generate trade data reclassified by economic categories; (v) complete the rebasing of the national accounts to 1998; (vi) establish the regulatory framework, issue guidelines, and authorize commercial banks to establish foreign currency deposits; and (vii) introduce the book-entry system for treasury bill auctions and finalize plans for introducing longer-term treasury bills and government bonds.

#### **V. OTHER ELEMENTS OF THE PROGRAM**

##### **A. Program Monitoring Committee**

19. **Definition.** The Gambian authorities shall establish a program-monitoring committee composed of senior officials from the Department of State for Finance and Economic Affairs (DOSFEA), CBG, and other relevant agencies. The committee shall be responsible for monitoring the performance of the program, recommending policy responses, informing the Fund regularly about the progress of the program, and transmitting the supporting materials necessary for the evaluation of performance criteria and benchmarks. The committee shall

provide the Fund with a progress report on the program on a monthly basis within four weeks of the end of each month, using the latest available data.

## **VI. DATA REQUIREMENTS**

### **A. Production and Prices**

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

### **B. Government Accounts Data**

21. **Reporting standard.** A consolidated budget report of the central government comprising (i) the revenue data by each major item, including those collected by the Commissioner of Taxes and the Customs Department, as well as privatization's transfers to the budget; (ii) details of the recurrent and capital expenditure of the central government; (iii) details of budget financing (domestic and external), which will be transmitted on a monthly basis within six weeks of the end of each month; and (iv) details on government outstanding arrears outstanding, as of end-September 2000 and end-December 2000, including payments and other arrangements to discharge them (these data will be transmitted on a monthly basis within six weeks of the end of each quarter). The government's arrears amounted to D 26.9 million as of end-December 1999.

### **C. Monetary Sector Data**

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

### **D. External Sector Data**

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

**The Gambia: Relations with the Fund**  
(As of October 31, 2000)

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

<b>General Resources Account</b>	<b>SDR Million</b>	<b>% Quota</b>
Quota	31.10	100.0
Fund holdings of currency	29.62	95.2
Reserve position in Fund	1.48	4.8

<b>SDR Department</b>	<b>SDR Million</b>	<b>% Allocation</b>
Net cumulative allocation	5.12	100.0
Holdings	0.20	3.9

<b>Outstanding Purchases and Loans</b>	<b>SDR Million</b>	<b>% Quota</b>
Enhanced Structural Adjustment Facility (ESAF) arrangements	10.83	34.8

<b>Financial Arrangements</b>				
Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Poverty Reduction and Growth Facility (PRGF)	06/29/1998	06/28/2001	20.61	6.87
ESAF	11/23/1988	11/25/1991	20.52	18.02
Structural Adjustment Facility (SAF)	9/17/1986	11/22/1988	10.86	8.55

**Projected Obligations to the Fund<sup>1</sup>** (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue		Forthcoming			
	02/29/2000	2000	2001	2002	2003	2004
Principal	0.0	0.3	0.2	0.0	0.0	0.7
Charges/interest	0.0	0.1	0.3	0.3	0.3	0.3
<b>Total</b>	<b>0.0</b>	<b>0.4</b>	<b>0.5</b>	<b>0.3</b>	<b>0.3</b>	<b>1.0</b>

<sup>1</sup> Excluding debt-service payments to the Saudi Fund for Development. The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but that forthcoming obligations will be settled on time.

### **Exchange rate arrangement**

Prior to January 20, 1986, the Gambian currency, the dalasi, was pegged to the pound sterling at a rate of D 5=£1. On January 20, 1986, an interbank market for foreign exchange was introduced, and since then the exchange rate has been determined by market forces. At end-September 2000, the midpoint exchange rate in the interbank market was D 13.5208 per U.S. dollar.

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

### **Last Article IV Consultation**

The 2000 Article IV consultation (EBS/00/129; 7/7/00) was concluded by the Executive Board on July 19, 2000. The Gambia is on the standard 12-month cycle for Article IV consultations.

### **Technical assistance**

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **Resident Representative**

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



**The Gambia: Relations with the African Development Bank<sup>1</sup>**  
(As of June, 2000)

1. The African Development Bank (AfDB) started lending to The Gambia in 1974. As of June 2000, the AfDB Group<sup>2</sup> had provided financial assistance amounting to SDR 168.92 million in support of 38 operations. This assistance consists of five loans from AfDB resources amounting to SDR 21.34 million, twenty-two loans totaling SDR 128.58 million from African Development Fund (AfDF) resources, two loans from Nigerian Trust Fund (NTF) resources totaling SDR 6.5 million, and nine grants totaling SDR 12.50 million from the Technical Assistance Fund (TAF) of AfDF resources.
  
2. The assistance, which has been provided since 1990, includes nine AfDF loans and eight TAF grants. The loans have been provided to finance (i) improvement of the Banjul port infrastructure to meet the handling of increased cargo tonnage; (ii) an education project aimed at improving primary teacher training and capacity building in the Ministry of Education; (iii) rehabilitation of health-training facilities aimed at strengthening their capacity by expanding and improving the technical skills of students graduating from the School of Public Health and the School of Nursing and Midwifery, as well as at improving primary health care delivery through support to maternal and child health care programs, and training of traditional birth attendants and community health workers; (iv) a structural adjustment program in support of policy reforms; (v) a Lowlands Agriculture Development Program aimed at improving food security for the poor smallholder rice growers; (vi) a poverty reduction project addressing several aspects of capacity building for the poor and women by strengthening local public services for the poor to grant financing for small-scale projects, and providing loan funds for income-generating activities, particularly women-managed microenterprises; (vii) a health sector rehabilitation project aimed at strengthening institutional capacity of the Department of State for Health, Social Welfare and Women's Affairs at divisional and central levels, thus enhancing the capability to plan, implement, and manage the delivery of improved health care services; (viii) a periurban horticultural project aimed at improving horticultural and other income-generating activities of women in the greater Banjul area; and (ix) a skills development project geared at increasing economic productivity of rural women in the villages (WID II). The grants were provided for (i) institutional strengthening of the Ministry of Works and Communications and carrying out of a feasibility study for an eastern road link (Essau-Farafenni Road); (ii) a skills development project (WID I) geared at improving economic productivity of rural women; (iii) a technical assistance component of the skills development project mentioned above (WID III); (iv) feasibility studies for rural electrification and livestock development; (v) a health services requirements study undertaking a comprehensive analysis of requirements for more efficient and cost-effective health care delivery services; (vi) a coastal protection study to examine the extent of sea encroachment and degradation of the coastline in Banjul and recommend mitigation measures; and (vii) a capacity-building operation to strengthen the

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<sup>1</sup> Prepared by AfDB staff.

<sup>2</sup> The AfDB Group consists of the African Development Bank, African Development Fund, and the Nigerian Trust Fund.

project and debt-management capability of the Department of State for Finance and increase the supply of qualified female teachers in the basic education cycle.

3. The AfDB Group lending strategy for the Gambia recognizes the poverty pervading the Gambian population, the shortage of administrative and managerial skills, and the need to develop private sector activity. Thus for the ADF VIII Programming Cycle (1999-2001), the Bank Group will pursue a lending strategy that supports the government implementation of a comprehensive social program within its overall development agenda. The strategy includes provision of assistance directed at poverty reduction and pursuance of economic and administrative reforms to promote private sector participation. Assistance for poverty reduction efforts will be carried out through direct pro-poor interventions via new operations in the agriculture and social sectors and rural infrastructure; and analytical and financial support for diversifying the economy and increasing private sector involvement in new economic activities, in order to speed up job creation.

**The Gambia: Relations with the World Bank Group**  
(As of August 31, 2000)

1. The Bank, through IDA, has assisted the government in pursuing three main objectives:  
(i) establishment of a macroeconomic and sectoral environment conducive to economic growth;  
(ii) rehabilitation and development of infrastructure; and (iii) development of human resources by providing more efficient social services. Instruments used in supporting these objectives have been adjustment lending (structural adjustment credits I and II (SAL I and SAL II)), buttressed by sector-based rehabilitation and investment projects.
2. In addition to SAL II, which provided a global framework for IDA's support to the policy reforms, IDA financed other projects in support of policy and institutional reforms. The Enterprise Development Project assisted in promoting private sector investment in small and medium-scale activities by privatizing and restructuring public enterprises, upgrading the management contract system, and improving financial performance of several public enterprises. It also improved the performance of the financial sector, partly through the privatization of The Gambian Commercial and Development Bank. In the agriculture sector, IDA supported the promotion of extension and other agricultural services through the Agricultural Development II Project and the Agricultural Services Project. Past projects in the transport, utility, and urban sectors promoted private sector activities by improving maintenance and rehabilitation of infrastructure, and by rendering better services with a more efficient use of public resources. Projects in the human resources sector were designed to help the government (i) improve the quality of primary education and raise school enrollment under the Education Sector Project; (ii) improve family planning programs (by increasing access to health care and raising the efficiency of health services under the National Health Development Project); and (iii) promote women's role in socioeconomic development under the Women in Development Project.
3. The Country Assistance Strategy (CAS) for The Gambia (fiscal years (FY)1999-2001), endorsed by the Board on September 10, 1998 is being implemented with vigor.
4. In May 2000, the government and IDA conducted a follow-up of the 1999 Country Portfolio Performance Review (CPPR). The meeting reviewed the action plan of the 1999 CPPR and established progress made since the CPPR. The outcome/aide mémoire of the review is on file.
5. As of August 31, 2000, IDA had approved 27 credits for The Gambia for a total amount of about US\$224.8 million, with an undisbursed amount of about US\$42 million. The current portfolio consists of three projects (Participatory Health/Population/Nutrition, Third Education, and Poverty Alleviation & Municipal Development) totaling US\$53 million. IDA's lending will continue to build around poverty reduction and capacity building through various operations. The Energy Infrastructure, Capacity Building for Economic Management, and HIV/AIDS projects are scheduled for Board approval this FY 2001; and the Economic Reforms Support Operation, Rural Sector Development, and the Trade Gateway Projects, for FY 2002.
6. As of August 31, 2000, IFC's portfolio had two investments with a balance of about US\$0.57 million. The current portfolio includes investments under the African Enterprise Facility (AEF) for a medical clinic (Ndebaan) and commercial fishing (Lyefish). The establishment of the AEF has enhanced the IFC's ability to reach smaller businesses, such as those currently in operation in The Gambia.
7. IDA and the IFC will continue to coordinate their respective roles to support development activities in The Gambia. This is 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 August 31, 2000; in millions of U.S. dollars)

Projects	Commitment	Disbursed	Undisbursed
24 projects closed	171.8	172.8	0.0
Participatory Health/Pop./Nutrition	18.0	3.0	14.6
Third Education	20.0	3.9	16.0
Poverty Alleviation and Municipal Dev.	15.0	3.0	11.1
Total	224.8	182.7	41.7
Repayments	11.4		
Total due to IDA	168.4		

The Gambia - Statement of IFC's Held and Disbursed Portfolio  
(As of August 31, 2000; in millions of U.S. dollars)

FY Approval	Company	Committed/Held -----IFC-----				Disbursed -----IFC-----			
		Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1993	AEF Ndebaan (Medical Clinic)	0.20	0.00	0.00	0.00	0.20	0.00	0.00	0.00
1994	AEF Lyefish (Commercial Fishing)	0.37	0.00	0.00	0.00	0.37	0.00	0.00	0.00
	<b>Total</b>	<b>0.57</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.57</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
	Pending commitments	0.00	0.00	0.00	0.00				

### **The Gambia: Statistical Issues**

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

#### **Real sector**

2. Annual national accounts data are only available from the production side and have been produced with a long lag. The breakdown by expenditure category is largely estimated by Fund staff. Reliable information on employment and labor costs is not available. An STA technical expert provided assistance on national accounts in November-December 1998. During 2000, the authorities will publish documentation on sources and methods used in the current series of GDP by kind of economic activity. Also, the publication of national accounts for fiscal years (FY) 1995/96 and 1996/97 and calendar years 1997 and 1998 will be completed by year's end. For the medium term, the plans for improvements are (i) to move the base year from 1976/77 to a more recent year; (ii) to provide estimates of private final consumption; and (iii) to change the framework of national accounts from 1968 System of National Accounts (SNA) to 1993 SNA.

3. A new consumer price index (with a base of July 1994-June 1995) for the low- and middle-income population in the greater Banjul area has been produced, using new weights from the 1992/93 household expenditure survey. To ensure a smooth transition, the CSD will compile both the old and new indices for two years; the old consumer price index (CPI) is based on the 1968/69 household survey. At present, however, the CSD only publishes data using the old weights. During 2000, it will conduct a new household budget survey to update the structure of the CPI index.

#### **Government finance**

4. The authorities provide the staff with current information on central government revenue and expenditures. Data on domestic government financing are also available on a monthly basis with a short lag. The three-year rolling public investment program has not been updated for some time, and the execution of public investment needs closer monitoring. The staff was provided with detailed information on foreign-financed extrabudgetary expenditures carried out after the July 1994 military coup. The latest annual data reported for publication in the *Government Finance Statistics Yearbook* and *International Financial Statistics (IFS)* correspond to 1993.

### **Monetary data**

5. Monthly balance sheet data of the Central Bank of The Gambia (CBG) are available within two weeks after the end of the reference month, and the monetary survey with a lag of one month. The coverage of banks in the monetary survey is comprehensive, and the banks follow a uniform chart of accounts to report financial data to the CBG. Flash reports of key monetary data are also sent from the banks to the CBG on a weekly basis. Over the past two years, the CBG has introduced several reclassifications to the monetary accounts in an attempt to improve sectorization and coverage, as well as to harmonize the data reported to STA and AFR. A money and banking statistics mission is tentatively scheduled to take place in FY 2001.

### **Balance of payments**

6. The Gambia's external transactions are characterized by a large volume of activity in the informal sector. For example, the bulk of the reexport trade is unrecorded. Therefore, balance of payment statistics have to be supplemented by estimates of activity in the informal sector. The central bank estimates reexports as a fixed share of total imports. Tourism revenue is estimated based on tourist arrival data from the relevant ministry. Data on private capital flows are poor, mainly because survey data are nonexistent. Data on official grants and loan disbursements and repayments are relatively good. Data on the gross and net international reserves of the central bank are available with a short lag. Coordination and cooperation among the main statistical agencies need to be strengthened to improve the quality of balance of payments statistics; since an STA technical expert provided assistance on the balance of payments statistics in June-July 1999, it is expected that these issues will be addressed in the near future. A follow-up technical assistance mission from STA will overlap with the AFR mission.

7. The CBG recently established a balance of payments unit equipped with computer resources. The government has embarked on the computerization of its database on the stock of external public debt and the related debt-service obligations, using the Commonwealth Secretariat's debt-reporting and management system. The World Bank is providing technical assistance to ensure that a comprehensive data management and reporting system is in place.

# The Gambia: Statistical Indicators

(As of September 2000)

	Exchange Rates	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP	External Debt
Date of latest observation	10/2000	09/2000	09/2000	09/2000	09/2000	09/2000	09/2000	07/2000	07/2000	09/2000	1999	07/2000
Date received	11/2000	10/2000	10/2000	10/2000	10/2000	10/2000	10/2000	09/2000	09/2000	10/2000	06/2000	09/2000
Frequency of data 1/	M	M	M	M	M	M	M	M	A	M	A	M
Frequency of reporting 1/	M	M	M	M	M	M	M	M	A	M	A	M
Source of data 2/	A	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting 3/	C	C	C	C	C	C	C	V	V	C, V	V	C, V
Confidentiality 4/	C	C	C	C	C	C	C	C	C	D	C	D
Frequency of publication 1/	D	M	M	M	M	M	M	A	A	M	A	M

1/ A=annually; D=daily; M=monthly; Q=quarterly; and W=weekly.

2/ A=direct reporting by Central Bank of The Gambia, Ministry of Finance, or other official agency.

3/ C=cable or facsimile; and V=staff visits.

4/ C=unrestricted use; and D=restricted until officially published.