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October 12, 2006

**Statement by Ms. Lundsager and Mr. Kushlis on The Gambia
(Preliminary)
Executive Board Meeting 06/87
October 13, 2006**

We thank the staff for their very candid report on the economic situation in The Gambia and the authorities' performance under the SMP. The Gambia has made progress under the SMP in terms of upgrading the Central Bank (GCB) and public financial management, as well as belatedly meeting its quantitative targets. Nonetheless, we are not fully convinced that The Gambia has broken with its past pattern of stop-and-go policy reform efforts. We recall that the previous PRGF went off track before completion of the first review, which led to a six-year delay following HIPC Decision Point. The Gambia also forfeited its eligibility for the U.S. MCC program earlier this year.

Further evidence of fiscal slippages following the SMP, continued governance weaknesses, especially in fiscal institutions, and the limited period of performance under the SMP are less than reassuring. With the stakes relatively high in terms of a new program's potential to unlock HIPC and MDRI debt relief, the decision on a new PRGF bears special scrutiny by the Board.

At a minimum, we see the need for strong prior actions, including measures to set the groundnut parastatal on firm path toward privatization, improving budget operations, and possibly encompassing quantitative targets on reducing domestic arrears and limiting further public sector borrowing from the GCB. Noting that the completion point triggers were negotiated six years ago, we also ask the staff if they believe the triggers, especially those on governance, are still considered appropriate on both sides of 19th street.

External

The Gambia's floating exchange rate appears to have helped the country manage shocks relatively well. Despite growing current account deficits, the rising share of FDI financing, as well as remittance and grant inflows have helped keep reserves at a comfortable four months of imports. A new PRGF would appear to serve a signaling purpose more than a financial objective and, given the staff's baseline projections of continued overall surpluses and reserve accumulation, we welcome the staff's preliminary views on projected access.

Fiscal

Although The Gambia satisfied its cumulative fiscal targets under the SMP, there was significant deviation soon after approval, followed by a large corrective action. The projected subsequent substantial deviations from the 2006 budget, and a continued pattern of loose control over extra-budgetary spending, further suggest that fiscal management remains weak. We agree that addressing these problems is fundamental and we expect further progress in submitting government accounts to audits, closing below-the-line accounts, implementing the IFMIS system, setting up a central project management and aid coordination unit, and establishing reporting and controls over quasi-fiscal activities. The ease with which the authorities were able to access temporary financing from parastatals is a troubling sign that it will be difficult to impose a hard budget constraint on the public sector. Setting the fiscal accounts on a trajectory that will steadily reduce the stock of domestic debt remains critical to reducing the high real interest rates and supporting overall macroeconomic stability and growth.

Debt

The DSA shows that The Gambia's external debt stock increased by 36 percent since HIPC DP, largely attributable to net new MDB disbursements, and debt levels remain above indicative thresholds even after delivery of HIPC debt relief. Moreover, The Gambia remains at moderate risk of debt distress even after MDRI relief. Stress tests indicate that debt levels are highly vulnerable to export growth, projections of non-debt creating flows, and terms of new borrowing, indicating no room to tolerate policy missteps. We would expect any program to have a zero-ceiling on contracting non-concessional external debt.

Monetary/Financial

Addressing the deficiencies at the GCB highlighted by the earlier safeguards assessment remains an essential prerequisite to any new program. The SMP has made a considerable start in this direction by strengthening internal controls, especially over reserves management, and implementing quarterly external audits. Still, we note with concern the continued violations of the statutory limits on GCB advances to the central government and believe that these also must be addressed as a prior action to a new program. We would also be interested in the staff's views on how they would address the negative capital position of the central bank. Actually implementing the new GCB law, and making its operational independence effective, would provide further reassurance to donors and entrench the credibility of monetary policy.

Still, the GCB's ability to meet its broad money growth targets and reduce inflation to low levels is a promising sign that improvements in this area are taking hold. Further developing the monetary tools to implement monetary policy, and more directly target inflation, should be a continuing goal for the authorities.

Other

The problems in the groundnut sector are indicative of our broader concerns on governance and the authorities' willingness to sustain reforms. The state monopoly (GAMCO) was abolished, but changes to licensing requirements have further delayed the introduction of private competition and undercut the intent of the reform. We would be interested in more details on why these problems have continued to persist, leading to a collapse in exports over the past year, even after several private operators have been now been licensed.