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**MEMORANDUM AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL DEVELOPMENT ASSOCIATION
TO THE
EXECUTIVE DIRECTORS
ON ASSISTANCE TO
THE REPUBLIC OF THE GAMBIA
UNDER THE
ENHANCED HEAVILY INDEBTED POOR COUNTRIES (HIPC)
DEBT INITIATIVE**

November 28, 2007

**Poverty Reduction and Economic Management
Africa Region**

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THE GAMBIA

Currency Equivalents

(Exchange Rate Effective as of November 28, 2007)

Currency Unit = Dalasi
US\$1.00 = 20.50

Government Fiscal Year

January 1 – December 31

Weights and Measures

Metric System

ABBREVIATION AND ACRONYMS

AfDB	African Development Bank
AfDF	African Development Fund
APR	Annual Progress Reports
ASPA	Agribusiness Service Plan Association
BADEA	Arab Bank for Economic Development in Africa
CAS	Country Assistance Strategy
CBG	Central Bank of The Gambia
CDD	Community Driven Development
CET	Common External Tariff
CPIA	Country Performance and Institutional Assessment
CSD	Central Statistics Department
DeMPA	Debt Management Performance Assessment tool
DMS	Debt Management Strategy
DSA	Debt Sustainability Analysis
DOSFEA	Department of State for Finance and Economic Affairs
DTIS	Diagnostic Trade Integration Study
ECOWAS	Economic Community of West African States
EFA FTI	Education- for- All Fast Track Initiative
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign Direct Investment
GGC	Gambia Groundnut Corporation
GAMCO	Gambian Agricultural Marketing Corporation
GBOS	Gambia Bureau of Statistics
GRA	Gambia Revenue Authority
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Country
HILEC	High-Level Economic Committee
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IFAD	International Fund for Agricultural Development
IsDB	Islamic Development Bank
JAS	Joint Assistance Strategy
JSAN	Joint Staff Advisory Note
JSA	Joint Staff Assessment
LIC	Low Income Countries

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MDRI	Multilateral Debt Relief Initiative
MICS	Multiple Indicator Cluster Survey
NADA	National Agricultural Development Agency
NPC	National Planning Commission
NPV	Net Present Value
OFID	OPEC Fund for International Development
PDU	Public Debt Unit
PER	Public Expenditure Review
PFM	Public Financial Management
PRE	Poverty Reducing Expenditures
PRER	Poverty Reducing Expenditure Reports
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PTC	Primary Teacher's Certificate
PURA	Public Utilities Regulatory Authority
SDR	Special Drawing Rights
SMP	Staff Monitored Program
SSA	Sub-Saharan Africa
WAIFEM	West African Institute for Financial and Economic Management

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**MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT OF THE
INTERNATIONAL DEVELOPMENT ASSOCIATION TO THE EXECUTIVE
DIRECTORS ON ASSISTANCE TO THE REPUBLIC OF THE GAMBIA UNDER
THE ENHANCED HIPC DEBT INITIATIVE**

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**MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT OF THE
INTERNATIONAL DEVELOPMENT ASSOCIATION TO THE
EXECUTIVE DIRECTORS ON ASSISTANCE TO THE REPUBLIC OF
THE GAMBIA UNDER THE ENHANCED HIPC DEBT INITIATIVE**

1. I submit for your approval the following Memorandum and Recommendation on the assistance to be provided to the Republic of The Gambia under the Enhanced Heavily Indebted Poor Countries (HIPC) Debt Initiative with respect to the debt owed by this country to the International Development Association (IDA). This report and its recommendation summarize progress made on fulfilling the criteria for reaching the completion point under the Enhanced HIPC Initiative as agreed by the Boards of the International Monetary Fund (IMF) and IDA in December 2000,¹ and confirms the debt relief to be provided irrevocably with respect to the debt owed to IDA. Upon reaching the completion point, The Gambia will become eligible for debt relief from IDA under the Multilateral Debt Relief Initiative (MDRI).

2. This document complements the joint IDA-IMF paper entitled “Republic of The Gambia: Enhanced Heavily Indebted Poor Countries Initiative Completion Point Document and Multilateral Debt Relief Initiative,” concurrently submitted with this document. The completion point document presents: (i) The Gambia’s progress in fulfilling the triggers of the completion point under the Enhanced HIPC Initiative; (ii) an update of The Gambia’s reconciled public external debt and the debt relief committed at the decision point under the Enhanced HIPC Initiative; (iii) the status of creditor participation since decision point; (iv) the provision of MDRI relief by IDA, the IMF, and the African Development Fund (AfDF); and (v) prospects for the country’s long term debt sustainability.

I. BACKGROUND

3. The Gambia reached the decision point under the Enhanced HIPC Initiative in December 2000. Based on the debt sustainability analysis (DSA) presented in the decision point document, debt relief under the Enhanced HIPC Initiative amounted to US\$66.6 million in net present value (NPV) terms as of end 1999. This reduced The Gambia’s NPV of debt after full application of traditional debt relief from US\$244.9 million to US\$178.2 million. The total relief corresponded to a common reduction factor of 27.2 percent on the NPV of debt outstanding as of end-December 1999 for all creditors, after the application of traditional debt relief. Debt relief attributed to multilateral creditors amounted to US\$49.2 million (74 percent of total relief) in NPV terms.

4. At the decision point, total debt from IDA amounted to US\$81.9 million in 1999 NPV terms. Total assistance from IDA under the Enhanced HIPC Initiative agreed at the decision point was approved in the amount of US\$22.3 million in NPV terms. Interim

¹ “The Gambia: Decision Point Document for the Enhanced Heavily Indebted Poor Countries Initiative”, IDA/P 7413 (November 28, 2000) and EBS/00/242 (November 28, 2000).

debt relief was to be provided beginning in January 2001 and continue until the country reached the completion point or until the amount of interim relief reached one-third of the total NPV assistance. The Executive Directors approved the provision of interim debt relief through a reduction of 50 percent of the debt service falling due after the decision point on disbursed and outstanding IDA debt as of end-December 1999. Annex 2 presents the debt service reduction schedule approved by Executive Directors at the time of the decision point.

II. FULFILLMENT OF COMPLETION POINT CONDITIONS

5. In accordance with the decision of the Executive Directors of the IMF and IDA at the decision point, The Gambia would reach its floating completion point under the Enhanced HIPC framework when a set of agreed conditions were met. The conditions for reaching the floating completion point, as set out in Box 7 of the decision point document, comprised: (i) preparation of a full PRSP and satisfactory implementation for at least one year, and improvement of the poverty database and monitoring capacity; (ii) continued maintenance of macroeconomic stability, as evidenced by satisfactory implementation of the PRGF-supported program; (iii) progress in strengthening public expenditure management, indicated by the issuance of government budget execution and poverty expenditure reports; (iv) use of HIPC interim relief in accordance with annual budgets; and (v) key reforms in the areas of education, health and private sector development.

6. The staffs of the Bank and the IMF are of the view that The Gambia has made sufficient progress to reach the completion point by fully implementing nine out of the eleven floating completion point triggers and partially implementing the remaining two triggers. Since the decision point, the government has prepared two PRSPs, which were discussed by the Board of IDA in July 2002 and July 2007, respectively. Implementation of the PRSP has been satisfactory, as evidenced by two Annual Progress Reports (APR), the second PRSP, which provides a broad assessment of the implementation of the first PRSP, and the accompanying Joint Staff Advisory Notes (JSAN). The government has issued annual reports on budget execution and poverty-reducing expenditures, and made use of the budgetary savings from HIPC debt relief in accordance with the annual budgets approved by the Cabinet. Three out of the four social sector reforms have been fully implemented, in addition to the structural reform concerning the establishment of a functional multi-sector regulatory agency.

7. Regarding the completion point trigger on macroeconomic stability, The Gambia successfully implemented a Staff Monitored Program from October 2005 to March 2006 and a new PRGF-supported program was approved by the IMF Board in February 2007. The first review was successfully concluded in August 2007. The IMF Board will discuss the completion point document concurrently with their staff report for the second review of the ongoing PRGF-supported program. Under that program, robust growth and low inflation have been sustained through good policy implementation, particularly strong fiscal performance. As part of the IMF's second review, IMF staffs have agreed with the authorities that a significant share of the proceeds from the recent sale of GAMTEL, the former publicly-owned telecommunication enterprise, will be allocated

for expenditures in 2008 and 2009. It is also envisaged that part of those increased expenditures will go towards the security sector and infrastructure projects.

8. Two triggers were partially completed. One trigger required an increase of five percent annually in the percentage of births attended by skilled health personnel. This percentage increased significantly from the baseline 44 percent in 1998 to 56 percent in 2005, but it fell short of 62 percent as required by the trigger. However, progress has been substantial, as evidenced by the fact that the share of assisted births in The Gambia is now similar to or better than comparable Sub-Saharan African countries. Moreover, the staffs are of the view that the target percentages were unrealistically high.

9. The trigger concerning bringing to the point of sale the public groundnut processing plants was partially met. The government advertised requests for bids between 2005 and 2006 but there was only one local bidder, which the government rejected on the grounds that it was not sufficiently qualified and that it would be detrimental to the sector. In response, the government has prepared a comprehensive sector reform strategy, or "roadmap," in consultation with key public and private sector stakeholders, including the World Bank, the IMF and the European Union (EU). This roadmap outlines plans to fully liberalize the groundnut sector and introduce private management to the groundnut processing plants under a performance-based contract. This would revitalize the sector and eventually attract established international investors. The roadmap was approved by the Cabinet in June 2007 and key elements have already been implemented, including allowing free entry of operators and transferring management of the sector to an association of public and private stakeholders. The staffs broadly support the roadmap's strategic focus on liberalizing the sector. Moreover, IDA and the EU plan to support the implementation of the roadmap through investment projects and budget support.

III. REVISION OF DATA AND CONFIRMATION OF THE RELIEF APPROVED UNDER THE ENHANCED HIPC INITIATIVE

10. Based on additional information received from creditors, the updated DSA has resulted in a revision of the nominal stock of debt at end-December 1999 from US\$452.6 million to US\$444.7 million and the NPV of debt, after the delivery of traditional debt relief, from US\$244.9 million to US\$240.7 million.² The NPV of debt owed to multilateral creditors was reduced to US\$180.3 million from the US\$180.8 million estimated in the decision point document. The NPV of debt owed to IDA at end-1999 amounted to US\$81.9 million (US\$172.7 million in nominal terms) and was revised upwards by US\$0.1 million.

11. The revision of the total nominal stock of debt, together with revised estimates for exports,³ implies a decrease in the required HIPC assistance. Revisions to debt and

² The revisions relate to new information on the amount and type of external debt, and revision in the outstanding debt with multilateral and bilateral creditors.

³ Estimates of exports of goods and services used to evaluate HIPC assistance at the decision point have also been revised, from an average of US\$118.8 million per year over 1997-1999 to US\$119.4 million.

export data together would result in a downward revision of HIPC assistance by US\$5.0 million in NPV terms, from US\$66.6 at the decision point to US\$61.7 million.

12. However, for countries that reached the decision point prior to the adoption by the Boards of IDA and the Fund in 2002 of new guidelines on information reporting,⁴ the amount of enhanced HIPC assistance required at the decision point cannot be adjusted downward without the consent of the country authorities. In this case, the government has not consented to the revision, which would have changed the common reduction factor for each creditor by less than two percent. Therefore, the amount of IDA assistance in NPV terms as approved at decision point remains unchanged.⁵

IV. IDA'S DELIVERY OF ASSISTANCE UNDER THE ENHANCED HIPC INITIATIVE

13. In accordance with the guidelines approved by the Executive Directors on the provision of HIPC assistance,⁶ the delivery mechanism approved at the decision point required IDA to provide debt relief of US\$22.3 million in NPV terms. Of this amount, IDA has already delivered US\$8.0 million in NPV terms (US\$9.1 million in nominal terms) as interim relief, corresponding to a reduction of 50 percent of debt service falling due over this period. As IDA interim relief reached the ceiling of one-third of total NPV of HIPC relief from IDA at end-2004⁷, and therefore prior to completion point, the debt relief delivery schedule would need to be revised. On reaching the completion point, the HIPC debt relief would equal an average of 50 percent of debt service due on debt disbursed and outstanding at end-1999, provided through February 2016 (Figure 1). As a result of the schedule adjustment, the nominal amount of debt relief as approved at decision point would be increased from US\$31.8 million (Annex 2) to US\$35.9 million, but the NPV amount would remain at US\$22.3 million. Annex 3 presents the revised debt service reduction schedule. Provided that Executive Directors agree with the revised schedule, and subject to satisfactory assurances of debt relief from The Gambia's other creditors at the completion point under the Enhanced HIPC Initiative, the debt service reduction for the remaining period up to February 2016 would become irrevocable.

V. IDA'S DELIVERY OF ASSISTANCE UNDER MDRI

14. If Executive Directors approve the completion point for The Gambia under the Enhanced HIPC Initiative, The Gambia will also qualify for additional debt relief under the Multilateral Debt Relief Initiative (MDRI). MDRI debt relief (net of HIPC

⁴ "Information Reporting in the Context of HIPC Initiative Assistance", approved by the members of the Executive Board of the IMF (EBS/02/36) and IDA (IDA/SecM2002-0131), March 4, 2002.

⁵ Note that the original debt service reduction schedule would require revision due to IDA interim relief having reached the one-third limit prior to completion point.

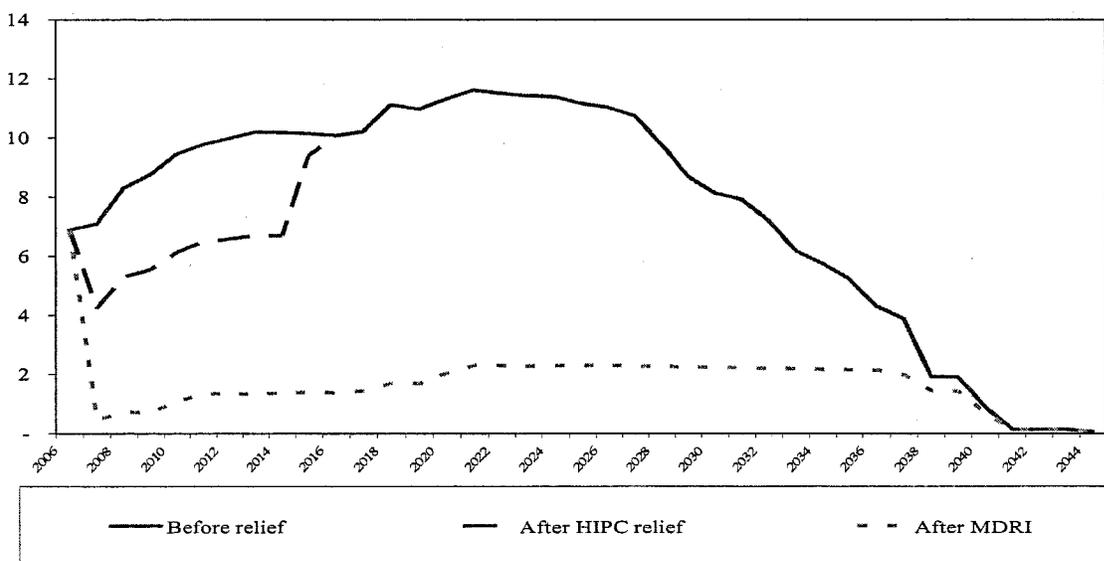
⁶ "Heavily Indebted Poor Countries (HIPC) Initiative: Note on Modalities for Implementing HIPC Debt Relief Under the Enhanced Framework," IDA/R2000-4, January 10, 2000.

⁷ Interim relief for The Gambia was terminated in March 2005. All interim relief delivered counts towards the total amount of HIPC relief in NPV terms and this is reflected in the new IDA HIPC debt delivery schedule.

assistance) from IDA, AfDF and the IMF would result in total debt service savings of US\$373.5 million over a period of 43 years.

15. IDA will provide debt relief under the MDRI through a debt stock cancellation of debt disbursed before end-2003 and still outstanding on December 31, 2007.⁸ Debt relief under the MDRI would cover all remaining debt service obligations on eligible IDA credit balances through maturity, after any debt service relief available under the Enhanced HIPC Initiative.⁹ IDA would provide MDRI debt forgiveness by irrevocably canceling the borrower's payment obligations under the eligible credits. The total reduction of The Gambia's debt stock owed to IDA would be US\$206.4 million, of which a reduction of US\$183.4 million would be due to the implementation of MDRI and the remainder to HIPC assistance. Debt cancellation under the MDRI from IDA would result in average annual debt service savings (net of HIPC assistance) for The Gambia of US\$4.6 million between 2008 and 2011 and US\$ 6.1 million over the next 30 years. Total debt service savings from MDRI would amount to US\$201.8 million (or SDR134.1 million). Figure 1 illustrates the impact of MDRI on projected debt service due to IDA as of end-December 2006.

Figure 1. Debt Service to IDA after HIPC Relief and MDRI, 2007-45
(In millions of US dollars)



VI. PROSPECTS FOR LONG-TERM DEBT SUSTAINABILITY UNDER THE ENHANCED HIPC INITIATIVE AND MDRI

16. Based on full debt data reconciliation, The Gambia's nominal stock of external debt reached US\$677 million at end-2006, compared with US\$453 million at end-1999. After full delivery of the assistance committed under the Enhanced HIPC Initiative at the decision point, The Gambia's external debt is expected to fall from US\$439 million in NPV terms to US\$347 million at end-2007,

⁸ See, International Development Association, "The Multilateral Debt Relief Initiative: Implementation Modalities for IDA," November, 18, 2005, <http://siteresources.worldbank.org/IDA/Resources/MDRI.pdf>.

⁹ See "IDA's Implementation of the Multilateral Debt Relief Initiative", March 14, 2006.

equivalent to 236 percent of exports, compared with a decision point projection of 137 percent.¹⁰ The NPV of debt-to-export ratio is projected to remain above the 150 percent threshold after Enhanced HIPC relief, although it falls steadily beneath the threshold by 2026.

17. Full delivery of debt relief under the Enhanced HIPC Initiative and the MDRI would significantly reduce The Gambia's external public debt. In NPV terms, the stock of debt would be reduced from US\$439 million at end-2007 to US\$163 million. The NPV of debt-to-exports ratio would drop to 113 percent at end-2007, but then it would rise to 156 percent in 2012 before steadily falling to beneath 110 percent by the end of the projection period. In a similar manner, the NPV of debt-to-Gross Domestic Product (GDP) and debt-to revenue ratios would fall significantly after HIPC and MDRI relief. External debt service would decline to an average of 9.0 percent of exports in 2007-2016 as a result of the debt relief, and decrease further to 7.5 percent for the rest of the projection period.

18. Although The Gambia's debt burden would be significantly reduced, the country will remain at high risk of debt distress after HIPC and MDRI relief. The updated debt sustainability analysis (DSA), based on the joint debt sustainability framework for low-income countries, estimates that the NPV of debt-to-exports ratio would fall only to 107 percent after the full delivery of HIPC and MDRI assistance, a level which is above the policy-dependent debt burden threshold of 100 percent.¹¹ Furthermore, the ratio is expected to remain above the threshold throughout much of the projection period. Sensitivity analysis shows that the ratio would deteriorate significantly in the event of large shocks to exports and substantial shortfalls in grant financing.

19. Given the high risk of debt distress, the staffs conducted an extensive analysis of the country's eligibility for exceptional topping-up under the Enhanced HIPC Initiative. The conclusion was that The Gambia does not meet the conditions required for exceptional topping-up given that the deterioration of the debt burden indicators could not be primarily attributed to exogenous factors.¹² In order to protect against moral hazard, the guidelines on exceptional topping-up approved by the IDA and IMF Boards make it clear that policy-induced increases in post-debt relief debt burdens cannot be used as grounds for topping-up. The continuing risk of debt distress, while not a sufficient justification for topping-up, does underscore the importance of continued fiscal prudence, policies to support broad-based growth and export diversification, sustained donor support, and improved debt management.

¹⁰ The deterioration of the NPV of debt-to-export ratio is primarily attributable to shortfalls in the growth of export volumes, higher than anticipated new borrowing, lower concessionality of new borrowing, and unanticipated changes in the exchange and discount rates.

¹¹ The HIPC completion point document contains both a HIPC DSA and a LIC DSA. A country's debt sustainability is assessed using the low income countries (LIC) DSA, whereas the HIPC DSA is mainly a tool to calculate debt relief under the HIPC Initiative. Compared to the HIPC DSA, the LIC DSA is more forward-looking and applies policy-dependent debt burden thresholds. While the two DSAs share the same underlying assumptions on the baseline macroeconomic assumptions and debt data, differences in methodology result in different estimates of debt burden indicators.

¹² Significantly higher new borrowing and lower export volumes determined to a large extent the deterioration of the debt-burden ratios. Neither of these factors was determined to be exogenous.

VII. SATISFACTORY FINANCING ASSURANCES FROM THE GAMBIA'S CREDITORS

20. The Gambia has received financing assurances of participation in the Enhanced HIPC Initiative from creditors representing about 81 percent of the NPV of HIPC assistance estimated at the decision point. Most multilateral and Paris Club creditors have confirmed their participation in the HIPC Initiative and the authorities are working toward reaching agreements with all remaining creditors.

VIII. RISKS

21. The main risks affecting this operation are: (i) increased external borrowing in the post-completion point period that could undermine debt sustainability and jeopardize macroeconomic stability, long-term growth and poverty reduction; and (ii) slippages in structural and governance reforms that might discourage private investments and inflows of official resources, particularly with respect to the government's comprehensive sector reform strategy to revitalize the groundnut sector. These risks will be mitigated by continued close monitoring of developments in fiscal outcomes, the balance of payments and structural reforms in the context of annual development policy operations, as well as by a mix of financing consistent with lowering the risk of debt distress.

IX. RECOMMENDATION

22. In view of the above, I recommend that the Executive Directors endorse the staff assessment contained in the completion point document concerning The Gambia's fulfillment of the floating completion point conditions under the Enhanced HIPC Initiative, and that debt relief on debt owed to IDA by The Gambia be provided unconditionally. I further recommend that the Executive Directors approve the revised schedule of IDA debt service reduction in the amount and manner proposed in this document.

Robert B. Zoellick
President

by:
Juan Jose Daboub
Managing Director

Washington, D.C.
November 28, 2007

Annex 1
The Gambia
IDA Credits Subject to Debt Service Reduction
under the Enhanced Heavily Indebted Poor Countries Initiative

Credit Project Name	Currency	Balance at December 31, 1999	
		In original currency	In USD equivalent
1871 BATHURST PORT	USD	1,361,106	1,361,106
1872 BATHURST PORT	USD	1,476,000	1,476,000
3330 AGRICULTURAL DEVELOPMENT	USD	882,896	882,896
6020 INFRASTRUCTURE AND TOURISM	USD	3,120,000	3,120,000
6440 RURAL DEVELOPMENT	USD	3,259,500	3,259,500
7920 EDUCATION	USD	4,702,500	4,702,500
8140 RURAL AND URBAN ENTERPRISES	USD	2,565,000	2,565,000
8970 HIGHWAY MAINTENANCE	USD	4,350,000	4,350,000
11870 ENERGY	SDR	1,138,270	1,562,287
12660 SECOND BANJUL PORT	SDR	5,457,500	7,490,473
14430 URBAN MANAGEMENT & DEV	SDR	10,212,585	14,016,875
14760 2ND AGRICULTURAL DEVELOPMENT	SDR	6,241,267	8,566,201
16820 2ND HIGHWAY MAINTENANCE	SDR	5,089,112	6,984,857
17240 WATER & ELECTRICITY	SDR	5,978,176	8,205,107
17300 STRUCTURAL ADJUSTMENT CREDIT	SDR	4,171,000	5,724,739
17600 NATIONAL HEALTH DEV.	SDR	4,422,156	6,069,454
19750 ENTERPRISE DEVELOPMENT	SDR	2,155,196	2,958,028
20320 2ND STRUCTURAL ADJUSTMENT	SDR	17,721,000	24,322,250
21410 WOMEN IN DEVELOPMENT	SDR	4,973,894	6,826,719
21420 SECOND EDUCATION SECTOR	SDR	10,911,413	14,976,023
24530 AGRICULTURAL SERVICES	SDR	8,799,642	12,077,597
25540 PUBLIC WORKS & CAPACITY BLDG	SDR	7,898,847	10,841,247
26020 CAPACITY BLDG FOR ENVIRONMENT	SDR	1,569,962	2,154,789
30540 HEALTH, POPULATION & NUTRITION	SDR	1,603,720	2,201,122
31280 THIRD EDUCATION SECTOR	SDR	1,198,315	1,644,699
31760 POVERTY ALLEVIATION & CAP BLDG	SDR	1,034,427	1,419,761
A0220 STRUCTURAL ADJUSTMENT CREDIT	SDR	9,457,000	12,979,827
	TOTAL		172,739,057

Source: World Bank, Loan Accounting Department

Annex 2
The Gambia
Schedule of Debt Service Reduction
under the Enhanced Heavily Indebted Poor Countries Initiative, Calendar Year
As Approved at the Decision Point

Calendar Year	Amount to be reduced (In thousands of U.S. dollars)
TOTAL	31,809
2001	1,927
2002	1,966
2003	2,117
2004	2,355
2005	2,461
2006	2,593
2007	2,845
2008	2,854
2009	3,016
2010	3,229
2011	3,317
2012	3,130

Source: World Bank, Loan Accounting Department and staff estimates.

Annex 3
The Gambia
Revised Schedule of Debt Service Reduction
under the Enhanced Heavily Indebted Poor Countries Initiative, Calendar Year

Calendar Year	Amount to be reduced (In thousands of U.S. dollars)
TOTAL	35,929
2001	1,927
2002	1,966
2003	2,117
2004	2,355
2005	717
2006	-
2007	-
2008	2,854
2009	3,016
2010	3,229
2011	3,317
2012	3,296
2013	3,395
2014	3,503
2015	3,479
2016	758
2017	-
2018	-
2019	-
2020	-

Source: World Bank, Loan Accounting Department and staff estimates.