CLASSIFICATION

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

1. PAAD Number 635-0233	
2. Country The Gambia	
3. Category Cash Transfer	
4. Date February , 1990	
5. To Walter Bollinger Acting Assistant Administrative for Africa	6. OYB Change Number N/A
7. From AID Representative, OAR/Banjul	8. OYB Increase NONE To be taken from: N/A
9. Approval Requested for Commitment of $ 5,000,000.00	10. Appropriation Budget Plan Code
11. Type Funding ☐ Loan ☒ Grant 12. Local Currency Arrangement ☐ Informal ☐ Formal ☒ None	13. Estimated Delivery Period Nov. 1990 - Sept. 1992 14. Transaction Eligibility Date Upon Authorization

15. Commodities Financed

None.

16. Permitted Source		17. Estimated Source	
U.S. only		U.S.	
Limited F.W.		Industrialized Countries	
Free World		Local	$5,000,000
Cash	$5,000,000	Other	

18. Summary Description

Program Overview:

The Financial Sector Restructuring Program disbursements are timed in such a way as to allow the Government of The Gambia (GOTG) to progressively implement a financial sector policy reform program. Under this program, the GOTG will: (1) eliminate credit ceilings and implement a policy of controlling the availability of money and credit through control of the monetary base; (2) improve efficiency of the financial system by improving bank supervision, regulations affecting the performance of banks, and debt recovery procedures; and (3) privatize The Gambia Commercial and Development Bank (GCDB). Disbursements under the program will take place in three tranches over a period from November 1990 to September 1992. In order to satisfy Section 592(b) of the FY'90 Foreign Operations, Export Financing, and Related Programs Appropriations Act which requires the placing of the dollar disbursements in a separate account, each tranche shall be placed in a separate account owned by the GOTG in the Federal Reserve Bank of New York or in a bank to be mutually agreed upon by OAR/Banjul and the GOTG and used to pay external debt.

19. Clearances	Date	20. Action
REG/DP		☐ APPROVED ☐ DISAPPROVED
REG/GC		
AA/PPC		
M/FM		Authorized Signature / Date
SER/COM		
AA/PRE		Title

AID 1120-1 (5-82) CLASSIFICATION

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A = Add, C = Change, D = Delete

Amendment Number

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: THE GAMBIA

3. PROJECT NUMBER: 635-0234

4. BUREAU/OFFICE: AFRICA [06]

5. PROJECT TITLE (maximum 40 characters): FINANCIAL SECTOR RESTRUCTURING SUPPORT

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 12 DD 31 YY 92

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 90 B. Quarter 2 C. Final FY 90

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE		FIRST FY: B. FX	C. L/C	D. Total	LIFE OF PROJECT: E. FX	F. L/C	G. Total
AID Appropriated Total		1,500		1,500	1,500		1,500
(Grant)		( )	( )	( )	( )	( )	( )
(Loan)		( )	( )	( )	( )	( )	( )
Other U.S.	1.						
	2.						
Host Country							
Other Donor(s)							
TOTALS		1,500		1,500	1,500		1,500

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) DFA	910	930		-	-	1,500		1,500	
(2)									
(3)									
(4)									
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 891

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To provide technical assistance complementary to The Gambia's financial sector reform efforts inorder to contribute to the overall purpose of improving the efficiency of financial intermediation in promoting savings and investment and in allocating savings to their most productive uses.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM 12 YY 92

15. SOURCE/ORIGIN OF GOODS AND SERVICES

☐ 000 ☐ 941 ☐ Local ☒ Other (Specify) 935

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

17. APPROVED BY

Signature

Title

Date Signed MM DD YY

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

AID 1330-4 (8-79)

FINANCIAL SECTOR RESTRUCTURING PROGRAM

PAAD

TABLE OF CONTENTS

b

ANNEXES

ii

I. EXECUTIVE SUMMARY

A. RECOMMENDATION

OAR/Banjul recommends authorization of a Development Fund for Africa Grant of $6.5 million over three years from the African Economic Policy Reform Program (AEPRP) earmark. Of the total amount obligated, $5.0 million will be a sector program grant (635-0233), and $1.5 million will be for associated technical assistance (635-0234), including: consultancies, training, and equipment to the Central Bank, for the purpose of improving bank supervision, and to the Gambia Commercial and Development Bank, for the purpose of preparing the bank for privatization; studies of the financial system; and program implementation, monitoring, and evaluation. The $5.0 million sector grant will be disbursed in three tranches over FY's 1990, 1991, and 1992. There will be no local currency generated by the program. A separate trust fund agreement is being negotiated and it is expected that provision for funding will be included in the Program Agreement.

B. BACKGROUND

In 1975 The Government of the Gambia (GOTG) began a ten year statist program to promote economic growth. A major component of the program was the establishment of a number of parastatals in various economic sectors. Monetary policy, which up to that point had been very conservative, was then directed to provide whatever credit was needed to finance the ambitious program.

Most of the credit for parastatal expansion and for social objectives was channeled through the Gambia Commercial and Development Bank (GCDB), a state-owned enterprise. The bank, established in 1972, rapidly became the major commercial bank in the country. Since its deposit base was so small, the Central Bank had to lend funds to the GCDB to finance the expansionary activities. Up to 1986 borrowings from the Central Bank exceeded GCDB's deposit base. Instead of mobilizing domestic resources, the GOTG relied on Central Bank paper transactions. Unfortunately for the GCDB, many of the loans extended at Government direction were not repaid. Even though the GOTG absorbed many of the losses on the bad loans by making good on them, GCDB's liabilities still exceed its assets.

The borrowing of funds by the GCDB from the Central Bank expanded the monetary base and permitted an explosive growth in credit creation. From 1975 through 1983, domestic credit increased at an average annual rate of 50 percent! Many of the bad loans extended by the GCDB ended up as deposits in the two private banks operating in The Gambia. Standard Charter Bank, the largest of the two, is very profitable and in 1988 its after-tax profits as a percentage of its equity and reserve account were 73 percent. Banque Internationale Pour le Commerce et L Industrie (BICI) is also profitable. Its after tax profits were 40 percent in 1988.

In 1982 the GOTG signed a Stand-by Arrangement with the IMF. One of the conditions was that credit controls would be used to prevent further large increases in credit. However, the IMF targets were not met and by 1985 The Gambian economy was in dire straits. As stated by the Minister of Finance in June 1989, "By mid-1985, the economy was on the verge of collapse. The supply of essential commodities such as rice and petroleum was irregular, our foreign debt was not being serviced, the Budget was massively out of balance, inflation was accelerating, and business confidence had evaporated."

The GOTG designed an Economic Recovery Program (ERP) which began in late 1985. The principle components included: floating the exchange rate, removal of interest rate controls, retrenchment of civil servants, reduction in budgetary deficits, enforcement of monetary controls, elimination of external arrears (to be achieved in June 1990), and privatization of several state-owned enterprises. Although tremendous progress was made in stabilizing and restructuring the economy, problems remain in the financial sector.

The existence of credit controls reduces the incentive for banks to accept new deposits if they are at their credit ceiling. It would be unprofitable for a bank to pay interest on new deposits if it can not lend the money. In addition, credit controls make it difficult for new borrowers to obtain funds as banks prefer to lend to established customers. The credit controls can not be eliminated abruptly because the two private banks have large holdings of excess reserves which would permit them to expand their loans greatly and create inflationary pressures. The Central Bank has increased reserve requirements on demand deposits from 6 percent in 1984 to 24 percent in 1987, a level which still exists today. Increases in reserve requirements hurt the profitability of a bank as reserves are non interest earning assets. Further increases in reserve requirements would not be desirable. In addition GCDB's current financial position is tenuous at best and this is the major obstacle to switching immediately to an alternative preferred method for Central Bank control of the availability of money and credit, because the switch would mean GCDB would have to reduce its outstanding loans.

Many of the loan defaults to the GCDB were associated with loans to the Gambia Cooperative Union (GCU). The GCU could not repay the loans because it had lent the funds to farmers and farmers often did not repay (or according to some farmers they did repay but unscrupulous agents of GCU did not record the payments). In any case, the GOTG stepped in several times and repaid GCU's loans as well as those of a number of other borrowers. However, there were many remaining debts to the GCDB that never were repaid. At the urging of the World Bank, the GCDB began a restructuring exercise in 1988. There are new managers and lending practices in place. The bank is currently operating profitably although it is deficient in meeting several statutory requirements. As long as the bank remains under Government ownership and direct control, there will always be a threat that the bank will revert to old practices.

Other problems relating to the financial sector include: inadequate bank supervision: inconsistencies in the various laws regulating the financial sector: inappropriate tax policies as they affect decisions to save, borrow or invest; inadequate accounting and disclosure requirements; problems in debt recovery procedures; and lack of availability of credit for term loans or for the rural sector.

C. PROGRAM SUMMARY

In order to address many of the problems affecting the financial sector, OAR/Banjul proposes a Non-Project Assistance grant to the GOTG to assist in undertaking the needed reforms. The particular reforms expected from the program and their impact are the following:

1. Credit ceilings will be eliminated and the Central Bank will control the availability of money and credit by controlling the monetary base. Since GCDB's current financial position is inadequate and existing economic conditions would make it detrimental to economic activity to move directly from one control mechanism to the other, the proposed change will involve a temporary shift in Central Bank policy. The Central Bank will temporarily change from a system of administratively allocating increases in bank credit ceilings to a system where increases in ceilings will be tied to increases in a bank's deposit base. For example, if one bank accounts for 30% of the total increase in bank deposits during a quarter then it would be allocated 30% of the total increase in bank credit allowed for the following quarter. This intermediary period will last from two to three years, long enough for GCDB to be reorganized and refinanced. In addition the economic growth anticipated for that time period, by increasing the demand for money and credit, will help to soak up the existing excess reserves in the system. Continued monetary and fiscal restraint will also be required. Once GCDB is reorganized and financially sound, the Central Bank will eliminate credit ceilings and rely on controlling the monetary base in order to control the availability of money and credit.

The benefits to the economy can be significant. The change to deposit-based lending should encourage savings mobilized by the formal sector and, thereby, increase the overall savings rate in the economy as a whole. The increased availability of savings to banks should help to reduce their lending rates (real rates in The Gambia are currently over 15 percent). In addition, banks should compete more for borrowers, creating some downward pressure on lending rates. In consequence, savings and investment in The Gambia should increase and higher levels of employment and economic growth should benefit all social groups in The Gambia.

2. The GCDB will be privatized as this is the only viable way to prevent credit from being directed for noneconomic objectives. A privatized GCDB will allocate credit to credit worthy borrowers who are willing to pay the highest interest rate for productive investments. Until recently the GCDB was lending to achieve perceived social goals and not economically justifiable ones. Credit was misdirected and economic growth was impeded. Privatizing GCDB will also result in greater competition in the banking sector.

Eliminating Government influence in extending loans will improve the debt collection record of the GCDB. Many nonviable and risky loans, often guaranteed by the Government, will no longer be a drain on Government revenue. Paying off bad loans owed to the GCDB has a high opportunity cost for the country, as measured by the increase in output that would have occurred if revenues had instead been used to finance needed expenditures for economically and socially useful purposes.

[illegible]. Other reforms will result from a more thorough investigation of: bank supervision; laws and regulations affecting the financial sector; debt recovery procedures; rural credit; development banking; and the lack of term lending. Technical assistance teams along with GOTG officials will examine these areas and make recommendations aimed at improving the efficiency of the financial sector, lowering borrowing costs, making more credit available, and creating greater investment, employment and economic growth. The continuing improvement of the financial sector, coupled with assistance to the private sector, will be the objective of an FY 91 program now under design.

D. CONDITIONS AND COVENANTS

Conditions Precedent for First Disbursement Cash Transfer:

In order to qualify for the first disbursement of $2.0 million or the issuance by A.I.D. of documentation pursuant to which the disbursement will be made, the GOTG shall furnish to A.I.D., except as the parties may otherwise agree in writing, in a form and substance satisfactory to A.I.D., the following:

1. Written evidence that the GOTG has developed a plan and begun implementation for the orderly transition from a system where each individual bank's credit ceiling is set administratively to a system where each individual bank's credit ceiling is set on the basis of each bank's deposit base.

2. Written evidence that the GOTG has made a commitment for the comprehensive review of, and preparation of recommendations on, policies, regulations, administrative practices, laws and legislation relating to the financial system, including the following studies:

a) the Central Bank's regulation and supervision of financial institutions: adequacy of staffing, in terms of numbers and training; adequacy of regulatory powers granted the CBG; adequacy of CBG's enforcement of regulatory powers; adequacy of accounting standards used in the country; adequacy of reporting requirements; and consistency of actual financial practices to what the laws and regulations allow;

b) debt recovery procedures, including both laws and courts: property rights and adequacy of collateral assignment and transferability of property rights; enforcement of contracts; bankruptcy laws; access to information by both borrowers and lenders; and adequacy of the court system to handle debt recovery;

c) adequacy and availability of rural credit and term loans;

d) development banking: role; subsidization issues; need for providing managerial assistance to borrowers; and alternatives, such as an institution to refinance development loans of commercial banks; and such other elements of the financial system requiring study as the GOTG and A.I.D. may agree in writing.

3. Written evidence that the GOTG has executed a legal review of the GCDB Act, and that it has submitted legislation to the Parliament for amendment of the GCDB Act to provide for the privatization of GCDB.

4. Written evidence that the GOTG has removed the GPMB and the GCU from ownership in the GCDB and that these entities no longer have seats on the GCDB Board of Directors.

Upon satisfaction of the foregoing, OAR/Banjul will immediately request the U.S. Treasury to transfer $2.0 million to a special account at the Federal Reserve Bank of New York or a bank to be mutually agreed upon by A.I.D. and the GOTG.

[redacted]

Conditions Precedent for Second Disbursement of Cash Transfer Funds

In order to qualify for the second disbursement of $1.0 million or the issuance by A.I.D. of documentation pursuant to which the disbursement will be made, the GOTG shall furnish to A.I.D., except as the parties may otherwise agree in writing, in a form and substance satisfactory to A.I.D. the following:

1. Written evidence that the GOTG has reviewed the studies and recommendations carried out for the first tranche, developed an action plan, and begun implementation of the appropriate recommendations.*

2. Written evidence that the Parliament has passed and the President has signed legislation which authorizes the privatization of the GCDB.

Upon satisfaction of the foregoing, OAR/Banjul will immediately request the U.S. Treasury to transfer $1.0 million to a special account at the Federal Reserve Bank of New York or a bank to be mutually agreed upon by OAR/Banjul and GOTG.

Conditions Precedent for Third Disbursement of Cash Transfer Funds

In order to qualify for the third disbursement of $2.0 million or the issuance by A.I.D. of documentation pursuant to which the disbursement will be made, the GOTG shall furnish to A.I.D., except as the parties may otherwise agree in writing, in a form and substance satisfactory to A.I.D. the following:

1. Written evidence that the GOTG has eliminated credit ceilings and begun control of money and credit by controlling the monetary base;**

2. Written evidence that the GOTG has privatized GCDB.

3. Written evidence that the GOTG is continuing appropriate implementation of the recommendations and action plan developed for meeting the first condition precedent for the second disbursement.

Upon satisfaction of the foregoing, OAR/Banjul will immediately request the U.S. Treasury to transfer $2.0 million to a special account at the Federal Reserve Bank of New York or a bank to be mutually agreed upon by OAR/Banjul and GOTG.

---

*The terms of implementation will be detailed in a PIL outlining the steps the GOTG must take to qualify for the second disbursement. An expected recommendation, for example, is that the existing laws governing interest rates and foreign exchange transactions are out of date and inconsistent with current GOTG policy. The PIL would outline the laws which have to be revised.

**The monetary base is defined as currency in circulation plus bank reserves (vault cash plus deposits with The Central Bank).

Not For Public Release

[redacted]

In addition to the conditions listed above the GOTG would agree to the following covenants:

Covenants:

(a) The GOTG agrees to continue its policy that all loans from official government sources, regardless of the source of funding or the institution through which they are made available, will be made at market-determined rates of interest;

(b) The GOTG agrees to continue its policy encouraging the private marketing of fertilizer without preferential treatment of any individual, group, or organization;

(c) The GOTG agrees that the GCDB Board of Directors and the Managing Director will be free to implement any changes in practices or policies at the GCDB which the USAID-funded banking experts recommend in order to improve the efficiency of the GCDB and prepare it for privatization;

(d) The GOTG agrees that it will review the salary structure of the GCDB and that, based on that review, it will implement a new salary and benefits structure which will make GCDB staff salaries and benefits competitive with the salaries and benefits structures of comparable staff in the private sector.

II. BACKGROUND

A. GENERAL

The Republic of The Gambia is a Sahelian country situated on the coast of West Africa at 13 degrees above the Equator. It is the smallest country in continental Africa and it has one of Africa's highest population densities. With a GNP per capita of $ [illegible] (1988) it is also one of the poorest countries in the world. Its area of 11,[illegible] square kilometers, inhabited by some 800,000 people (1989), forms an enclave within Senegal stretching about 350 kilometers up both sides of The Gambia River. The width of the country varies from [illegible] to 48 kilometers, making the river the principal geographic feature.

The economy of The Gambia is predominantly agricultural (35 percent of GDP) with groundnuts the major product and accounting for 70 percent of the country's domestically produced exports (but only 16 percent of total exports). Subsistence crops consist primarily of millet, sorghum, rice and maize. Local production provides about 70 percent of the population's food requirements and about 30,000 tons of rice are imported commercially each year. Industrial activity is quite limited and tourism has emerged as a growing factor in the economy.

The Gambia is heavily dependent on trade, and it has an active commercial sector. All fuel and capital goods, most manufactured items and a significant amount of food must be imported. Because of its position astride the Gambia river and its open trade policy, The Gambia has served as a commercial entrepot for much of the region, importing goods for re-export to Senegal, Mali, Guinea-Bissau and Mauritania. Re-exports account for 75 percent of total exports. Gambia's small size, trade openness and heavy dependence on a single domestically produced export crop gives The Gambia an inherently vulnerable economy, highly sensitive to changes in the terms of trade, to changes in trade relationships with trading partners, and to shortfalls in agricultural production.

During the late 1970s the Gambian economy began to decline because of a combination of internal and external factors. External sources of disruption were the Sahelian drought, the collapse of international groundnut prices, the rise in international real interest rates, the decline in foreign assistance, and escalating petroleum prices. More important, however, were the internal sources of disequilibrium. Large government investments failed to diversify the economy and generate growth. The Government overinvested in urban oriented infrastructure and in productive activities for which The Gambia has no comparative advantage (e.g., cotton and irrigated rice production). To operate and manage this investment program the Government dramatically increased public sector employment: the civil service doubled in size from 1977 to 1981, and more than ten new parastatal corporations were created in the period 1972 to 1981. To finance these investments the Government borrowed heavily, depleting the reserves of the financial system and accumulated debts. Government pricing policies (an over-valued exchange rate, low producer prices, and subsidies on urban rice consumption) increased imports without encouraging exports. Imports also rose dramatically

[redacted]

because of the high import component of urban household expenditures and of the public investment program. Consequently, by 1981 the Government had a chronic fiscal imbalance, the nation had a structural trade deficit, and the economy was in decline.

Although the Government tried to address its macroeconomic problems with IMF assistance between 1981 and 1984, its reform efforts were unsuccessful because they focused on imposing credit and monetary ceilings without addressing the underlying structural disequilibrium. Therefore, the GOTG assembled a Task Force of high level government officials who, with technical assistance from the IBRD and USAID, drafted an action plan for economic realignment. The result of the Task Force's efforts was the Economic Recovery Program (ERP), a comprehensive and courageous program of policy reforms to redress the economy's structural imbalances and to return the economy to a sustainable growth path. The ERP became the official government strategy when the Ministry of Finance and Trade began its implementation. It was presented to the special Donor's Conference at London in September 1985, where it received widespread endorsement and support from the international community, including the IMF, IBRD and USAID. In September 1987 A.I.D. committed $6 million to the Gambian African Economic Policy Reform Program (GAEPRP) to support the ERP. The GAEPRP was evaluated positively in October 1989.

B. THE GAMBIA'S ECONOMIC RECOVERY PROGRAM

Foreign Exchange Market: On January 20, 1986, a flexible exchange rate system based on an interbank market was introduced. The commercial banks soon began to compete aggresively for foreign exchange. As a result, the parallel market in foreign currency, which had thrived since 1982, became moribund, the supply of foreign exchange available through official channels increased and the Dalasi stabilized. The Dalasi, which moved from D3.5 to the US dollar in January 1986 to D7.5 to the US dollar in May 1986, eventually stabilized at around D8.25 to the US dollar in late 1989. The relative stability of the dalasi exchange rate since May 1986 reflects the country's prudent fiscal and monetary policies and the absence of adverse external factors. The flexible exchange rate system is now recognized as one of the Government's most courageous and effective policy reforms.

Agricultural Sector Measures: Significant increases in the production and marketing of groundnuts, rice, and coarse grains were realized as a result of higher official producer prices and more favorable rainfall distribution patterns. Decontrolling retail rice prices has also helped to encourage domestic cereal production by making coarse grains more competitive in price with imported rice. Since June 1985 commercially imported rice is sold at market determined prices that are significantly above wholesale coarse grain prices. The Gambian Government has also privatized the commercial rice trade and opened the fertilizer trade to private entrepreneurs in its efforts to increase the role of the private sector in agriculture.

[redacted]

Other Productive Sectors: Development of tourism and fisheries is being encouraged by divestment of government holdings and improved incentives for private investment through revisions of the Development Act. The Act provides duty waivers and tax credits to firms that either export at least half of their output or generate domestic value added of more than 60 percent.

Public Sector Measures: First, in June 1985 the GOTG froze all public sector wages and salaries, banned any increases for three years, and froze staff levels through 1990. Second, the GOTG began to reduce and reorganize the civil service. Immediate layoffs of daily and temporary laborers (2300 people) and employees in established posts (460 persons) resulted in a 24 percent reduction of civil servants by March 1986. Another 17 percent cut occurred in August 1986 through termination of 750 officials in established posts, layoffs of 340 temporary and daily workers, and the closing out of 750 vacant positions. Third, the number of civil service grades was reduced and a general salary review was made in order to make pay grades and pay commensurate with duties and responsibilities under the restructured civil service system. Finally, in January 1989 wages and salaries for the established posts were raised on average by about 55 percent, the first increase of any measure since 1982. The increase is far short of the 250 percent increase in prices over the same period.

Public Enterprises: The Government instituted a ban on the creation of any new publicly owned enterprises and commenced a program to rationalize and privatize existing parastatal corporations. Performance contracts have been negotiated between the Government and major public enterprises in order to rationalize their relations; and government shares and interests in other state-owned enterprises have already been sold or are being prepared for sale. The IBRD and USAID are providing technical assistance to the GOTG to facilitate this process.

Financial Sector Measures: There are strict controls over domestic liquidity, and interest rates are determined through the market via a semimonthly tender of Treasury bills. Minimum deposit rates and the Central Bank's discount rate are based on the treasury bill rate. Interest rate ceilings on loans and savings deposits have been abolished. Finally, the GOTG has created a Managed Fund to recover some of the government guaranteed debts of the private sector and has eliminated the interlocking arrears which had crippled its financial institutions.

Tax Measures: Income tax reform included reducing the number of income tax brackets, reducing the top income tax rates, simplifying the list of eligible deductions, and taxing income-in-kind. A 10 percent sales tax was introduced in order to raise government revenue while making the tax burden more equitable. Import duties were reduced on items important to the re-export trade and on items necessary for rejuvenation of the transport sector (e.g., bicycles, trucks, buses, vans, and spare parts for autos and trucks). The Customs and Revenue Department was reformed and enforcement improved.

[redacted]

Public Investment Program (PIP): In order to be included in the PIP, projects must: (1) have an adequate feasibility study completed; (2) show an economic rate of return of at least 15 percent; and (3) have recurrent cost implications compatible with future recurrent budgets. Moreover, PIP has been reoriented to focus on maintenance and rehabilitation activities. Under the PIP guidelines, the Government does not engage in investments that might be of potential interest to the private sector. A review of privatization activities will be carried out in a later section of this PAAD.

C. MACROECONOMIC CRITERIA FOR ASSESSING THE NEED AND PROSPECTS FOR FINANCIAL SECTOR REFORM

In summary, the ERP had a great impact on stabilizing the economy and laying the basis for financial sector reform. In the A.I.D. sponsored study, 'The Role of the African Financial Sector in Development,' a number of critera are proposed for assessing the need and prospects for financial sector reform. The criteria relating to the macroeconomic environment will be discussed next and the criteria relating to the financial sector itself will be discussed later in the PAAD.

Inflation: Inflation has been reduced dramatically from 70 percent at the start of the ERP to 8 percent currently. This is a result of following prudent monetary and budgetary policies.

Price Index
(1974=100)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	[illegible]
Index	197.1	210.7	238.2	265.7	321.8	361.6	616.0	753.6	[illegible]	[illegible]
Annual % change	5.1	6.9	13.1	11.5	21.1	12.4	70.4	22.3	10.4	8.0

Note: Index is for end of June each year.

Budget Deficit/Surplus: Equally as dramatic as the decline in inflation, the Government Budget deficit, excluding grants, has been reduced from 22 percent of GDP in FY 1986/87 to under 7 percent in FY 1988/89. A further decline is projected in future years as given by the Policy Framework Paper (PFP) negotiated with the IMF and World Bank covering FY 1989/90 TO FY 1991/92. If donor grants are included in the calculation, the GOTG had an actual surplus in its budget for FY 1988/89. The surplus in that year and that projected for future years under the PFP will be used to build up international reserves.

[redacted]

Government Budget Deficit/Surplus
(In percent of GDP)

	1985/86	1986/87	1987/88	1988/89	1989/90*
Excluding Grants	- 12.8	- 22.0	- 22.0	- 6.8	- 5.2
Including Grants	- 6.0	- 7.1	- 9.4	2.3	3.7

*Projected, excludes exceptional budgetary provision of D111.0 million equivalent to 5.5 percent of GDP.

Source: IMF

Current Account, Balance of Payments: Excluding official transfers, Gambia's current account deficit was reduced by 43 percent since FY 1985/86. The floating of the exchange rate contributed greatly to this improvement. When official transfers are included, Gambia had an actual surplus in its current account for recent years. This surplus permitted Gambia to meet its debt service obligations.

Current Account Deficit/Surplus
(In percent of GDP)

	1985/86	1986/87	1987/88	1988/89	1989/90*
Excluding Official Transfers	- 29.7	- 31.5	- 21.0	- 18.2	- 16.8
Including Official Transfers	- 1.1	- 4.1	- 5.0	2.8	3.1

*Projected.
Source: IMF

Debt Service and Official Reserves: Gambia's debt service requirements are still exceedingly high, almost 50 percent of net exports and travel income for FY 1989/90. This heavy burden will be reduced by almost half in FY 1990/91 and beyond after Gambia pays off all of its external arrears in June 1990. Not only will Gambia have paid off its arrears but it will have built up international reserves from 1.4 million SDRs in FY 1985/86 to a projected 55.2 million SDR's in FY 1990/91. The large build-up of reserves is needed as a buffer stock given the fragile nature of The Gambian economy and the continued large debt service payments coming due.

Debt Service Ratio
(In percent of net exports and travel income)

	1985/86	1986/87	1987/88	1988/89	1989/90*	1990/91*
Including the Fund	25.0	104.3	49.6	49.1	49.0	[illegible]
Excluding the Fund	15.0	71.1	38.0	41.4	42.3	[illegible]

Note: Net exports defined as total exports minus imports used for re-exports.

*Projected
Source: IMF

[redacted]

External Arrears and Official Reserves
(In Million of SDR's)

	1985/86	1986/87	1987/88	1988/89	1989/90*	1990/91*
Arrears	81.3	41.8	32.3	19.3	20.7	0.0
Official Reserves	1.4	10.9	20.4	16.8	27.7	55.2

*Projected
Source: IMF

Per Capita Income: The Gambia has made good progress in increasing per capita GDP under the ERP. Income is growing at an average rate of 5 percent whereas population is growing at over 3 percent. The IMF projects income to grow at 4.5 percent a year for the next several years.

National Income and Population
(Annual percentage Change)

	1985/86	1986/87	1987/88	1988/89	1989/90*
Real GDP	- 0.3	5.4	5.5	4.6	4.5
Population	3.4	3.4	3.4	3.4	3.4

*Projected
Source: IMF, MEPID

Savings and Investment:

Domestic savings have increased in The Gambia since the start of the ERP. This is due in part to the decline in deficit spending by the Government. Higher interest rates also had a positive impact. Using private sector time and savings deposits as a proxy variable for overall private savings, one notes an increase in the propensity to save. This interpretation must be viewed with caution, however, as increases in time and savings deposits may have come at the expense of savings in other forms.

Domestic savings, Time and Savings Accounts
(In percent of GDP)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89*
Domestic Savings	-3.8	-4.6	7.3	4.4	7.0	7.1
Time and Savings Accounts	10.5	12.4	11.6	12.9	14.0	13.8

*Estimated
Source: IMF and Central Bank

Domestic investment in The Gambia shows no trend. There was a significant increase in private investment in FY 1988/89 but it is too early to tell if this is the start of a trend or even if investment will remain at this higher level.

Investment
(in percent of GDP)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89*
Private Investment	5.6	3.0	5.2	5.4	4.4	7.2
Public Investment	11.7	16.2	10.6	14.9	14.1	10.7
Domestic Investment	17.3	19.2	15.8	20.3	18.5	17.9

D. ECONOMIC POLICIES FOR THE 1990s

In his June 1989 budget speech to Parliament, the Minister of Finance reviewed the lessons learned from previous economic policies.

> "Regarding the challenges of the 1990's, I believe that one of the major lessons of the 1980's has been that the Gambian people have shown beyond all doubt that they can meet and overcome any adversity. By mid-1985, the economy was on the verge of collapse. The supply of essential commodities such as rice and petroleum was irregular, our foreign debt was not being serviced, the Budget was massively out of balance, inflation was accelerating, and business confidence had evaporated. But, despite these difficulties, the Government took the measures, and the Gambian people made the adjustments, which were needed to address the country's problems."

Among the lessons learned from the 1980's, the Minister listed the following:

> "In tandem with political freedom, economic operators at all levels must be given the freedom to take economic decisions. (The lesson, in fact, is that Government cannot effectively control micro-level markets).
>
> "The Government does not have a comparative advantage as a business manager.
>
> "A consistent set of incentives must be created to encourage the optimal utilization of all production resources in the economy.
>
> "The pace of economic growth cannot be forced through Government intervention that results in Budget deficits, excessive credit creation, or rapid increases in foreign debt."

In consultation with the International Monetary Fund and the World Bank, the GOTG in August 1989 agreed on a Policy Framework Paper for FY 1989/90 - FY 1991/92. The basic macroeconomic objectives of the 1989/90-1991/92 period are as follows: (i) to achieve an average annual rate of growth of real GDP of about 4.5 percent; (ii) to progressively reduce the rate of inflation to 5.0 percent in 1991/92; (iii) to achieve a substantial reduction in the current account deficit (excluding official grants) from 18.2 percent of GDP in 1988/89 to 13.6 percent of GDP in 1991/92, while ensuring an adequate level of imports; and (iv) to generate overall balance of payments surpluses, averaging about SDR 18 million, which would be consistent with the elimination of all outstanding external payment arrears in 1989/90 and the accumulation of official reserves to the equivalent of 5.1 months of imports by 1991/92. The basic points of the PFP are listed below.

ISSUES	OBJECTIVES AND POLICIES	STRATEGIES AND MEASURES	PHASING AND IMPLEMENTATION
1. <u>External Sector Policies</u>			
a. Exchange rate	To promote efficient resource allocation and diversification of the economy.	Maintain flexible exchange rate system; monitor evolution of interbank market.	Over the ESAF program period 88-'91
b. External borrowing	To reduce debt service burden and improve profile of external public debt.	No contracting or guaranteeing by Government of new external debt on nonconcessional terms 1- to 5- and 1- to 12-year maturity ranges. Limits public sector short-term debt outstanding, excluding trade-related credits.	Over the program period.
c. Relations with external creditors	Continue to improve relations with external creditors with the objective of restoring normal debtor-creditor relations.	Remain current on external obligations and eliminate all remaining external payments arrears	Elimination of all external payments arrears by end-June 1990.
2. <u>Monetary Policy and financial sector reform</u>	To minimize pressures on domestic prices and the exchange rate; to provide positive real returns on financial assets; and to improve efficiency of financial sector intermediation.	Continue prudent credit policies and maintain flexible interest rate policy.	During the program period, continue tender system for treasury bills and offer an adequate supply of treasury bills and government securities, including those of medium-term maturities and smaller denominations.
	To enhance the effectiveness of monetary policy.	Move to a system of indirect liquidity control by targeting the growth of net domestic assets of CBG.	Over the program period.
		Disengage the CBG gradually from commercial banking activities.	Over the program period.
	To promote stability and long-term growth of the financial system.	Implement action program for rehabilitation of the GCDB, prepared on the basis of diagnostic study completed in June 1988.	A new Managing Director to be appointed by end-November 1989. Assessment of GCDB's performance to be completed by end-February 1990.

ISSUES	OBJECTIVES AND POLICIES	STRATEGIES AND MEASURES	PHASING AND IMPLEMENTATION
3. Fiscal policy			
a. Revenue	To improve efficiency in tax administration and enhance revenue collection.	Application of sales tax to fuel purchases by GPTC and GCU.	As of 1989/90 fiscal year.
		Adjustment of the sales tax on international tour packages with effect from the 1990/91 tourist season to 10 percent.	By end-May 1990.
		Minimize revenue leakages from the misclassification of imports as duty-free items.	Over the program period.
		Application of import duties to fuel purchases by GPTC and GUC.	As of 1989/90; for GUC phased implementation over four-year period.
		Adjustment of import duties on selected items.	As of 1989/90 fiscal year.
b. Expenditure	To eliminate current transfers to the public enterprises	Eliminate subsidies to the GPMB.	As of 1989/90 fiscal year.
	To increase the contribution of public investment to development.	Implement three-year rolling public investment program.	Over the program period.
		Adopt public investment program for 1990/91-1992/93.	By end-May 1990.
	To facilitate achievement of expenditure priorities in an efficient and effective manner.	Prepare a medium-term public expenditure program.	Over the program period.
4. Public Sector Management	To improve efficiency in the provision of government services and promote the efficient use of human and financial resources.	Develop and implement a performance-based staff appraisal system.	During 1989/90 fiscal year.
		Exercise wage restraint.	No increases during 1989/90 in personal emoluments.

ISSUES	OBJECTIVES AND POLICIES	STRATEGIES AND MEASURES	PHASING AND IMPLEMENTATION
		No creation of net new posts and restrictions on filling of vacant posts.	Over the program period.
5. Public Enterprise Reform			
a. Rationalization/divesture policy	To reduce the scope of government financial and managerial involvement in commercially oriented ventures.	Offer for purchase by the public all Government-owned shares of the Gambia National Insurance Company, the Dockyard, and the Kotu Mechanical Workshop.	By December 1989.
	To improve the financial position of the GPMB and to streamline its operations.	Close GPMB's subsidiary company in London (GPMC) and offer for sale its office building.	By end-December 1989.
		Offer for sale GPMB's holdings in Citro Products Gambia Limited, GCDB, and NTC.	By end-March 1990.
		Offer for sale GPMB's two rice mills and its cotton ginnery.	By end-March 1990.
b. Performance contracts	To improve efficiency of public enterprises.	Review performance of the GPMB against second-year targets in the performance contract. Sign third-year performance contract.	By February 1990.
		Sign performance contracts GAMTEL, SSHFC, and GPTC.	By December 1989 for GPTC and SSHFC. By February 1990 for GAMTEL.
		Undertake study to determine future role and ownership of the Livestock Marketing Board (LMB).	Study to start by December 1989.

ISSUES	OBJECTIVES AND POLICIES	STRATEGIES AND MEASURES	PHASING AND IMPLEMENTATION
6. <u>Agricultural Policy</u>			
a. Produce and input marketing and prices	To stimulate production and exports and to improve efficiency in produce marketing and input supply.	Maintain liberalized policies with respect to cereals pricing, marketing and trade, and supply and distribution of seeds, fertilizers, and other inputs.	Over the program period.
		Maintain policy of not subsidizing seeds, fertilizers, and other inputs.	Over the program period.
		Increase the role of private sector and allow prices to reflect market conditions.	Over the program period.
		Implement action program for agricultural diversification.	Over the program period.
b. Groundnut pricing	To achieve efficient production.	Allow the GPMB flexibility in determining its own purchase price of groundnuts in line with world market prices and costs.	Over the program period.
c. Groundnut export tax	To promote further gains to farmers and provide additional incentives.	Suspend export tax on groundnuts.	As of 1989/90 fiscal year.
d. Groundnut processing and marketing	To improve efficiency and encourage competition in the operations of the GPMB, GCU, and GRT.	Monitor and adopt remedial actions to ensure adherence by the GPMB to performance contract.	Over the program period.
		Continue implementation of action program for restructuring of the GCU to ensure its financial viability.	Over the program period.

ISSUES	OBJECTIVES AND POLICIES	STRATEGIES AND MEASURES	PHASING AND IMPLEMENTATION
		Prepare and implement medium-term action program for promotion of GPMB's and GCU's operations on commercial basis.	Over the program period.
7. <u>Other Sectoral Policies</u>			
a. Industry	To encourage private investment in industry, especially in export activities.	Prepare a program of administrative action and investment promotion for the full utilization of the Kanifing Industrial Estate, including review of land allocation and tenure, and access to public utilities.	By December 1989.
		Encourage term-lending from banking system.	Over the program period.
b. Fisheries	To stimulate private investment and increase exports, while preserving fishery resources.	Implement fishery resource management program.	Over the program period.
c. Tourism	To promote tourism.	Implement a tourism development strategy, including a program of administrative action to promote the full utilization of tourism development area, including review of land allocation and tenure and access to public utilities.	Over the program period.
d. Health	To improve health care system and control population growth.	Expand the current health care and family planning services in accordance with the public expenditure program.	Over the program period.
e. Education	To expand and enhance the quality of education.	Implement education policy reforms in accordance with the priorities established in the public expenditure program.	Over the program period.
f. Environment	To improve environment in order to sustain long-term economic growth.	Prepare a comprehensive review of environmental issues and action program for environmental improvement.	To be completed by March 1990 and implemented over. the program period.

As part of the Structural Adjustment Credit Program (SAL II) negotiated between the World Bank and the GOTG, the following is a summary of the program as it relates to the GCDB:

ISSUES	OBJECTIVES AND POLICIES	STRATEGIES AND MEASURES	PHASING AND IMPLEMENTATION
c. Restructuring of The Gambia Commercial and Development Bank (GCDB)			
To restore GCDB's financial health, which is crucial to the stability of the financial system and the day-to-day operations of the economy as well as its longer term diversification and growth.	Interim financial restructuring undertaken pending recommendations of a comprehensive diagnostic study. Interim measures included: (i) a ten-fold increase in the GCDB's authorized capital from D5 to D50 million; (ii) the opening of its share capital to prospective foreign institutions and private domestic investors; (iii) conversion of an outstanding IDA credit equivalent to D6.4 million into government equity in the GCDB; (iv) conversion of D35 million of loans and advances from the CBG into a long-term interest-free subordinated loan; (v) establishment of a Managed Fund into which some D73 million of government-guaranteed loans extended by the GCDB have been transferred, for subsequent collection by the GCDB on Government's behalf on a commission basis.	Implement comprehensive action program for rehabilitation of GCDB, prepared on the basis of diagnostic study completed in June 1988. Managerial and operational measures will precede further financial restructuring. Government has already replaced the the GCDB's Board of Directors and a new Managing Director is being recruited.	Further managerial and operational measures will be implemented in line with action program reviewed and agreed with IDA. Credit recovery under the Managed Fund and collection of other non-performing loans will be implemented respecting the schedule for recovery and targets under the action program. Decisions regarding further financial restructuring will await an assessment of the impact of the above measures on the bank's performance. Assessment report will be completed by end-February 1990. Implementation of actions agreed with IDA a CONDITION OF SECOND TRANCHE RELEASE.

E. POLITICAL STABILITY

Politically, The Gambia is one of the few functioning, multi-party democracies in Africa. In the most recent election (March, 1987), five political parties fielded candidates for the 36 member Parliament and three candidates, including the incumbent President Dawda Jawara, vied for the Presidency. All observers agree that the election was conducted in an open and fair atmosphere. The election was widely viewed as a popular referendum on the Government's structural adjustment reform effort which had been underway for [illegible] months at that time. The President was re-elected with 59% of the popular vote and the ruling People's Progressive Party won the majority of Parliamentary seats (32). Democratic principles, free speech, and openness are accepted values in The Gambian Society.

One problem for The Gambia is how to keep good relations with its neighbors while maintaining a favorable tariff and trade structure. Given the growing importance of the re-export trade to the balance of payments situation since 1985, this may be difficult. The recent breakup of the Senegambia Confederation has resulted in Senegal enforcing unusual restrictions on trade between Senegal and The Gambia, and between The Gambia and third countries through Senegal. It is too early to tell if this will be permanent or what effect it will have on the Gambian economy.

F. PRIVATIZATION

The parastatal sector in The Gambia includes: (i) nine wholly-owned Public Enterprises (PEs), primarily in the utilities, transport and communication sectors, and the Gambia Produce Marketing Board (GPMB); (ii) four wholly-owned financial enterprises; (iii) seven mixed enterprises with partial Government ownership and (iv) one quasi-government agricultural marketing institution (GCU). In terms of overall employment, the PEs account for approximately 5,500 workers (20 percent of modern sector employment). The sector is dominated by GPMB, which accounts for approximately 70 percent of domestically produced exports, 50 percent of aggregate PE revenue, and 30 percent of total PE assets. Through the late 1970s and early 1980s, the PE sector experienced increasing losses and illiquidity, with increasing debts to other PEs and to Government.

In 1977, the Government established the National Investment Board (NIB) to act as its regulatory agency for the PE sector and to promote new commercial and industrial ventures. In the context of the Economic Recovery Program, its functions were expanded to include activities related to privatization of public enterprises and the provision of "one-stop" service to investors. The NIB is a full member of the boards of all enterprises in which the government has a stake. For administration purposes, the NIB is under the Office of the President of the Republic of The Gambia.

[redacted]

The GOTG is committed to improving the efficiency of the parastatals still remaining under its control. Performance contracts are in effect for GPMB, GUC, and GPA. These contracts clarify enterprise/Government responsibilities and provide incentives for improved performance. Performance contracts will be drafted for an additional three parastatals in the FY 1989-90 (GPTC, Gamtel, and SSHFC). No subsidies will be provided to any parastatal this fiscal year and parastatals will no longer be required to set uneconomical prices or pursue non-commercial objectives.

The privatization activities accomplished to date are summarized in the table below. As can be seen the GOTG has already divested a number of enterprises, has several currently up for sale, and has stated plans to privatize others, including GPMB and GCDB.

Non-Financial PEs	Government Ownership	Major Activities	Privatization Activities
1. Gambia Utilities Corporation (GUC), 1972.	100	- Utility for water, electricity and sewerage. Operating under perfromance contract with GOTG.	Cooking gas retailing privatized in 1987 by placement with one firm but other firms have entered into competition with it.
2. Gambia Port Authority (GPA) 1972	100	- cargo handling operations, dockyard, and ferry services. Operating under performance contract with GOTG.	Ferry services set up as separate subsidiary to be privatized in 1990. Dockyard to be privatized.
3. Gambia Produce Marketing Board (GPMB), 1973.	100	- monopoly for marketing/export of groundnut products; also imports/distributes rice, fertilizer and farm inputs; includes wholly-owned subsidiary Gambia River Transportation (GRT) for river transportation of farm inputs and groundnuts. Operating under performance contract with GOTG. Has or had holdings in a number of enterprises including GCDB, Old Atlantic Hotel, citro-products, NTC, rice mills and cotton ginnery.	Subsidiary marketing company, GPMC, based in London will be closed down on 30 November 1989. Real estate holdings and construction department have been privatized through private placement. Rice mills and cotton ginnery to be privatized beginning December 1989. Holdings in Citroproducts, GCDB, and NTC will be sold by March 1990. Divestment of decorticating plant and oil mill is planned for [illegible]93-94.
4. National Trading Corporation (NTC) 1974	100	- wholesale and retail of selected commodities in short supply (e.g. cement, pharmaceuticals, building materials); jointly owned by GOTG (42%), GPMB (24%), GCU (10%), SSHFC (15%), and private shareholders (9%).	Public offering of shares owned by the GOTG since July 1988 but only 9% of shares already sold. The offering price is being reevaluated with a view to making them more saleable.
5. Gambia Public Transport Corp. (GPTC), 1976	100	- public bus service; also includes tour operation subsidiary (Gamtours, formally Wing Afric). To be operated under a performance contract with GOTG starting in January 1989.	Gamtours, a subsidiary of GPTC, was privatized through a management buyout.
6. Livestock Marketing Board (LMB), 1978	100	- domestic and export marketing of livestock products.	Study to be undertaken by end of 1989 to determine if it should be privatized.

Non-Financial PEs	Government Ownership	Major Activities	Privatization Activities
Wholly-Owned			
7. Old Atlantic Hotel, 1950	100	- Hotel, was asset of GPMB, recently used for housing Senegalese soldiers.	Privatized through private placement.
8. Citroproducts, 1983'	100	- owned by four PEs: GNIC (16%), SSHFC (13%), GPMB (26%), GCDB (45%)	GPMB's share to be sold by March 1990 and other PE's shares are intended to be offered to the private sector shortly thereafter.
9. Gamtel, 1984	100	- domestic and international telecommunications. To be operated under a performance contract with GOTG starting in April 1990, jointly owned by GOTG (90%) and GNIC (10%).	
10. Kotu Workshop, 1986	100	- Vehicle Repair	To be offered for sale by end of 1989
11. Brikama, 1987, and Pakalinding Ice Plants, 1989	100	- Coldstore - Ice making to support artisanal fishing	Privatized through lease with options to purchase, in 1989.
12. Fish Processing and Marketing Corporation (FPMC), 1988. Reorganized and recapitalized Fish Marketing Corporation (FMC), 1970, a former joint venture with a Japanese Co.	100	- Integrated Fisheries Company	Privatized through sale to private firm with some assets being sold to other private investors.
13. Kanifing Brick Plant 1970s	100	- Red brick making	Privatized through sale to a private firm, 1990.
14. Abuko Feedmill and Hatchery 1980	100	- Chickenfeed and Hatchery	Feedmill sold to one group and hatchery to another, 1990.
15. Atlantic Hotel 1979	100	- Wholly-owned; managed under contract by Copthorne Hotels Ltd.	Leased to International Hotel Chain 1987
16. Nyambai Sawmill	100	- Sawn timber, logs.	Privatized through sale to a private firm.

Non-Financial PEs	Government Ownership	Major Activities	Privatization Activities
Partly-Owned			
1. CFAO, 1910	10	- Supermarket, French Chain	Privatized through sale of shares to public in 1987.
2. Gambia Airways* (1964)	60	- airline ticketing, ground handling; jointly owned with British Caledonia Airways (40%) now British Airways (BA).	
3. African Hotels (Sunwing), 1970	33	- was jointly owned by the Government (33%), Commonwealth Development Corp. (25%) and Vingresor (42%).	All shares, sold including CDC to Vingressor, a private firm, 1990.
4. Seagull Coldstores, 1973	49	- fish processing, freezing and storage; jointly owned with Mankoadze Fisheries (Ghana)	Divestment negotiations ongoing for an employee buyout
5. Banjul Breweries 1977	9	- production of beer and soft drinks for domestic/export sales; jointly owned by two German firms (69%), the Commonwealth Development Corporation (10%), the German Development Company (12%) and the Gambia Government (9%).	Shares offered to public in 1989, but not yet sold.
6. Senegambia Beach Hotel 1981	60	- jointly owned by Governemnt (60%) and Selmer Sande a Norwegian firm (40% each).	Selmer Sande will take over a controlling interest (55%) and GOTG (45%) in 1990.
7. Kombo Beach Hotel, 1982	20	- jointly owned by the Government (20%), Gambian investors (30%), Swedish investors (33%), and Novotel (17%).	Financial restructuring is taking place. When completed a decision will be made on privatization.
8. Gamtan, 1984	40	- processing of hides and skins for export; jointly owned by a PE (Livestock Marketing Board: 40%) and a Belgian firm, (ICV 60%).	

*Note: Gambia Air Shuttle is a privately held company which leases one plane and provides air transport services to Dakar, Las Palmas, Bamako, and Bissau. It should not be confused with Gambia Airways.

Non-Financial PEs	Government Ownership	Major Activities	Privatization Activities
Partly-Owned			
9. Scangambia, 1986	9	- Shrimp farming, jointly owned by the Gov't (9%), Gambian Investors (24%), S.G. Holdings, a Norwegian firm (52%) and others (15%).	Government's share in company is decreasing because of company's sale of more stock to Gambian investors. GOTG intends to divest its shares.

Financial PEs	Government Ownership	Major Activities	Privatization Activities
Wholly-Owned			
1. Gambia Commercial and Development Bank (GCDB) 1972	100	- Commercial banking. GCDB shares are held by the Government (50%), GPMB (28%) and GCU (22%).	To be privatized after restructuring of commercial and development banking functions.
2. Gambia National Insurance Corp. (GNIC), 1979	100	- Provides life, motor, fire and general insurance;	To be privatized by Dec. 1989; enabling act repealed in October 1989.
3. Social Security Housing and Finance Corp. (SSHFC) 1981	100	- Administers the pension fund for PEs and a pension fund for private companies; also finances and administers low-income housing. To be operated under a performance contract with GOTG starting in December 1989.	
4. Agricultural Development Bank, 1981	100	- Specialized credit for agriculture	Ceased operation. Under liquiditation by Central Bank.
5. Postal Savings Bank	100	- Small savers program	
Partly-Owned			
1. Standard Charter Bank 1906	15	- Commercial Banking, British	Privatized through sale of shares to public in 1988. Shares initially offered in 1987.

The GOTG has encountered some problems in privatizing firms. Originally it was planned to offer shares in the companies for sale to the public. In some cases, investors were not forthcoming and a number of possible reasons for a lack of interest have been offered. The reasons include: (1) too high a valuation on the shares; (2) lack of knowledge in managing such an enterprise; (3) an inability to ensure managerial control of the enterprise; and (4) a lack of financing. A number of interesting solutions have been found including a management buyout, direct placement with investors and a possible employee buyout. Based on the progress to date, OAR/Banjul does not doubt the GOTG's stated intention to continue with its privatization program and to increase the degree of competition in markets, some of which are at present virtually monopolized (e.g. commercial banks).

III. THE FINANCIAL SECTOR

The Gambia's financial sector is relatively undeveloped (for background, see Annex D). The number of outlets for savings is restricted and financial institutions have not been effective in mobilizing and intermediating credit. Although a network of informal credit exists in rural areas, the cost of financing agricultural inputs and crop purchase is high and its availability is limited. At the start of the ERP, public sector financial institutions were all in grave difficulties. Their problems arose in part from adverse external circumstances but were mainly due to mismanagement, political interference, and conflicts of interest. In addition the Central Bank had serious problems. It had a large volume of non-performing claims on GCDB and GPMB. Because the debtors were government agencies, these Central Bank assets were claims on the Government. Lending to GCU, through using GCDB as an intermediary, and GPMB were in effect inadvertent open market operations which generated bank reserves. Finally the Central Bank suffered from serious management weaknesses, as a result of which it was unable to deal effectively with the problems that were proliferating throughout the financial system.

A. MONETARY POLICY

Before independence in 1965, The Gambia was a member of the West African Currency Board (WACB). This Board was established in 1912 to serve the five British colonies of Nigeria, Gold Coast (Ghana), Sierra Leone, Cameroon, and The Gambia. Its function was to provide a formal mechanism for exchanging sterling for West African pounds. Its assets were backed 100 percent by sterling, it had no regulatory powers, and it was not authorized to provide finance to its various member governments.

Since Nigeria withdrew from the WACB in 1957, Ghana in 1959, Cameroon in 1962, and Sierra Leone in 1963, the WACB was dissolved. The Gambia in June 1964 established the Gambia Currency Board (GCB). The money supply was tied strictly to the balance of payments (through the level of external reserves) and both the government and the private sector had limited access to credit from the monetary authority. Monetary stability, stable prices, and a sound financial structure were the Board's primary objectives. From 1964 to 1971, annual real GDP grew by 5.4 percent and prices increased annually by an average of 1.9 percent.

In 1971 The Gambia established its Central Bank. The principal reason was to promote economic development through a flexible approach to the availability of money and credit. Also in 1971 the dalasi was introduced and the use of the Gambian pound was discontinued. Initially the GOTG's stated goals were monetary stability and fiscal discipline, but these goals soon came in conflict with the goal of promoting economic development. From 1971 to 1975 annual real GDP growth increased to 9.2 percent but annual inflation also picked up to 6.7 percent.

Apparently the GOTG was not satisfied with the rate of economic growth and thought a more interventionist approach was called for. Gambia's first five-year development plan began in 1975 and was followed by a second five-year plan in 1981. These two plans provided for an ambitious program of new projects and institutions and expanded activities of existing institutions. Most parastatals were established during this period. Monetary policy was directed at providing whatever finance was required for achieving the plans objectives and at providing cheap credit to try to achieve income distribution objectives. Domestic credit increased at an average annual rate of 50 percent from 1975 through 1983' The outcome was a deterioration in the balance of payments, high and rising inflation, increased indebtedness to external creditors, devaluation of the dalasi, and ultimately a retrenchment of the development effort. From 1975 to 1985, annual real GDP growth fell to 2.2 percent and annual inflation accelerated to 12.1 percent.

In June 1985, the GOTG designed the ERP. The macroeconomic results were summarized in the previous section of this PAAD. The specific policy reforms having the greatest impact on the financial sector were: (1) the floating of the foreign exchange rate through the introduction of an interbank market for foreign exchange; (2) the elimination of controls on interest rates; (3) the enforcement of overall credit ceilings for the banking system as a whole, and (4) the establishment and maintenance of fiscal discipline.

B. THE INTERBANK MARKET FOR FOREIGN EXCHANGE

There are three commercial banks licensed to operate in The Gambia and they participate in the interbank market for foreign exchange which became operational January 20, 1986. The CBG conducts the interbank trading session every Friday. At these sessions the three commercial banks and the CBG have a formal opportunity to buy and sell foreign exchange among themselves. Banks are required to offer their foreign exchange holdings in excess of their working balance limits (as prescribed by the Central Bank). However, banks sell most of their foreign exchange holdings to their own customers and to the Central Bank in the days preceeding the formal session. It is estimated by one banker that only about five percent of all foreign exchange transactions are handled at the formal sessions. Because the pound sterling has traditionally been the currency the dalasi was linked to, it is used to express the fixing rate, which is the reference point for all official valuations (i.e. customs duty assessment) until the next trading session. The Dalasi is fixed for administrative purposes to the pound sterling for the ensuing week but the rate still fluctuates on a daily basis both at the banks and for actual government transactions. The rate of exchange is negotiable for each commercial transaction, i.e., it is set by market forces. The value of the Dalasi in terms of currencies other than the pound sterling is based on cross rates in the London interbank market, but takes note of the special features of the local trading circumstances prevailing at the time.

At present in The Gambia a private party can acquire foreign exchange with dalasis: (i) through a commercial bank; (ii) on a secondary (i.e. parallel) market which operates in most instances as a convenience market; or (iii) by purchasing foreign currency from traders associated with the re-export market. The parallel market now appears to operate primarily as a convenience market, given that (i) there are comparatively few bank offices; (ii) most bank offices are not open during the entire business day nor over weekends; and (iii) the tourist hotels tend to pay somewhat less than the going interbank rate. The exchange control act prohibiting the parallel market is not enforced by administrative order. However, enforcement of the act can be restored at the discretion of the Central Bank.

The interbank market operates freely but in a very circumscribed environment. Fiscal and monetary policies have a major influence on the market. Other important legal and regulatory influences on the market are that the commercial banks must sell in the interbank market end-week foreign exchange balances in excess of established working balance limits, and that foreign currency export earnings of state agencies must be repatriated and sold in the market (small foreign exchange working balances may be held abroad by only two parastatals, GPMB and Gamtel).

The flexible exchange rate system has had a major impact on economic performance and has contributed to economic efficiency in all sectors by reducing imbalances between the demand for and supply of foreign exchange, and providing a clear measure of its real scarcity value as a guide to appropriate pricing decisions. Increased costs due to a depreciation of the dalasi are being passed on to consumers in the form of increased prices for gasoline, public utility rates, and bus transport fares. Events which would, hetherto, have adversely affected the availability of foreign exchange will now affect its price. The differential between the interbank and parallel market rates remains insignificant. During the year ending in March 1989, a total of D804.7 million of foreign exchange was traded in the interbank market. The previous year D517.3 million was traded and in the first year of the interbank market only D287 million was traded. The Central Bank was a net buyer over time. It increased its holdings of foreign exchange by D50 million last year compared with an increase of D115 million in the previous year.

C. TREASURY BILL MARKET

Prior to the ERP, interest rates were administratively determined by the Central Bank. In 1984, for example, the savings rate was 8 percent, time deposit rates ranged from 7.5 - 14 percent, lending rates in agriculture were 9-10 percent and in trade 15-18 percent. In September 1985, interest rates were raised by an average of 7 percentage points, and ceilings on commercial bank deposit and lending rates were abolished. In July 1986, a tender system was introduced for treasury bills and since that date many interest rates are tied to fluctuations in the treasury bill rate.

On a biweekly basis, 90 day treasury bills are offered to the public. The minimum purchase was originally D100,000 but it was recently reduced to D5,000 in order to encourage greater participation by small investors. In June 1989, D150 million in treasury bills were outstanding, with commercial banks holding about 70 percent of them. The Central Bank sets the bank rate at two percentage points below the treasury bill rate, the rediscount rate at one percentage point above it, and the minimum rate on savings deposits and three-month time deposits at three percentage points below it. Banks are free to set their final lending rates to clients and the level of their commissions.

In fact the GOTG does not need the funds raised by the issuance of treasury bills. The funds so raised are used to reduce the Government's dependence on borrowings from the Central Bank. As a result, the interest costs associated with the treasury bills have placed an increased burden on the budget. There are three reasons, however, why it makes sense for the GOTG to borrow in this manner. First, a bank's purchase of a treasury bill is outside of the bank's credit ceiling. Without the alternative of buying treasury bills, banks would have no incentive to accept savings or time deposits in excess of what their credit ceiling allows them to lend out. Second, the availability of treasury bills as an option for investors helps to stem capital flight. The virtual absence of exchange controls makes it fairly easy for an individual or institution to invest abroad if they so desire. Third, the issuance of treasury bills, resulting in a reduction of GOTG borrowings from the Central Bank, mops up excess liquidity in the banking system and prevents excess money creation. Borrowing through the issuance of treasury bills has the advantage of not increasing bank reserves and, consequently, less monetary impact.

Some observers consider interest rates to be too high in The Gambia. However, the rates reflect the availability of credit and the demand for it, hence its scarcity value. Since investors have the option of investing abroad, domestic rates must reflect those abroad plus a premium for exchange risk. Given the historical ties to the U.K., the London market, where short-term interest rates are 15 percent, the primary alternative market that investors turn to. Viewed from that perspective, a treasury bill rate in The Gambia of 17.5 percent is not out of line with world markets. The high rate, by encouraging investors to save, soaks up liquidity and acts as a restraint on spending. This helps to curb imports and, consequently, underpins the floating exchange rate system. The rate can only be reduced by reducing government expenditures, increasing government revenue, increasing private savings, or a reduction in parastatal investment. Policies relating to these measures are part of the Policy Framework Paper (PFP) worked out between the GOTG, the World Bank, and the IMF. The PFP was described earlier in this PAAD.

D. FINANCIAL SECTOR CRITERIA FOR ASSESSING THE NEED AND PROSPECTS FOR FINANCIAL SECTOR REFORM

In a previous section of this PAAD, a review of The Gambia's macroeconomic performance was presented as it related to criteria for assessing the need and prospects for financial sector reform. This section reviews the criteria relating to the financial sector itself.

Extent of Public Sector Ownership of the Financial Sector

There are four government owned financial institutions in The Gambia (GCDB, GNIC, SSHFC and Postal Savings Bank), one quasi-government managed institution (GCU), and one which is being liquidated (Agricultural Development Bank). All are described elsewhere in this PAAD.

Public Sector Share of Domestic Credit

Both the Central Bank and commercial banks extend credit to the government, parastatals, and the private sector. The Central Bank intends to withdraw from providing credit to parastatals and the private sector, except for the provision of credit to finance the GPMB's groundnut seasonal purchase. As can be seen in the table below, the Central Bank reduced its overall provision of credit by 60 percent since the beginning of 1985. The Government in particular has paid off almost all of its debt to the Central Bank and public entities have reduced their debt by 38 percent. The GOTG has in fact a net creditor position with the Central Bank since its deposits outweigh its borrowings by D 224 million.

Commercial banks, on the other hand, have increased their overall extension of credit by 40 percent. In particular they increased their holdings of government securities, primarily treasury bills, by 210 percent. This is in response to the credit ceilings imposed on banks and the fact that bank investments in treasury bills are outside of their credit ceilings. Over the time period shown, commercial banks increased their credit to the private sector by 50 percent and to public entities by only 22 percent. Since the start of the ERP, the overall composition of credit in the economy has shifted away from the Government and parastatals and towards the private sector. In March 1985, the private sector accounted for 33 percent of total credit extended by the Central Bank and commercial banks combined, and in June 1989 accounted for 47 percent.

	Central Bank Claims on				Commercial Banks Loans and Investments			

(In thousands of Dalasis)

	Government	Public Entities	Private Sector	Total	Gov't Securities	Public Entities	Private Sector	Total
1985 Mar	87,752	120,794	1,512	210,058	36,460	47,109	146,365	229,934
June	85,353	110,483	1,546	197,382	36,260	53,499	145,126	234,885
Sept	126,253	111,900	1,595	239,748	36,260	51,297	150,010	237,567
Dec	136,688	113,400	1,567	251,655	37,260	51,542	199,212	288,014
1986 Mar	116,188	157,651	1,582	275,421	37,260	66,556	166,587	270,403
June	99,149	136,888	1,597	237,684	39,130	64,826	181,916	285,872
Sept	131,640	95,082	1,639	228,361	39,130	61,241	186,396	286,767
Dec	24,226	109,003	1,683	134,912	57,410	95,788	192,331	345,529
1987 Mar	90,108	174,483	1,736	266,327	69,246	59,698	167,302	296,246
June	114,162	179,996	2,071	296,229	58,350	37,909	172,155	268,414
Sept	98,504	102,483	2,527	203,514	60,400	35,336	180,311	276,047
Dec	88,280	46,856	2,639	137,775	71,780	48,422	184,133	304,335
1988 Mar	93,275	98,113	2,676	194,064	84,650	61,802	186,405	332,857
June	44,989	55,955	2,751	103,695	100,125	45,490	189,868	335,483
Sept	31,380	46,282	2,762	80,424	87,000	48,300	197,250	332,550
Dec	35,607	43,730	2,976	90,304	83,055	61,056	208,521	352,632
1989 Mar	34,298	73,508	4,325	112,131	114,500	55,066	221,763	391,329
June	3,433	75,144	5,540	84,177	113,310	57,402	218,998	389,710

Real Deposit Rates and Real Loan Rates

Since the start of the ERP, real interest rates in The Gambia have been positive. The Government is not intervening in order to either raise or lower interest rates. Some well established firms borrow outside of The Gambia where interest rates are lower but they carry the exchange risk. Investors have the alternative of placing their funds abroad. When they do so, they also carry an exchange rate risk. The structure of nominal interest rates in The Gambia is shown in the table which follows. They should be compared with the current inflation rate of 8 percent and the projected decline to 6.5 over the coming year. Note that the low loan rates of 9 percent refer to old term loans that were made when interest rates were much lower in The Gambia. Current loan rates are at the upper limit shown.

Structure of Interest Rates, 1984 - 1989

(In percent per annum, at end of period)

Commercial Banks	1984	1985	1986	1987	1988	1989
Lending Rates						
Agriculture	9-10	10-27	10-24	9-22	9-22	9-22
Manufacturing	11-16	15-30	11-30	11-28	11-28.5	11-26
Building	9-18	9-27	9-27	11-28	11-28.5	9-26
Trading	15-18	18-27	18-30	9-28	9-28.5	9-26.5
Tourism	11-19	15-27	25-27	9-29	9-29	9-29
Other	11-19	15-27	9	9-29	9-29	9-29
Deposit Rates						
Short-Term Deposit Account	6-12.0	6.12	12-15	12-13	9.5-10.5	9.5-10.5
Savings Bank A/C	7-10-5	15	18	15	12.5-15	12.5
Time Deposits						
Three Months	7.5-10.5	15-15.5	18	15	12.5-15	12.5
Six months	9-12.5	15-16	18-19	15-15.5	12.5-13.5	12.5-13.5
Nine months	10-13	15-16.5	18-19.5	16	13.5-14.5	13.5-15.5
Twelve Months	13.5-14.5	17	19	16-17	13.5-19	13.5-15.5
Post Office Savings Bank						
Savings Deposits	8	8	15	15	12.5-15	12.5-15
Government						
Treasury Bills	8	15	19	20	17	17
Central Bank						
Discount Rate on Commercial Paper	9.5	16	20	21	18	15
Crop advances	8	13	17	18	15	15
Non-Seasonal Advances	10	13	17	18	15	15
Discount Rate on Treasury Bills	8.5	16	20	21	18	15
GPMB	6	13	17	18	15	15

Individual Bank Credit Ceilings

The overall credit ceiling for the banking system is set in consultation with the IMF as part of the ceiling on domestic credit expansion. Individual bank credit ceilings are set administratively by the Central Bank.

Sectoral Credit Control

There are no sectoral (e.g., agriculture, trade, or industry) credit controls imposed on commercial banks in The Gambia at the present time. Within the overall credit ceiling, however, there are separate ceilings for the Government, parastatals, and the private sector. As was seen in a previous section, the ceilings have not prevented the private sector from increasing its share of overall credit.

Quality of Commercial Bank Management

Given the high profitability of BICI and SCB, one must assume that they have adequate management capability. However, for some time, GCDB has been a troubled bank. Some of its problems were due to mismanagement but many arose from responding to pressure to extend loans for social and political purposes rather than commercially justifiable purposes.

Quality of Central Bank Controls

Bank Supervision: Bank supervision by the Central Bank has been inadequate. The Central Bank did not take steps to stop violations of regulations by the GCDB. In fact the Central Bank made reserves available to GCDB so that they could continue making new loans. Part of the reason had to do with the GCDB responding to political pressure which resulted in problem loans. Another part, however, is due to a lack of an established regulatory system and inadequately trained examiners.

Central Bank Independence of Government: The Minister of Finance plays an important role in setting Central Bank policy (see Annex D). Consequently, the Central Bank is not independent of the Government. However, there is a debate among monetary experts on whether the Central Bank should be independent. One view is that it is better to have an elected government control both fiscal and monetary policy so that if improper discipline is exercised, voters will have a clear view as to where the fault lies. The opposing view is that the monetary authorities should be completely independent of political influence.

Tools of Monetary Policy: These were discussed in the section above discussing credit controls.

Progress on Financia[redacted] This will be discussed in the next section of the PAAD.

E. PROBLEMS, SOLUTIONS, AND REMAINING CONSTRAINTS

Policy discussions regarding financial sector reforms usually focus attention on the need for economic stability as a necessary component of an overall program. In The Gambia, the ERP is more than four years old and major reforms have already been accomplished affecting macroeconomic and financial sector conditions. As discussed earlier in this PAAD, The Gambia has established a fluctuating foreign exchange rate system, instituted fiscal and monetary discipline, freed interest rates from administrative controls, eliminated price controls, and begun a process of privatizing parastatals. What follows will be a review of other problems affecting the performance of financial institutions, solutions instituted to correct the problems, and remaining constraints some of which will be targeted by the FSR program.

Gambia Produce Marketing Board: Although GPMB is not a financial institution, its role in the groundnut sector has an important impact on commercial banks. The company is a state owned enterprise and has monopoly rights to the legal export of groundnuts and groundnut oil. In most seasons a significant portion of The Gambia's groundnut harvest is sold in Senegal where the prices available to farmers are usually higher than GPMB's. In past years, GPMB set the producer price that GCU and licensed traders were required to pay to farmers and then paid a fixed allowance per MT to GCU and licensed traders to cover their costs of collecting groundnuts and a variable allowance per MT and kilometer for transport costs. Formerly, GCU received a higher allowance than licensed private traders but that practice was stopped in conjunction with meeting a condition of OAR/Banjul's AEPRP. In the past, only licensed traders and the Gambia Cooperative Union (GCU) had the right to buy groundnuts from farmers and sell them to GPMB. Traders and GCU complained that the allowance paid to them was never enough to cover their costs and leave a profit. Most licensed traders left the business.

In a major reform for the 1989/90 season, GPMB will no longer set the producer price and pay allowances to GCU and traders. Instead it will set the same depot price for the entire season at its ten collection points spread across the country. Anyone, including farmers, are now allowed to sell groundnuts to the depot. The only requirement is that at least 5 MT must be sold. Traders and GCU will set their own prices they pay to farmers based on an assessment of their costs of conducting business. The expected outcome of the new program is that more competition in buying farmers output will increase efficiencies of groundnut collection and result in higher farm gate prices. In addition the GOTG has eliminated the export tax on groundnuts and this benefit should be passed on to producers in the form of a higher price. GPMB is required to improve its efficiency as well, under its Performance Contract, and this benefit is also expected to be passed on to farmers in the form of a higher producer price. Finally, the GOTG is committed to privatizing GPMB and ending its monopoly within the next few years.

GPMB s impact on the financial sector is related to its borrowings for financing groundnut purchases. Because of this huge credit demand, GPMB borrows directly from the Central Bank. For the 1989/90 season, GPMB has a D73 million line of credit at an interest rate of 15 percent. Recently the GOTG paid off D55.5 million of GPMB's debt to the Central Bank incurred in previous years. GPMB was unable to pay the debt itself because of bad debt and operating losses. Part of the reason for its losses is that in the 1986 and 1987 groundnut seasons the GOTG, at IMF insistence, required GPMB to pay high producer prices to farmers, in some cases above world market prices. This, coupled with inefficiencies and bad debts (GCU), resulted in losses. For the 1989/90 season, GPMB will receive no subsidies from the Government. The firm is expected to operate on a commercial basis. The elimination of D55.5 million in debt will help lower GPMB s cost of operations since this will reduce its interest payments. GPMB's adherence to its Performance Contract with Government should result in efficiency improvements. GPMB is required to sell off its subsidiary firms and unnecessary assets. This will increase its financial resources and allow management to concentrate on its major activity, the processing and sale of groundnuts.

Gambia Cooperative Union The GCU plays a major role in extending credit to farmers for purchasing fertilizers, seeds, and farm implements. The co-op is supposed to be an independent organization with its leadership, in the form of a Management Committee, elected by its members. However, in the late 1960s and early 1970s, the misappropriation of co-op funds led to several Commissions of Inquiry. As a result, the Minister of Agriculture appointed a new Management Committee in 1974. It does not appear that any legislative changes were made to give the Minister of Agriculture this power. The Committee was supposed to be a short-term arrangement but it lasted until November 1989. The impact was that regional cooperative societies (PSMUs) were not in control of their own affairs, as the Government-appointed Management Committee hired and fired the managers of the regional societies. In mid November 1989, an election was held and members selected their own Management Committee. There were no changes. Delegates in attendance at the meeting returned the Government appointed committee to their respective posts.

The major source of credit for GCU has been the GCDB but the Co-op has also obtained credit from GPMB. Unfortunately, when the GCU loaned the funds, they were often not repaid. One reason for this poor debtor morality has been political interference. In 1984, for example, some primary societies repaid only one percent of the loans extended to them. GCU policy was that in the ensuing year, those societies would not be eligible to receive new loans. However, GCU was put under considerable pressure by Government to continue lending regardless of past performance. In addition, the GOTG has often written off GCU debt for non-paying members. Members who had repaid their loans soon learned that it was not advantageous to pay off their debt because to do so would eliminate the possibility of the GOTG paying it off for them. In 1989 the GOTG again came to the rescue of GCU and, thereby, the rescue of GPMB and GCDB, by paying off D53 million of GCU's indebtedness to those two organizations. This is expected to be the last bail-out of GCU by Government.

The GCU has undergone a significant reorganization since 1988. There has been a cut back in staff by two-thirds, the imposition of controls in the usage of vehicles and the issuance of gasoline, a sale of assets to raise liquidity, and a revision in its credit program. For the 1988/89 season, GCU lent to only 27 societies compared to 86 societies in the previous year. The World Bank, under SAL II, has been instrumental in this reorganization. The GCU will no longer have recourse to Government for any further financial support. Its access to duty-free fuel was terminated and it received only D4 million in loans from the GCDB for the 1989/90 season compared with D28 million the previous season.

Given the above reforms and the likelihood that GCDB will not lend to GCU, there will be less of an impact from GCU's operations on the financial system. GCU will have to rely on its own funds, raised from the sale of assets, from possible borrowings from GPMB, and from its borrowing from ADP II to meet the credit needs of its members and for purchasing groundnuts for resale to GPMB. A minor issue is the interest rate charged by GCU to members for the purchase of agricultural inputs. Interest rates in The Gambia are supposed to be market determined. However, under the ADP II project, GCU is able to borrow funds at zero interest. In relending them, it received permission from the Central Bank to charge societies a rate equivalent to the minimum deposit rate on commercial bank's savings accounts and the societies relend to farmers for two percent more. The savings rate of 13 percent is much less than a commercial bank's lending rate on loans which is around 25 percent. This gives the GCU a competitive advantage over groundnut traders who must pay market rates on their loans. GCU can use its capability to lend at low rates to pressure farmers to sell their output to GCU. This problem is being discussed currently with the GOTG because it relates to OAR/Banjul's AEPRP for The Gambia.

<u>Gambia Commercial and Development Bank</u>: In 1972 the GOTG established the GCDB with the principal objective of promoting economic development. From the start the GCDB relied heavily on borrowings from the Central Bank to finance its loan portfolio. Before 1986 such borrowings exceeded the total of all its deposits but they have since been reduced to 13 percent of the total. The company's by-laws permit it to engage in development and normal commercial banking operations but in addition allow it to acquire equity positions. Currently GCDB shows on its balance sheet equity investments worth D1.3 million. (Interestingly, the Financial Institutions Act of 1974 states that commercial banks are not allowed to acquire ownership interests.)

GCDB accounts for about 60 percent of total commercial bank loans, 30 percent each of total demand and savings deposits, and 80 percent of total time deposits. An examination of these deposits illustrates how underdeveloped the financial system is in The Gambia. For example, although GCDB accounts for 80 percent of total time deposits, there are only 270 such accounts on the books of GCDB. The lowest value of any one account is greater than D2,500. There are 28 accounts with a minimum value of D500,000 each and, in the aggregate, these account for 80 percent of GCDB's total time deposits. The total number of savings accounts at GCDB is only 12,777 and the number of demand deposit accounts is 6,912.

GCDB's major customers include the parastatals and, until recently, it was the major source of funds for GCU. A World Bank financed diagnostic study of the bank in 1988 outlined a number of deficiencies in lending practices: too much lending to a few borrowers; 100 percent financing (no equity requirement on part of borrowers); inadequate loan appraisal procedures, monitoring, and collection efforts; and interest rates too low and not compounded. As a result the top management of the bank was replaced and reforms were instituted. Its current policy is not to lend more than one percent of its assets to any one customer and it will not borrow new funds from the Central Bank for lending.* The bank is currently profitable, its problem

*On June 30, 1986, GCDB's borrowings from the Central Bank were D74.4 million, on June 30, 1988 D33.9 million and on Dec. 31, 1989 D18.9 million.

loans with GCU have been paid off by the GOTG, and it can resist political pressure to make loans to particular institutions, individuals, or groups. However, due to past mismanagement, the equity base of the bank is negative and it is deficient in meeting some statutory requirements. There are still D99 million in problem loans outstanding but GCDB anticipates collecting all but D40 million of these.* Its collections on the remaining D59 million have been rescheduled and debt collection is proceeding as planned.** The bank's reserves for bad debts are D50 million, thus exceeding its best estimate of bad debts by D10 million. The GOTG is committed under its ESAF arrangement with the IMF to inject an additional D20 million into the bank's equity before June 1990. Upon receipt, GCDB will be able to meet all statutory requirements except for the requirement that a bank cannot lend in excess of 25 percent of its unimpaired capital to any one borrower for an unsecured loan. A further equity injection of D10 million will still be needed. This estimate is based on the assumption that loan recovery on the D59 million continues as planned and that the current conservative loan policy is maintained. In this regard, current management is looking forward to the support expected from the four long-term technical advisors to be placed at the bank (three funded by OAR/BANJUL under the Economic Policy Reform Support project). The GCDB balance sheet as of December 31, 1989, after the GOTG had paid off GCU's debts of D48 million, is shown below.

----

*There was talk of establishing a special loan collection tribunal to deal exclusively with the settling of all GCDB claims against its delinquent loan customers. The purpose of the tribunal would have been to speed up the process of debt collection. However, on investigation it was found that each losing defendant would have the right of appeal in a higher court. It is in the higher court where the bottleneck is and since it was expected that most cases would be appealed, no time would be saved. The plan for a special tribunal was dropped and GCDB is pursuing its debt cases normally.

**GCDB has implemented a plan and schedule for the collection of nonperforming loans. The collection [redacted]ar ending June 30, 1990 is D7.8 million. As of December 31, 1989, D5.2 million had been collected. It is not expected that th[redacted] D59 million will be collected until June 1999.

GCDB Balance Sheet
as of Dec. 31, 1989
(in millions of Dalasis)

Assets			
Cash and deposits	26.2		
Treasury bills	8.2		
Other	7.4		
Net Current Assets			41.8
Commercial Loans & Advances	147.8		
Less Cumulative Provision	(30.3)		
Net Loan & Advances		117.5	
Development and Term Loans	52.1		
Less Cumulative Provision	(20.6)		
Net Development & Term		31.5	
Equity Investments		1.3	
Net Portfolio			150.3
Net Fixed Assets			18.7
Total Assets			210.8
Liabilities and Equity			
Demand, Savings and Time Deposits	146.8		
Other Current Liabilities	17.5		
Central Bank	18.9		
Current Liabilities			183.2
Development Fund	9.0		
Central Bank Subordinated Loan	35.0		
Medium and Long-term borrowings			44.0
Share Capital	13.6		
Reserves and Retained Earnings	-30.0		
Equity			-16.4
Total Liabilities and Equity			210.8

While GCDB is still not financially healthy, the bank has made major changes in management practices. Net profits after taxes for the year ending June 30, 1988 were D283,000, for June 30, 1988 D1.1 million, for June 30, 1989 D2.0 million, and for the six months ending December 31, 1989 D1.6 million. For the three year period covering 1985-1987, cumulative losses were D47 million. Clearly the bank has made major changes in management and operating procedures. If the bank can stay independent of Government in making lending decisions, it can become viable. Once business confidence in the bank returns, it can become more aggressive in competing for the customers of the other two banks. A healthy financial sector requires the presence of many competing banks. If GCDB were to fail, it would undermine confidence in the entire financial system and result in a virtual monopoly position for SCB. A rehabilitated GCDB should be an attractive target for takeover. Over the last two years, two separate foreign investors and three separate domestic investors have expressed interest to the Central Bank in starting a private bank in The Gambia. In addition the World Bank has offered to assist in searching for international banks to take over GCDB's operation. If all else fails, the NIB has indicated that a public offering of GCDB's shares could be made.

Standard Chartered Bank and BICI

Standard Chartered Bank is a very profitable bank operating in The Gambia. In 1987 its after tax profits were 75 percent of its equity and reserve account and in 1988 were 73 percent. The bank is very conservative in its credit policies and earns much of its profits from foreign exchange operations. This is consistent with SCB's world wide operations. The Economist magazine reported on August 19, 1989 that one-half of SCB's world wide profits comes from foreign exchange and treasury operations. In The Gambia, SCB's holdings of treasury bills are about 85 percent of its loans and advances. Its holdings of excess reserves are over 40 percent of its total reserves, indicating it could loan out more but it does not do so because of credit ceilings. Management at the bank estimates that the minimum size of a loan to be cost effective should be at least D50,000.

Outside of providing subsidies or guaranteeing full repayment of loans, there is not much that Government in the short run can do to induce SCB to lend more, particularly in the form of term loans to Gambian entrepreneurs. Continued economic growth, growing business confidence and more competition in the banking system are needed to induce SCB to participate more in business lending.

BICI, a branch of a Senegalese-French bank, is a much smaller bank. It concentrates on financing trade for a few French multi-national firms (e.g., CFAO and Maurel & Prom) and a few other expatriate owned firms (e.g. Chellararms). Autonomy in Gambian operations is limited as all important credit decisions must be referred to the head office in Dakar. BICI does not finance trade in goods that might be re-exported to Senegal because of the fear of undercutting Senegalese firms. However, BICI does carry out extensive currency exchange transactions in CFA currency that results from the re-export trade. The Bank is also profitable and its after tax profits were 40 percent of its equity and reserve account in 1988 and were 24 percent in 1987.

There have been instances where firms have made an application to open a new bank in The Gambia but none have followed through. One would expect that SCB's return on capital of 75 percent would be an attractive inducement. However, one must consider that the market is very small, set up costs are high, and although the relative return on investment for SCB is very high, the absolute return ($1.0 million) is not irresistible.

Central Bank

Credit Controls: At the start of the ERP, banks had large holdings of excess reserves. For example, at the end of December 1985, excess reserves were approximately 39 percent of total reserves. Banks consequently had the resources to expand credit greatly and, thereby, the money supply. To prevent inflationary pressures from developing, the Central Bank, in consultation with the IMF, had agreed to set limits on credit creation. An overall credit ceiling for the system as a whole was the result and each individual bank was allocated a portion. This system discourages banks from accepting deposits if they are at their ceiling level, forcing savers to look for alternatives, like gold or other unproductive assets, or to consume rather than save. Capital accumulation suffers as a consequence. This problem is even more acute when the ceilings are not related to the deposit base but are the result of historical loan volumes, as is the case in The Gambia.* In addition, credit controls make it difficult for new borrowers, even if they have viable projects, to obtain loans. Banks have a preference for dealing with established customers.

*For example, when the overall credit ceiling is increased by 10 percent, each individual bank's ceiling is also increased by 10 percent. This occurs regardless of what has happened to a bank's deposit base. In practice a bank can appeal to the Central Bank and ask for a greater share. The Central Bank can increase one bank's ceiling only by reducing another's, in order to stay within the overall ceiling limits. These administrative changes do occur but they can result in dissension.

A preferred approach to credit ceilings for controlling the availability of money and credit is to control the monetary base.* In this system the Central Bank controls the creation of credit by controlling the creation of bank reserves**. Banks can only lend if they have excess reserves. One way of accumulating excess reserves is to attract deposits. For the system as a whole then, the Central Bank controls the overall availability of reserves and banks compete among themselves for those reserves by attracting deposits. The system is more competitive and, consequently, more efficient. The existence of large excess reserves, (even with high reserve requirements, 24 percent on demand deposits and eight percent on savings and time deposits), problem loans, and excessive reliance of the GCDB on borrowing from the Central Bank, however, prevented the IMF and Central Bank from establishing procedures to control the monetary base. Individual bank credit ceilings were the result.

One of the major objectives of this FSR program will be to move the Central Bank towards controlling the monetary base. Many of the problems listed at the start of the ERP are still in existence but their magnitude has lessened. For example, in some recent months excess reserves for the whole system have been negative rather than positive, indicating that economic growth and strict controls of the monetary base have lessened the problem of excessive reserves. In addition, many of the problem loans have been written off and GCDB's borrowings from the Central Bank have been reduced significantly. To facilitate a move from a system based on credit ceilings to a system based on control of the monetary base, an intermediate step will take place first.

During the intermediate period, overall credit ceilings for the system as a whole will be set as they are currently, that is, in consultation with the International Monetary Fund. In the current system, if the overall ceiling for a quarter is increased by 10 percent, each individual bank's credit ceiling is increased by 10 percent. In the intermediate system, the overall increase in the

*The monetary base is defined as currency in circulation plus bank reserves (vault cash plus deposits with the Central Bank.)

**Banks are required to hold a portion (defined as the required reserve ratio) of their deposits in the form of reserves. Any reserves in excess of required reserves are referred to as excess reserves and it is these excess reserves that a bank can lend out. The Central Bank can control the creation of reserves by varying the size and composition of its asset portfolio.

ceiling will be allocated among the banks based on their ability to increase their deposit base. For example, if during a quarter one bank accounted for 30% of the overall increase in bank deposits, it would receive 30% of the credit expansion set for the following quarter.

The intermediate step is desirable because it will encourage more competition between banks in attracting deposits and because it is not yet possible to move to a system based solely on control of the monetary base. The major holdup is the inadequately funded financial structure of the GCDB. The final step will require the planned capital injection of D20 million by June 1990 and a further D10 million thereafter. In addition the commercial banking component of the GCDB must be separated from the development banking component.

The capital injection of D30 million will permit the GCDB to pay off its short-term borrowings from the Central Bank and to meet all statutory and regulatory requirements. The separation of the GCDB into two separate components will permit the GCDB to allocate its commercial loan portfolio and deposit base to its commercial banking component and its development and term loan portfolio and long-term debt to its development banking component. This financial restructuring will place GCDB's commercial banking component on a par with other commercial banks operating in The Gambia. GCDB has prepared a plan and all legal documents for forming a holding company (the parent organization) and for forming a commercial banking subsidiary and a development banking subisdiary. Implementation of the plan will require the capital injection by the GOTG and the passage of enabling legislation to change the legal status of the GCDB.

The intermediary period is estimated to last from two to three years. The economic growth expected during that time, by increasing the demand for money and credit, will help soak up any existing excess reserves in the system. Continued monetary and fiscal restraint will also be required. Once GCDB is reorganized and financially sound, the Cental Bank will eliminate credit ceilings and rely on controlling the monetary base.

Bank Supervision: The liquidity of financial liabilities, the risks of intermediating intertemporal claims, the relative ease with which money can be misappropriated, and the importance of the financial system to macroeconomic stability all require that financial markets and institutions be more closely regulated and supervised than is the case in other sectors. Clear accounting, auditing and disclosure standards are also necessary for depositor and lender confidence. GCDB is and has been for several years deficient in meeting statutory reserve and liquidity requirements. Nevertheless, it has continued to make new loans. The bank supervision office at the Central Bank has failed to enforce regulations. A complete review of bank supervision procedures is needed and a new system needs to be instituted. Under current examination procedures, the bank examiners do not visit the banks themselves or examine their books. Instead they review reports submitted to them.

Legislative Review: There are anomalies and contradictions in the various pieces of law, legislation, procedure and administrative directives affecting the financial sector. For example, the Moneylenders Act prevents financial institutions from charging an interest rate higher than 15 percent on loans secured by freehold property for the first 2,500 pounds and 12.5 percent for anything over. Actual interest charged in The Gambia far surpasses those limits and the pound is no longer the unit of account. The Financial Institutions Act prohibits banks from making equity investments but the by-laws of GCDB permit it to do so. A review needs to be conducted of existing law and policy relating to financial institutions and markets, and recommendations made for improvements.

To be included in the review would be an examination of taxation as it applies to financial institutions. The diagnostic study of the GCDB points out that banks have a tax liability, based on a turnover tax, even if they are operating at a loss. A USAID-sponsored feasibility study of a stock market for Gambia pointed out the disincentive effects on investment inherent in both the capital gains tax and the high withholding tax on stock dividends. The taxation of interest earned on deposits likewise needs to be reviewed. The Gambia's tax system should encourage savings and investment. Additional issues would include debt collection procedures and title disputes. Moving a debt case through the courts is a time-consuming process because the courts are dealing with too many small claims. A clear and effective legal framework, enforcing the timely, efficient, and impartial settlement of claims and providing for the distribution of assets in the event of bankruptcy, is essential for financial sector development.

One of the biggest challenges facing The Gambia is to develop the role played by nonbank financial intermediaries in the economy. Outside of a few insurance companies and NGOs operating in The Gambia, there is not much activity (see Annex D). The OAR/Banjul financed feasibility study of a stock market for The Gambia recommended that banks begin an over the counter market for qualified publicly owned shares. Supervision, it was recommended, would be by the Central Bank. Whether this is the best way to begin an over the counter market needs further study. Perhaps the NIB, based on a long-term development plan, would be the more appropriate agency to play the role of a Securities and Exchange Commission.

OAR/Banjul is developing a new program for FY 91 initial obligation titled, Financial and Private Sector Development, which will provide follow-on actions to several of the initiatives discussed in this section. For example, it is expected to include a component designed to foster the growth of nonbank financial intermediaries.

Rural Credit and the Informal Financial Sector:

The rural sector's credit needs relate to financing agricultural inputs and implements and to financing the groundnut harvest. In the formal sector, GCU is the only source of credit to farmers. Individual loan demands are so small that it is not cost effective for commercial banks to become involved. GCU's activities are described elsewhere in this PAAD, including Annex D. A more complete description of the informal sector is also contained in that Annex, as well as a description of many of the PVO's and NGO's operating in rural areas.

While the informal sector is the major source of funds for rural credit and its credit mechanisms work, the sector does not adequately service the rural sector's total needs. The major constraints are the limited nature of the market and the small scale of loans. Because trust and personal knowledge of the credit worthiness of a borrower are so important, informal sector lenders limit their activity to their immediate area. Even if a lender has excess funds to lend, borrowers in other areas will not be able to benefit. Furthermore, an individual borrower's need for credit is often greater than an individual lender's capability (e.g., purchasing oxen or farm implements). OAR/Banjul recognizes the importance of the informal sector and has under consideration a number of PVO-based interventions. A major obstacle to be overcome for OAR/Banjul, the GOTG and other donors is how to address the rural sector's credit needs without discouraging the private sector from entering the market. Donor subsidies provided to an institution, such as the GCU, surely make it unprofitable for private firms to compete in the provision of rural credit.

A second and much larger rural credit need is for funds to finance the purchase of groundnuts. As discussed elsewhere, GPMB borrows directly from the Central Bank to finance purchases at its depots. However, the crop must be paid for before it reaches the depot or, in a new development for the current season, farmers must bring their harvest to the depot themselves. The major buyer from farmers in the past has been GCU (accounting for 70-80 percent of GPMB's purchases). GCU used to rely on the GCDB to meet its credit needs (for the 1988/89 harvest it had an overdraft facility of D28 million). Because of GCU's poor loan repayment history, however, the GCDB is reluctant to lend to GCU. Based on GCU pledging adequate collateral, GCDB lent D4.0 million at market interest rates for the 1989/90 harvest. In addition, GCDB borrowed D4.0 million from GPMB.

A situation exists where the major buyer of groundnuts from farmers does not have access to the same level of credit that it did in previous years because of its poor credit history. As an alternative farmers may find it advantageous to deliver their harvest directly to the depot and do without GCU acting as a middleman, something which they were not legally able to do before. Private traders, since they are able to set their own producer price, may take up any slack due to GCU's inability to purchase the harvest. The Senegalese market may continue to prove an attractive outlet to The Gambia's farmers. Finally, a major multi-national has shown interest in acquiring the Gambian crop for British pounds sterling. One of the tasks assigned to the technical assistance teams brought in to examine the financial system under the FSR program will be to recommend ways in which adequate financing can be assured for purchasing the groundnut harvest.

Term Lending and Development Banking:

In The Gambia, development banking, as practiced by the GCDB, meant directed credit at subsidized rates. Funding often came from the World Bank with some Government guarantee. As discussed elsewhere, the result was problem loans with poor repayment and the eventual cessation of GCDB's development banking activities.

The diagnostic study of GCDB recomended that it be split into two components with a holding company in control. The development banking role would be handled by one subsidiary, which would even have a different physical location from the second subsidiary, the commercial bank. Current thinking at GCDB is that development loans would be subject to the same loan criteria as applied to commercial loans but development loans would be for longer periods and would have managerial assistance provided as well. OAR/Banjul has doubts about the efficacy of a development banking subsidiary, particularly if it remains in the public sector. The lending rate on development loans would be higher than for commercial loans because of the higher risk and the higher costs associated with the managerial assistance.

There is a definite need for term loans in The Gambia. One of the tasks for the banking advisors placed with the GCDB will be to examine and make recommendations on how to encourage the banking system to make more term loans available to borrowers. It will also be included as a question for the teams brought in to conduct the review which is a component of this FSR program. Until the advisors are in place at the GCDB and the studies completed, OAR/Banjul will not take a position with respect to whether development lending should be spun off from the GCDB. If GCDB management and the advisers recommend that it can be viable without the bank subsidizing it, then there should be no reason to break up the bank. The decision should be left to the privatized bank. The World Bank, through its Enterprise Development Project, is providing funds to commercial banks, through the Central Bank, for making term loans available to borrowers. (See Annex D for details).

IV. PROGRAM ASSISTANCE STRATEGY

A. PROGRAM OBJECTIVES

The program goal is broad based sustainable growth in per capita income. The program purpose is to improve the efficiency of financial intermediation in promoting savings and investment and in allocating savings to their most productive uses.

B. PROGRAM RATIONALE

With the help of the IMF and the World Bank, the Gambian government has introduced a three year second phase of the ERP (1988/89 - 1991/92), currently summarized in the Policy Framework Paper, which aims for greater economic efficiency through strengthening of key sectors of the economy and further reduction in macroeconomic imbalances. The emphasis is on creation of conditions to promote rapid development of the private sector within an economically efficient policy environment while restructuring the public sector to bring its activities further in line with the resources of the economy.

One of the key objectives of the program is a restructuring of the financial system of The Gambia. The objective of the GOTG financial restructuring program is to put in place a set of financial institutions and markets that will facilitate the efficient allocation of The Gambia's capital resources; improve the set of risk-return combinations available to investors in The Gambia; and, thereby, encourage domestic savings and enhance the net inflow of private foreign capital to The Gambia.

The GOTG has requested the support of OAR/Banjul in implementation of the restructuring exercise which includes: (1) continued improvement in the Central Bank's operations in order to enhance its role in supervising and regulating commercial banks; (2) a review of all legislation pertaining to financial institutions and markets; (3) a review of the legal framework relating to collateral, bankruptcy, and debt collection procedures; (4) a review of the adequacy and availability of rural credit and term loans and (5) reorganization of the GCDB for privatization. OAR/Banjul is prepared to assist the GOTG to achieve these objectives.

AID assistance will lead to policy changes in the allocation of bank credit ceilings, and encourage progress towards reserve control techniques in order to ultimately replace the system of quantitative credit rationing by the Central Bank of The Gambia, while encouraging prudent and efficient regulation and supervision of financial institutions, and privatization of the largest commercial bank in the country.

C. JUSTIFICATION FOR NONPROJECT MODE OF ASSISTANCE

The proposed program is one of performance-based nonproject assistance. Detailed analysis by OAR/Banjul of ongoing GOTG and other donor programs which have led to policy changes indicate that the best results have been achieved through the program mode of assistance. The GOTG has had ample experience during implementation of the ERP. Government legislation, decrees, decisions and actions have been swift and effective in eliminating many poor practices and constraints in the financial sector. The program process was used in support of policies to change the exchange and interest rates and to modify other fiscal and monetary policies. The program process has also been used to support elimination of and reduced GOTG ownership in SOEs and to encourage private sector development, improve incentives in the private sector, and promote competitive marketing of agricultural inputs and produce. In short, programs disbursing on policy grounds work well in The Gambia.

Although technical assistance has been instrumental in the reforms of the CBG, the GCDB, the GCU, and in marketing of inputs and provision of credit, the focus of technical assistance has been to study these institutions, identify the impediments, and make the necessary policy recommendations for GOTG review, approval and implementation. The current stable macroeconomic environment facilitates a quick-disbursement type of program.

The program mode is also chosen for this activity in order to increase the foreign assets of The Gambia. The quick disbursing of foreign exchange (conditioned upon specific policy changes) will allow the GOTG to either continue to build up its convertible reserves while implementing reforms in the financial sector or to pay off external debt. Without adequate foreign exchange to support the floating rate system, The Gambia will lose the momentum gained under the ERP. Furthermore, in order to service its external debts while maintaining an essential level of imports, the GOTG would be forced to draw down the foreign exchange reserves needed for economic stability. This would undermine confidence in the floating exchange rate system.

D. CONFORMITY WITH GOTG POLICY AND STRATEGY

The proposed program fits well with the GOTG strategy and policies for economic growth and reforms set out in the macroeconomic PFP for 1989 - 1991. The GOTG program aims at building its external reserves from $17 million in FY 1988/89 to $55 million in FY 1990/91 and at servicing its external debts.

The A.I.D. funded program supports GOTG monetary and credit policy which, among other targets, aims to mobilize increased domestic financial savings and promote greater efficiency in credit allocation, with a target of at least 20 percent in credit increases to the private sector between 1989-1992. This program will minimize pressure on domestic prices and the exchange rate, provide positive real returns on financial assets, and improve efficiency in financial sector intermediation through prudent regulation and supervision. The proposed A.I.D. program complements the GOTG policy on state owned enterprise reforms which is to rationalize and privatize parastatal enterprises and ban creation of any new publicly owned enterprise.

As part of the SAL II agreement with the World Bank, the GOTG is committed to restructure and recapitalize the GCDB for privatization. The proposed program will support GOTG efforts to develop efficient, truly commercial banking services at the GCDB (separated from its development lending functions) that can compete effectively with the other privately owned banks in The Gambia.

E. CONFORMITY WITH A.I.D. POLICY AND OAR/BANJUL ASSISTANCE STRATEGY

The proposed financial sector assistance fits well within the framework of the DFA Action Plan for FY 1989 - 1991.

The DFA-funded $6.5 million program will support and encourage the GOTG to implement systemic financial sector policy and institutional reforms. Reform of the GCDB is crucial to the stability of the financial system and to the long-term diversification and growth of the economy. The policy changes proposed will reduce the role of the public sector, while contributing to GOTG efforts to liberalize the financial system. (DFA Action Plan Target 1-1). The successful implementation of the proposed program will lead to a reduced GOTG involvement in the production and marketing of goods and services. (DFA Action Plan Target 1-2). The proposed program also follows USAID's policy and strategy guidelines developed for Implementing A.I.D. Privatization Objectives (PD-14) and conforms to USAID policy and strategy guidelines for Financial Markets Development.

Since 1982 OAR/Banjul has directed its assistance in support of economic stabilization and reforms. Recent OAR/Banjul's efforts have focused on The Gambia's Economic Recovery Program as a whole. In 1985 OAR/Banjul provided long-term technical assistance to the Ministry of Finance and Trade under the Economic and Financial Policy Analysis Project (635-0225). The long term advisor and short-term consultants played major and critical roles in helping the MOFT develop and implement its successful Economic Recovery Program. Under the ongoing GAEPRP, the GOTG has adopted market-determined interest policies for agricultural credit, term lending, and development lending implemented by the formal sector financial institutions. Through the PL 480 Title II Section 206 Program, OAR/Banjul has supported: (1) an end to subsidies on urban consumption, (2) open marketing by private enterprise and, (3) increased competition in the groundnut industry. The program has had a positive impact on the agricultural sector while strengthening the macroeconomic policy environment.

The outlines of a financial restructuring program are beginning to take shape under the leadership of the MOFT. The GOTG program will attempt to facilitate the allocation of capital resources and encourage domestic and foreign net savings and investment. Several assistance agencies, including USAID, expect to continue to collaborate with the GOTG in program implementation. A.I.D. collaboration will be within the parameters established by the CDSS for 1991-1995 (approved May 1989). Great emphasis will be placed upon facilitating, encouraging and assisting, "productive private investment in agribusiness, light industry and services as well as in agriculture" in order to "contribute to increased productivity, income and exports." A major USAID program is under design for FY91 obligation to focus upon, "opportunities and strategies for investment, means of improving the investment climate, and the institutional needs of the financial sector."

The program defined in this PAAD focuses on commercial banking and takes several steps which lead up to the FY91 activity. The present activity will provide for a thorough review of the legal, regulatory and administrative milleau under which the financial system operates and through which it must evolve during the life of this program and its successor. The subsequent program will focus on noncommercial banking aspects of the financial sector as well as activities to promote private investment, privatization and trade promotion. The present activity will completely terminate direct parastatal involvement in, and preferential access to, commercial banking - in effect creating a more open, competitive environment for private sector activit[redacted]ed through the subsequent, FY 91 program.

F. RELATIONSHIP TO OTHER DONOR ACTIVITIES

The proposed program complements bilateral and multilateral donor assistance to the financial sector in The Gambia. The major donors have coordinated their efforts to help alleviate The Gambia's serious economic and financial problems. The GAEPRP evaluation team reported that "at the macro level, donor coordination was outstanding".

The IMF and World Bank have taken the lead in assisting the GOTG develop the 1989 Policy Framework Paper which outlines GOTG strategy and objectives for 1989-1991. The UK, EEC, ADB, A.I.D., the UNDP and other donors are assisting The Gambia achieve the objectives outlined in the Policy Framework Paper. In all, the World Bank estimates that SDR 195.5 million will be required to realize the objectives. So long as the GOTG observes the moratorium on contracting or guaranteeing new non-concessional external debt and retires external arrears, it is expected that donors will continue to support The Gambia's adjustment efforts and structural reforms.

Under the World Bank's second SAL, SDR 25 million is committed for 1988/89 - 1989/90 of which the Dutch Government contributed $2.5 million. Under the IMF's enhanced structural adjustment facility (ESAF) SDR 20.52 million in loans will be provided over 1988/89 - 1990/91. The World Bank will fund the position of Managing Director for the GCDB and currently the IMF is providing two central banking experts to the CBG. The IBRD has provided funds to the GCDB and has been concerned with the role it plays in the financial sector. The IMF has also been concerned with GCDB and Central Bank operations in as much as they have contributed to undesirable increases in the money supply, encouraged demand for goods and services in short supply, contributed to GOTG budgetary deficits and generally added inflationary pressures.

The IMF and the World Bank have actively encouraged the GOTG to rehabilitate the GCDB and place its banking operations on a firm commercial basis. The GOTG accepted IMF and World Bank recommendations including a commitment not to instruct the GCDB to make further developmental loans under the GOTG guarantee. The World Bank was also instrumental in the GOTG Action Plan to reduce the scope of the public sector and implement the parastatal divestiture and rationalization strategy. The world Bank financed the diagnostic study of the GCDB and has committed itself to provide technical and managerial assistance for the restructuring and privatization exercise. In addition, under its Private Enterprise Development Project, the World Bank is prepared to provide US $1.5 million for institutional strengthening of GCDB through the development of operational systems and procedures. The revitalized GCDB will be a major participant in the market rate term lending program for the private sector which is part of the $5.6 million World Bank Private Enterprise Development Project. The project involves a line of credit through the formal banking system to finance small and medium-sized enterprises, including women's investment in the private sector. The project also entails human resources development for entrepreneurs, enterprise support agencies and the GCDB in order to assist the bank with its financial and organizational restructuring. The World Bank has also converted IDA credit equivalent to D6.4 million into GOTG equity in the GCDB.

A.I.D.'s ongoing Economic Policy Reform Support project, will finance three banking experts to assist with the operation and reorganization of specific departments within the GCDB. This technical assistance is to help prepare for and assist with privatization.

EEC is providing a grant worth 500,000 Dalasis to GCDB for disbursement to artisanal fishermen. Repayment has been between 60-70 percent. Concurrently, the FAO has set up 38 private fertilizer dealers to compete with the GCU in order to encourage private sector involvement in the functions previously reserved for parastatals, such as GCU for which GCDB loans were directed and to demonstrate to the GOTG the interest that private business people have in input marketing and encourage more involvement of private dealers in this activity.

Dialogue between donors takes place frequently both informally and through formal sessions. Dialogue and resulting collaboration will increase as donors continue to develop complementary programs to The Gambia's Policy Framework Paper.

While complementary to other donor efforts, reforms supported under the proposed A.I.D. program are concerned more with specific financial sector policies and practices that govern the efficient functioning of the various institutions such as the CBG and the GCDB. Indeed the proposed program will help establish the proper sectoral policy framework within which the IBRD and EEC program assistance to the GCDB can proceed more effectively.

V. PROGRAM DESCRIPTION

A. SUMMARY OF POLICY CHANGES

This program will encourage and support three major policy changes and several related policy actions. The first major policy change will involve the CBG taking the steps necessary to link an individual bank's quarterly credit ceiling to its deposit base instead of the current system of administratively determining those ceilings. The second major policy action involves a systematic review of the laws, procedures and regulations that govern the financial system and accepting and implementing the recommendations of the review as national policy. The third major policy reform being encouraged involves the GOTG taking the necessary actions to restructure and privatize the GCDB. This would include removing the parastatal entities GCU and GPMB from ownership of GCDB and from the Board of Directors of GCDB.

1. Policy Change: Linkage of Credit Ceiling to the Deposit Base:

Jointly, the IMF and GOTG have thoroughly examined credit policy, aiming to moderate inflation, generate domestic financial savings and achieve external reserve targets. Under the agreed credit policy, limits have been placed on the net domestic assets of the banking system. The long term objective is to improve efficiency in credit allocation whereby the central bank will develop a system of indirect monetary controls - primarily managed through control of the Central Bank's net domestic assets - instead of through the present system of allocating credit ceilings administratively to individual banks. In the short to medium-term, however, the GOTG would be encouraged to use a more uniform approach, one that is based on an individual bank's ability to attract deposits.

2. Policy Action: Systematic and Authoritative Review and GOTG Follow-through on Recommendations for Implementation

Several impediments have been identified in the financial system that affect its efficiency. The proposed program will support the review of these impediments and identify the needed modernization of regulations in the sector. A review will be made of laws, procedures and regulations that govern financial sector activities including but not limited to:

> Central Bank supervision, debt recovery procedures, adequacy and availability of rural credit and term loans, and development banking.

Funds are provided for technical assistance to conduct studies in these areas.

Program funds would be released after the GOTG develops an action plan and begins implementation of the recommendations that result from the studies.

3. Policy Change: Privatization of GCDB:

The GAEPRP evaluation team reported [redacted] October 1989, that "major institutional problems in GCDB and GC[redacted] the policy reforms in the GAEPRP from having the des[redacted]mpact at the micro level, i.e. increased private sector access to [redacted]dit to finance agricultural inputs and output marketing activity."

The GOTG through its own funds and commitment and the technical assistance from A.I.D. and other donors will revitalize the GCDB, streamline its operations, develop procedures for operations and checks and balances and train its staff. The process will take two years. USAID will closely monitor this process towards privatization. In order for program funds to be released, the GOTG would have to show that it has removed two parastatals (GPMB and GCU) from ownership in the GCDB and that these entities have surrendered their seats on the GCDB Board of Directors. In addition, to assure the eventual privatization of the GCDB, the GOTG would also have to show evidence that Parliament has reviewed the GCDB Act, amended it for privatization and the President of The Gambia has signed such an act to effect privatization. Finally, the bank must be privatized.

B. CONDITIONALITY TO BE FULFILLED AND TIMING SEQUENCE

Under this proposed performance-based program assistance, OAR/Banjul will provide $5.0 million in foreign exchange to the GOTG. An additional $1.5 million will be provided for technical assistance, training, equipment and other costs. The $5.0 million will be provided in three tranches ($2 million, $1 million, and $2 million). Each tranche will be released only after OAR/Banjul has verified that the stipulated financial sector reforms are in place or required policy actions have been taken.

The policy reform measures which comprise the conditions precedent and covenants are as follows:

(1) Standard Conditions:

These are standard conditions for a program grant agreement, and include the legal opinion, specimen signature, designation of authorized representatives, and establishment of the separate account for the $5.0 million in program funds. The technical assistance grant agreement will be subject only to standard project assistance conditions precedent to first disbursement.

(2) <u>Conditions Precedent for First Disbursement of Cash Transfer Funds</u>:

In order to qualify for the first disbursement of $2.0 million or the issuance by A.I.D. of documentation pursuant to which the disbursement will be made, the GOTG shall furnish to A.I.D., except as the parties may otherwise agree in writing, in a form and substance satisfactory to A.I.D. the following:

1. Written evidence that the GOTG has developed a plan and begun implementation for the orderly transition from a system where each individual bank's credit ceiling is set administratively to a system where each individual bank's credit ceiling is set on the basis of each bank's deposit base.

2. Written evidence that the GOTG has made a commitment for the comprehensive review of, and preparation of recommendations on, policies, regulations, administrative practices, laws and legislation relating to the financial system, including the following studies:

a) the Central Bank's regulation and supervision of financial institutions: adequacy of staffing, in terms of numbers and training; adequacy of regulatory powers granted the CBG; adequacy of CBG's enforcement of regulatory powers; adequacy of accounting standards used in the country; adequacy of reporting requirements; and consistency of actual financial practices to what the laws and regulations allow;

b) debt recovery procedures, including both laws and courts: property rights and adequacy of collateral assignment and transferability of property rights; enforcement of contracts; bankruptcy laws; access to information by both borrowers and lenders; and adequacy of the court system to handle debt recovery;

c) adequacy and availability of rural credit and term loans;

d) development banking: role; subsidization issues; need for providing managerial assistance to borrowers; and alternatives, such as an institution to refinance development loans of commercial banks; and such other elements of the financial system requiring study as the GOTG an[redacted]y agree in writing.

3. Written evidence that the GOTG has executed a legal review of the GCDB Act, and that it has submitted legislation to the Parliament for amendment of the GCDB Act to provide for the privatization of GCDB.

4. Written evidence that the GOTG has removed the GPMB and the GCU from ownership in the GCDB and that these entities no longer have seats on the GCDB Board of Directors.

Upon satisfaction of the foregoing, OAR/Banjul will immediately request the U.S. Treasury to transfer $2.0 million to a special account at the Federal Reserve Bank of New York or a bank to be mutually agreed upon by A.I.D. and the GOTG.

(3) <u>Conditions Precedent for Second Disbursement of Cash Transfer Funds</u>

In order to qualify for the second disbursement of $1.0 million or the issuance by A.I.D. of documentation pursuant to which the disbursement will be made, the GOTG shall furnish to A.I.D., except as the parties may otherwise agree in writing, in a form and substance satisfactory to A.I.D. the following:

1. Written evidence that the GOTG has reviewed the studies and recommendations carried out for the first tranche, developed an action plan, and begun implementation of the appropriate recommendations.*

2. Written evidence that the Parliament has passed and the President has signed legislation which authorizes the privatization of the GCDB.

Upon satisfaction of the foregoing, OAR/Banjul will immediately request the U.S. Treasury to transfer $1.0 million to a special account at the Federal Reserve Bank of New York or a bank to be mutually agreed upon by OAR/Banjul and GOTG.

(4) <u>Conditions Precedent for Third Disbursement of Cash Transfer Funds</u>

In order to qualify for the third disbursement of $2.0 million or the issuance by A.I.D. of documentation pursuant to which the disbursement will be made, the GOTG shall furnish to A.I.D., except as the parties may otherwise agree in writing, in a form and substance satisfactory to A.I.D. the following:

---

*The terms of implementation will be detailed in a PIL outlining the steps the GOTG must take to qualify for the second disbursement. An expected recommendation, for example, is that the existing laws governing interest rates and foreign exchange transactions are out of date and inconsistent with current GOTG policy. The PIL would outline the laws which have to be revised.

1. Written evidence that the GOTG has eliminated credit ceilings and begun control of money and credit by controlling the monetary base;*

2. Written evidence that the GOTG has privatized GCDB.

3. Written evidence that the GOTG is continuing appropriate implementation of the recommendations and action plan developed for meeting the first condition precedent for the second disbursement.

Upon satisfaction of the foregoing, OAR/Banjul will immediately request the U.S. Treasury to transfer $2.0 million to a special account at the Federal Reserve Bank of New York or a bank to be mutually agreed upon by OAR/Banjul and GOTG.

In addition to the conditions listed above the GOTG would agree to the following covenants:

(5) Covenants:

1. The GOTG agrees to continue its policy that all loans from official government sources, regardless of the source of funding or the institution through which they are made available, will be made at market-determined rates of interest;

2. The GOTG agrees to continue its policy of encouraging the private marketing of fertilizer without preferential treatment of any individual, group, or organization;

3. The GOTG agrees that the GCDB Board of Directors and the Managing Director will be free to implement any changes in practices or policies at the GCDB which the USAID-funded banking experts recommend in order to improve the efficiency of the GCDB and prepare it for privatization;

4. The GOTG agrees that it will review the salary structure of the GCDB and that, based on that review, it will implement a new salary and benefits structure which will make GCDB staff salaries and benefits competitive with the salaries and benefit structures of comparable staff in the private sector.

*The monetary base is defined as currency in circulation plus bank reserves (vault cash plus deposits with The Central Bank).

VI. IMPLEMENTATION PROCEDURES

A. U.S. DOLLAR TRACKING

U.S. dollars disbursed in response to fulfillment of Conditions Precedents will be deposited to a Special Account at the Federal Reserve Bank of New York or a bank to be mutually agreed upon by OAR/Banjul and GOTG. Only eligible debts will be serviced with funds made available under this agreement. Eligible debts shall mean those debts which are: (1) owed to countries in A.I.D. Geographic Code 899 or to registered financial institutions of those countries (See Annex I); (2) owed to multilateral institutions; and (3) incurred prior to December 31, 1989. Consistent with obligations incurred by the United States of America in agreements worked out in the "Paris Club," the use of U.S. dollars under this program shall be subject to the following priorities. Under this Agreement, servicing of all official debts outstanding to the United States shall take precedence over any other eligible debts. Second priority shall be given to multilateral debts of The Gambia which include, but are not limited to, debts owed to the IMF, the IBRD, the African Development Bank, the Arab Development Bank, the European Economic Community, the West African Clearing House, and the African Development Fund. Third priority shall be given to other bilateral debts such as debts to the members of the Paris or London Clubs which include, but are not limited to, Norway, France, the United Kingdom, the Federal Republic of Germany, the United Arab Emirates, Kuwait, Saudi Arabia, and financial institutions within those and other countries included in A.I.D. Geographic Code 899. Within the preceeding categories, preference shall be placed on the payment of those debts incurred for development purposes.

B. LOCAL CURRENCY PROGRAMMING AND TRACKING

The proposed A.I.D. sector assistance program will generate no local currency. The reforms stemming from the program are mainly ones associated with improving efficiency in the financial sector. No identifiable social groups that would require compensation or assistance will be adversely affected by the program. Consequently OAR/Banjul will not require the generation of local currency in support of the reform program. The GOTG is already constrained in meeting IMF and World Bank recommended fiscal budget targets. Requiring the Government to deposit local currency in a special account would result in inflationary deficit financing. OAR/Banjul is negotiating a trust fund with the GOTG which will be funded from general tax revenues.

C. SOURCE SELECTION INFORMATION

See Annex E.

D. TRAINING PLAN

The Diagnostic Study of the GCDB identified units in the bank where staff capabilities should be strengthened through training. Subsequent discussions with GCDB management during program design confirmed this need. Specifically, there seems to be a need to improve the image of the bank and the attitudes of the staff; especially the supervisors in each of the units, in order to impress upon them the importance of accuracy and efficiency in their work. There is also a need to stress the critical role which courteous service to clients plays in commercial banking. This type of training could be conducted in-country with an experienced bank staff trainer using audio visual equipment such as training films, videos, charts, and skits. Subsequently, some of the more promising staff could be sent to some of the well-run private banks in English-speaking African countries on two weeks attachment for training. The purpose would be to expose them to efficient and courteous banking in an African environment. Other in-country training proposed would be conducted by short-term technical experts either on the job or through group sessions in class. The Management Development Institute of the GOTG (MDI) may be a good source for some trainers and as a location for in-country training. Courses would include:

- Security consciousness in banking;
- What checks and balances one should look for in banking;
- Credit analysis;
- Computerization of banking operations and management information systems;
- Loan recovery;
- Strategic corporate planning;
- Branch banking;
- Management of foreign exchange departments and assets;
- Liability management; and
- Program analysis and auditing.

A number of mid-management staff also need to acquire specializations in some of the fields listed above. Funding is included in the program for such short term (6-8 weeks) training in the U.S. and/or an English-speaking African country. Senior management staff would also benefit from refresher courses and short attachments to well-run banks that perform all the service functions a bank like GCDB could provide. When the review of Central Bank supervision of the financial system is carried out, recommendations will include a training plan for Bank personnel. Funding such training is budgeted for in the program.

Training material and equipment recommended include 10 computers (PCs) VCR, television, journals and other audiovisual aids deemed appropriate by the training expert.

Staff that needs Training	Type and Location of Training
Proposed	
15 Cashiers	In-country training
45 Bank Clerks	In-country training
15 Ledger Keepers	In-country training
20 Accountants	In-country and Third country Training
12 Mid level managers and supervisors	In-country, third country, and U.S. short specialized courses
2 Computer specialists	Specialized courses. Attachment to a U.S. bank for short-term training.
4 Branch managers	In-country; third country and attachment to U.S. Bank
3 Credit Officers	In-country training, Third country training, U.S. for specialized courses if appropriate.
5 Senior Managers	Third country attachments, U.S. Short Courses.

The GOTG will ensure that the GCDB and CBG provide logistics for training including classroom, boarding, storage facilities, per diem and transportation for all in-country training for their respective organizations. Training will be the responsibility of a training officer appointed by each organization. He/she should have some background in human resource development, be capable of developing and implementing an effective training plan, and will be the primary implementor for the training component, receiving all training equipment on behalf of GCDB management and coordinating with the OAR/Banjul program manager and economist to resolve any issues concerning training under this program.

E. IMPLEMENTATION ARRANGEMENTS

(1) GOTG

The Ministry of Finance and Trade is responsible for developing and executing economic policy reforms including the provisions in IMF and IBRD programs outlined in the Policy Framework Paper. The Central Bank is the primary financial sector institution involved in oversight of policy measures under the GOTG Policy Framework Paper. The GCDB is the largest financial institution in The Gambia in terms of number of loans and deposits. All three institutions will be involved in the implementation of the proposed program. The MOFT, however, will have the lead responsibility for the implementation of the program. The Minister of Finance and Trade is ultimately responsible for overall implementation of the program and will approve all policy changes and transactions executed under the program. All activities involving the Central Bank will require the participation and approval of the Governor of the Central Bank. Both the Minister of Finance and the Governor of the Central Bank will be signatories to the Program Grant Agreement.

In addition, the MOFT will identify the appropriate GOTG authorities to be responsible for the following:

(i) furnishing relevant Ministries and technical assistance teams with all required financial sector reports and access to regulations and laws;

(ii) providing U.S. Government officials access to program records, ledgers, and reports concerning A.I.D. funded activities; and

(iii) according the U.S. Government the right to audit the program.

(2) OAR/Banjul

OAR/Banjul will assume primary management responsibility for the program. In view of the limited USDH staff at post a program manager will assist the USDH Economist in this task. This core team of two will manage the day-to-day program activities. The program manager will be the spokesperson for the Mission on all day-to-day program implementation matters. The Program Officer, the Controller and the AID Representative will be consulted frequently on all issues concerning the program. Currently, the Mission has ongoing the Gambia AEPRP (635-0228) with its projectized component (635-0231) as well as the Economic and Financial Policy Analysis Project (635-0225) to implement. The proposed program is designed to place minimal added management burdens on the A.I.D staff. While reform programs elsewhere have proven to be staff intensive, requiring much senior staff level input in the policy dialogue, this has proven to be quite manageable in the case of The Gambia. In fact the AEPRP has been far less burdensome than the PL-480 program. REDSO/WCA will provide legal assistance when required. Other REDSO/WCA technical staff will be requested as appropriate. During their visits progress will be assessed and bottlenecks or outstanding tasks will be identified and the requisite actions taken. REDSO concurrence on program actions will be sought as required under Delegation of Authority 551.

In addition to the joint GOTG and OAR/Banjul responsibilities listed below, OAR/Banjul will: (i) oversee and monitor policy reform measures; (ii) request M/FM of AID/W to transfer the program funds to the designated separate account; and (iii) participate in the Program evaluation.

(3) Joint OAR/Banjul and GOTG Responsibilities

For efficient coordination of program activities and progress, the GOTG and OAR/Banjul will establish a Program Management Committee for this program. It will be composed of a representative from OAR/Banjul, MOFT, CBG and GCDB. From time to time other officials may be included as members when considered necessary. The Representative from MOFT will be the Committee chairperson. The purpose of the Program Management Committee will be to manage, implement and supervise the operations of the program. This will include the following:

(i) ensuring that the terms and conditions of the Grant Agreement are understood, accepted and adhered to by all parties concerned;

(ii) monitoring the implementation of the program policy reform measures;

(iii) ensuring that the implementation plan is operational at each level of program implementation;

(iv) ensuring that reporting requirements for accounts and program activities are in compliance with the GOTG and A.I.D rules and regulations;

(v) resolving program implementation issues quickly to prevent delays and adverse effects on the program;

(vi) ensuring that a final evaluation is conducted;

(vii) documenting the current economic and political context in which the Program is being implemented: If conditions have not been fully met, the Committee should determine to what extent this has resulted from uncontrollable or unpredictable external factors; and

(viii) discussing whether modifications in future disbursement conditions are required.

This Committee also will have responsibility for facilitating and monitoring actions required for meeting the conditions for disbursement including, but not limited to:

(i) providing systematic reports regarding the program's implementation progress, in particular the actions taken and actions pending for each upcoming disbursement condition:

(ii) monitoring short-term effects of reforms on specific government institutions; and

(iii) identifying changes in procedures and operations necessary to enact specific reforms (but not explicitly stated as conditions for disbursement).

(4) Detailed Implementation Plan

The implementation schedule is provided below with the assumption that the program will be authorized by AID/W in February 1990.

Action	Month/Year
Grant Agreement signed	February 1990
Joint Program Committee formed and had first meeting to develop schedules of work.	March 1990
Program manager recruited and begins work.	April 1990
Terms of Reference for short-term technical assistance for studies prepared and reviewed by OAR/Banjul.	June 1990
PIO/Ts for short-term TA for studies issued.	July 1990
PIO/T for TA to GCDB issued	July 1990
Evidence that GPMB and GCU have been removed from ownership in the GCDB and these entities have surrendered their seats on the GCDB Board of Directors.	July 1990
PIO/C for the procurement of equipment for GCDB, CBG, and OAR/Banjul issued.	August 1990
PIO/T for assistance to CBG issued	August 1990

GOTG evidence that a legal review of the GCDB Act executed and submitted to Parliament to amend the GCDB Act for privatization.	August 1990
Detailed training Plan Developed by GCDB and reviewed with OAR/Banjul	August 1990
PIO/Ts for any additional short-term TA issues	September 1990
Candidates selected and PIO/Ps for short term training issued	September 1990
Conditions Precedent for first cash transfer of funds are met and disbursement of cash transfer made within 30 days.	November 1990
Program committee submit report of recommendations and action plan with schedule for implementation to the appropriate ministerial authorities for approval.	January 1991
Evidence that Parliament has passed and the President has signed legislation authorizing privatization of the Commercial unit of the GCDB.	February 1991
Reviews requiring further studies identified (if any)	March 1991
Delivery of computers and training equipment to GCDB and CBG.	March 1991
Evidence that the review body's schedule and action plan has been approved for appropriate implementation	August 1991
Condition Precedent for second cash transfer of funds are met and disbursement of cash transfer made within 30 days.	September 1991
Condition Precedent for third cash transfer of funds are met and disbursement of cash transfer made within 30 days.	September 1992
Terminal and Impact evaluation of the program.	December 1992

Disadvantaged Enterprises

Services procured under the program will adhere to Agency Policies and procedures regarding disadvantaged enterprises.

F. FINANCIAL PLAN

Dollar Disbursement Procedures

The $5.0 million DFA funds to be used in this program will be obligated by USAID in FY 1990, but will be disbursed over three fiscal years FY 1990, 1991 and 1992. The schedule of disbursement is designed to accomodate two needs:

> U.S. Government commitment to provide quick disbursing assistance to strengthen the Gambia's structural reform program; and the DFA requirement to tie disbursement to the achievement of policy reforms. As scheduled and discussed with the GOTG representatives, $3.5 million is allocated to the first year of the program to cover the first tranche cash transfer of $2.0 million and the $1.5 million projectized component. The second year tranche will be $1.0 million and the third $2.0 million. As the conditions precedent to each tranche are met by the GOTG, OAR/Banjul will request that M/FM in AID/W effect a wire transfer of funds into a special account in the name of the GOTG. Currently the GOTG has an account at the Federal Reserve Bank of New York, however a suitable Bank approved by both OAR/Banjul and the GOTG may be substituted. The first disbursement is planned for November 1990. Prior to each disbursement of funds, the GOTG will provide a prioritized listing of debt payments eligible for payment with DFA Dollars for A.I.D. review and approval. Upon disbursement of funds by A.I.D., DFA dollars will be deposited into the separate GOTG Bank Account established for this purpose. Dollars will subsequently finance specific external debt payments of the GOTG previously approved by OAR/Banjul. Once these payments are made, the GOTG will provide evidence to OAR/Banjul that withdrawals were made from the separate account for specific debt payments listed on the approved list and that payments were received by approved creditors.

Summary Cost Estimates and Funding Sources:

(000 DOLLARS)

BUDGET CATEGORY	AID FX	AID LC	GOTG FX	GOTG LC	TOTAL FX	TOTAL LC
A. Budget Support for external account.	5,000	0	0	0	5,000	0
B. Technical Assistance Policy Studies, training, equipment, and other costs.	1,420	0	0	0	1,420	0
C. Evaluations	50				50	
D. Financial Review	30	0	0	0	30	0
TOTALS	6,500	0	0	0	6,500	0

Financial Management:

Projection of Expenditures By Fiscal Year
($000 DOLLARS)

FY	AID	GOTG	TOTAL
90	3.5	0	3.5
91	1.0	0	1.0
92	2.0	0	2.0
TOTALS	6.5	0	6.5

Source and Application of AID Funds:

IMPLEMENTATION ACTIVITY	IMPLEMENTATION METHOD	METHOD OF FINANCING	COST $000
1. Non-Project Cash Transfer: Budget Support for external account	Cash Transfer	Direct Payment	5,000
2. Technical Asst., Policy Studies, training, equipment and other costs	AID Contract	Direct Payment	1,420
3. Financial Review and Evaluations	AID Contract	Direct Payment	80
TOTAL			6.500

Method of Implementation and Financing of TA, Equipment and Training Component

Category	Imp. Method	Financial Method
1. Procurement of Technical Assistance for reviews, studies and training	AID/Direct (PIO/T) and Buy-in (PIO/T)	Direct payment to Contractor by OAR/Banjul, AID/W or REDSO/WCA.
2. Procurement of short-term TA for the GCDB and the CBG	AID/Direct (PIO/T) and Buy-in (PIO/T)	Direct payment to Contractor by OAR/Banjul AID/W or REDSO/WCA.
3. Long and short term training	OAR/Banjul PIO/Ps S&T/AID/WASH.	Direct payment by AID/W

IMPLEMENTATION ACTIVITY	IMPLEMENTATION METHOD	METHOD OF FINANCING	COST $000
4. Short-term in-country training	PIL - GCDB training and OAR/Banjul	Direct Payment by OAR/Banjul.	
5. Contracting of project manager	OAR/Banjul	Direct payment by OAR/Banjul	

Procurement of Equipment

The procurement of computers, training and information equipment will be accomplished through full and open competition. AID/Banjul will be responsible for processing all procurement documentation and follow through.

Local Currency Disbursement Procedures

(Not Applicable)

Recurrent Cost Implications

There will be no direct recurrent costs incurred by the GOTG as a result of this program. There will be minor indirect or overhead staff costs associated with implementing the policy measures agreed to under this program. The Program Committee will be temporary and will be dissolved after GOTG considers and decides upon recommendations.

Financial Review Requirements

Funding for financial review of the program is budgeted under the projectized component of this program.

G. MONITORING AND EVALUATION

1. Program Monitoring

Monitoring of the program will focus mainly on the conditionality governing disbursement and, therefore, on policy changes. The purpose of the monitoring is to verify benchmarks which indicate the achievement of the terms of conditionality and assess indicators of the successful achievements of the program's purpose and goals. OAR/Banjul, in conjunction with the GOTG, will monitor the effectiveness of the reforms implemented and will lead both terminal and impact evaluations. The monitoring will therefore relate to specific benchmarks and actions the GOTG has to take to meet the conditions precedent to disbursement and GOTG adherence to the covenants.

Benchmarks which indicate the achievement of the conditions themselves are implicit and self evident in the conditions themselves. For example, to meet the first tranche The GOTG will provide written evidence that it has developed a plan for the orderly transition from a system where each individual bank's credit ceiling is set administratively to a system where each individual bank's credit ceiling is set on the basis of each bank's deposit base.

In addition, verifiable indicators of achieving program objectives will be monitored. These will include:

(i) commercial banks savings and time deposits;

(ii) domestic savings rate;

(iii) problem loans at banks;

(iv) level and composition of bank credit;

(v) domestic private investment;

(vi) interest rates.

Since OAR/Banjul will closely monitor the program as set out in the implementation plan, a formal evaluation of progress during implementation will not be required because the verification of performance will be done at the time of disbursement of each tranche.

2. Terminal and Impact Evaluation

The purpose of the final evaluation of the program will be to record and assess progress of the policy reform program in order to draw lessons learned for future A.I.D programs, to evaluate the impact it has had on the Gambian's economy, and to identify and assist the GOTG to pursue additional reforms which will improve efficiency and may encourage increased private sector activity. The evaluation will be conducted after the third tranche has been disbursed, which should be not later than December 1992. In addition to assessing impact, the evaluation will also assess: (1) GOTG and OAR/Banjul's ability to fulfill their responsibilities in the implementation of the program; (2) the quality and performance of the short-term technical assistance teams provided under the program, including the quality of their output; (3) the timely procurement of equipment and training; (4) the relationship established with other donors and GOTG officials for future policy dialogue and; (5) the performance of the GOTG in complying with the terms and conditions of the program.

All available documentation prepared for monitoring disbursement will be reviewed and analyzed. In addition the final evaluation will cover the implementation and effectiveness of program policy changes i.e.:

(i) linking credit ceilings to each bank's deposits and its impact on credit conditions in the financial system;

(ii) review plan of action for addressing of the legal, regulatory and procedural framework directly affecting the financial sector;

(iii) impact of the policy reforms initiated by the program on the private sector and progress towards achievement of the program purpose and goal will be closely assessed and recorded.

The evaluation will be conducted by a joint USAID and GOTG team, including an A.I.D. funded contractor experienced in the implementation of financial policy programs, a senior officer from the MOFT, and representatives from AID/W and REDSO/WCA if possible. OAR/Banjul will organize the evaluation team. Copies of the final evaluation report will be sent to AID/W and REDSO/WCA. The program budget includes funding for the evaluation.

VII. FEASIBILITY ANALYSIS

Increases in per capita income are dependent on the accumulation of physical and human capital, and on the efficient use of resources. The efficient use of resources in turn depends on the presence of economic policies and institutions which provide adequate incentives to economic participants. The financial system can play a role in this process by increasing the availability of savings to investors and allocating those savings to their most productive uses so that they can be used to increase the capital stock or the adoption of new technologies. Whether the financial system operates efficiently and equitably will depend on the policies in force. OAR/Banjul's FSR program is designed to remove several of the obstacles constraining financial sector performance. There are basically two components to the FSR program: activities to improve financial intermediation in The Gambia; and activities to enhance the level of effective competition in financial markets and to facilitate the eventual privatization of the commercial banking functions of GCDB. The discussion which follows examines the feasibility of those two components.

A. SOCIAL FEASIBILITY

Financial Intermediation: To the substantial degree that economic growth and development depend on efficient investment, then: people, firms and government must be willing to save and invest; and savings must be efficiently allocated by markets to those who plan to invest in anticipation of the most profitable opportunities. The FSR program will include an examination of financial sector constraints which impede the savings and investment process just described, an evaluation of recommendations to alleviate the constraints, and the implementation of recommendations which fit conditions in The Gambia. Given that most of the constraints to be examined deal primarily with conditions affecting efficiency and not equity, (for example, bank supervision, debt collection procedures, and term loans), their impact on income distribution is likely to be neutral. Certainly individual firms and people may at present be benefiting from inefficiency, so that there are likely to be some losers as a result of reforms, but that is not a sufficient justification for leaving things as they are. The constraint relating to taxation does have equity considerations attached to it. High taxes or double taxation are generating additional revenue for the government. If some taxes were reduced or eliminated, then the loss of revenue might have to be made up. That would be possible without the imposition of new taxes if the reduction or elimination of a tax resulted in accelerated economic growth and a consequent increase in the tax base. When the technical assistance teams look at this issue, they should include in the analysis the economic growth implications of any recommendations and whether other taxes would be needed if a decision is made to reduce or eliminate a tax.

Privatization of GCDB: The FSR program requires the divestment of GCU and GPMB's ownership interest in GCDB and their removal from the bank's Board of Directors. GCU has benefited from lax enforcement of loan procedures at GCDB. It will clearly be affected by the FSR program. However, much of the impact has already been felt since the GOTG has reduced political interference with GCDB's decisions. The FSR program will do a great deal to discourage the problem from resurfacing in the future. In the past, political influence also resulted in loans being directed towards favored groups. The privatization of GCDB should make it independent of such political interference. As a result, those groups will lose out. Until the GCDB is privatized, GCU and GPMB will be replaced on the Board of Directors by the Deputy Managing Director of GCDB and a senior official from the MOFT.

The basic reason for expecting social benefits from the privatization of the commercial functions of the GCDB is derived from the assumption that an efficient mobilization and allocation of financial resources through competitive, market-based financial institutions will benefit a broader spectum of the population than one which directs resources to selected individuals on political grounds. In the absence of competition, banks acting as a cartel lower the returns to saving, increase the costs of borrowing, and generally retard the growth and development of financial markets and the economy in general.

The major beneficiaries of an additional privatized commercial bank and increased competition will be those individuals or firms with viable projects who are not able to obtain credit now because loans are directed to favored borrowers. The GCDB itself and credit worthy borrowers will also directly benefit because fewer problem loans should result, long-term profits should be greater, and more funds should be available for lending. In addition, competition in the banking sector will be greater since a privatized bank, without political interference, should be more profitable and viable. Because the privatized bank will be more profitable, lending rates in the country should be lowered through increased availability of credit and competition. A rehabilitated and privatized GCDB should also result in increased competition for deposits. Savers should benefit from higher deposit rates, increased services and lower banking costs. As the spread between deposit and lending rates narrows. Bank profits attributable to monopolistic market shares should be squeezed out. General equity will be enhanced.

In addition, the removal of Government from ownership of the GCDB will improve the GOTG's budgetary performance. Paying off bad loans owed to the GCDB has a high opportunity cost for the country, as measured by the increase in output that would have occurred if tax revenue had instead been used to finance needed expenditures for economically and socially useful purposes. The whole country has been penalized by GCDB's past mistakes. In FY 1986/87, the GOTG paid off D72.6 million in GCDB's bad debts and in FY 1988/89, D48 million.

B. POLITICAL FEASIBILITY

Financial Intermediation: Given the GOTG's record in reforming economic policies and sticking to them, OAR/Banjul foresees no potential problems with the GOTG failing to adopt policies affecting the financial sector which result from recommendations derived from the studies to be undertaken under the FSR program. The virtual absence of equity considerations affecting broad social groups associated with potential policy changes affecting the efficiency of financial intermediation should make it easier for the GOTG than was the case with many of the reforms associated with the ERP.

Privatization of GCDB: The question of political will may be a potential problem for the privatization of GCDB. In the past, the bank has been used in support of what must be considered as disguised social welfare programs. This is particularly true with regard to the forgiveness of loans to rural borrowers who form an important political constituency. However, the bank is not making any loans currently in favor of such groups. It is also engaged in legal action against prominent businessmen who took out unsecured development loans with no apparent intention to repay. Both the IMF and World Bank are pressuring the government not to return to past mismanagement of the bank. The FSR program supports the IMF and World Bank efforts.

From a broader perspective, the GOTG already has undertaken significant privatization efforts. Many parastatals have been privatized and others are ready to go on the block. Progress in this regard was described in an earlier section of the PAAD. The eventual privatization of the GCDB would be consistent with established policy in regard to parastatals.

C. INSTITUTIONAL FEASIBILITY

The Ministry of Finance and Trade (MOFT) will be the lead institution to carry out the reforms associated with the FSR program. The Ministry has been responsible for implementing the ERP and has a good track record to date. At the MOFT, the Statistics and Special Studies unit receives USAID support through our Economic and Financial Policy Analysis project which finances two long term advisors from the Harvard Institute for International Development attached to the MOFT. The unit will be USAID/Banjul s contact point in day to day implementation of the FSR program. The unit has been involved in policy reform in The Gambia from the start of the ERP and provides valuable continuity in the overall economic policy reform effort.

The Central Bank will play the key role in implementing the reforms concerning the removal of credit ceilings and the improvement of bank supervision. The Bank has been responsible for conducting the interbank market for foreign exchange and the Treasury bill auctions, two of the major reforms associated with the ERP. MOFT with the HIID group will play a strong consultative role in this aspect of the program.

D. FINANCIAL FEASIBILITY

The $5 million grant is judged to be at least sufficient to offset the costs associated with the financial sector adjustment. Most of the significant social costs associated with adjustment took place when the ERP was started. The reforms under the FSR program are mainly ones associated with improvements in efficiency. Any costs associated with technical assistance will be provided under the FSRS project. GCDB is being recapitalized which will make it more attractive for privatization. Achieving this transfer will pose a strain on the GOTG finances and the FSR program transfers will help offset the cost.

E. IMPACT

The major impact of the FSR program will be to improve competition and efficiency in commercial banking, however, a better functioning commercial banking sector does not necessarily create economic opportunities. Those opportunities derive from the availability of natural resources and infrastructure: the size of and access to markets: the employment of better technology: and the capacities, aptitude, and motivations of the populace. What a better functioning commercial banking system will do is to help facilitate the capability of entrepreneurs to take advantage of the available opportunities. In addition, a well functioning commercial banking system is probably a necessary condition for the emergence of institutions, like capital markets, to serve long-term credit needs of the country. An efficient, functioning commercial banking sector is a first step in the overall development of the financial sector and in sustainable development.

The direct benefits of the program as described in previous paragraphs will likely accrue to the urban, business and middle income community. They are the ones presently using commercial banks. The urban and rural poor will benefit indirectly at first.

However, such benefits are related importantly to the potential progress of sustainable development in The Gambia. A well functioning commercial banking system creates confidence in the payments mechanism. Not so long ago, there was a fear that the CFA franc was going to replace the dalasi as the primary medium of exchange and store of value in the country. Before commercial banking services can emerge in rural areas, it must be demonstrated that banks are capable of operating profitably in urban ones. The rural populace will benefit from the greater availability of goods and services that will become available because traders have access to more and lower cost credit. Employment opportunities in urban areas should likewise increase and benefit those rural workers looking for alternative employment opportunities. Finally, the ending of misdirected credit at the GCDB will stop economic waste and leave the GOTG with more revenue to expand rural infrastructure, public health and education.

ANNEX B

1/4 UNCLASSIFIED STATE 363153/01

ACTION: AID-4 INFO: CERG

VZCZCJIC014FFU525
OO RUFHJL
DE RUEHC #3153/01 3171714
ZNR UUUUU ZZH
O P 131712Z NOV 89
FM SECSTATE WASHDC
TO RUFHJL/AMEMBASSY BANJUL IMMEDIATE 5412
INFO RUEHAB/AMEMBASSY ABIDJAN PRIORITY 2678
BT
UNCLAS SECTION 01 OF 04 STATE 363153

LOC: 046 878
13 NOV 89 1748
CN: 06682
CHRG: AID
DIST: AID

DATE RECEIVED 11/14
ACTION TO: Econ
DATE DUE: 11/20
ACTION TAKEN: [illegible]
DATE OF ACTION: 11/21
BY: [illegible]

AIDAC ABIDJAN FOR REDSO/WCA

E.O. 12356: N/A
TAGS:
SUBJECT: ECPR GUIDANCE FOR THE GAMBIA ASPRP AND EPRS AMENDMENT (635-0228; 635-0231)

1. THE ECPR, CHAIRED BY DAA/AFR LARRY SAIERS, MET ON 31 AUGUST 1989 AND REVIEWED THE SUBJECT AMENDMENT. OFFICES REPRESENTED AT THE MEETING WERE AFR/SWA, AFR/MDI, AFR/DP, AFR/PD, GC/AFR, PPC/PDPR, PPC/EA. AND USAID/BANJUL (J. STONE). THE FOLLOWING GUIDANCE IS PROVIDED FOR MISSION ACTION PRIOR TO RESUBMISSION FOR AID/W APPROVAL.

2. FORMAT - THE ECPR DETERMINED THAT THIS ASSISTANCE ACTIVITY SHOULD NOT REPEAT NOT TAKE THE FORM OF AN AMENDMENT TO EXISTING PROGRAMS/PROJECTS. IT SHOULD BE DEVELOPED AS A NEW PROGRAM, CONFORMING TO THE DFA/NON-PROJECT ASSISTANCE FORMAT AND GUIDELINES CONTAINED IN THE QUOTE PRELIMINARY AFRICA BUREAU GUIDANCE FOR NON-PROJECT ASSISTANCE UNDER THE DEVELOPMENT FUND FOR AFRICA UNQUOTE DATED 12 JULY 1988. THE ANALYSES REQUIRED UNDER THESE GUIDELINES SHOULD, AMONG OTHER THINGS, HELP TO IDENTIFY WHICH GAMBIAN SOCIETAL GROUPS STAND TO BENEFIT AND WHICH GROUPS MAY BE DETRIMENTALLY AFFECTED BY A.I.D.'S ASSISTANCE. BECAUSE THE REQUESTED INFORMATION IS FAIRLY EXTENSIVE, THE PROJECT COMMITTEE RECOMMENDS ACCEPTING THE CURRENT DOCUMENT (AMENDMENT) AS A PAIP, WITH A PAAD TO FOLLOW.

IF DESIRED, A.I.D./W WILL ASSIST THE MISSION IN OBTAINING ANY NECESSARY TECHNICAL RESOURCES REQUIRED TO DEVELOP THE PROGRAM DOCUMENTATION.

3. SCENARIO AND STRATEGY - WHILE REVIEWERS BELIEVED THAT THE AMENDMENT PROVIDED A GOOD EXPLANATION OF THE PROJECTIZED ASSISTANCE TO BE PROVIDED UNDER THE ECONOMIC POLICY REFORM SUPPORT PROJECT THEY BELIEVED ADDITIONAL ANALYSIS IS REQUIRED FOR APPROVAL OF THE DOLS 5 MILLION TO BE PROVIDED IN PROGRAM ASSISTANCE. THEY BELIEVED THAT APPROVAL OF THIS PROGRAM WOULD SET A.I.D. ON A COURSE OF LONG-TERM ASSISTANCE TO THE GAMBIAN GOVERNMENT

80

TO HELP IT RESTRUCTURE AND REFORM THE COUNTRY'S FINANCIAL SECTOR. IN VIEW OF THESE POSSIBLE LONG-TERM IMPLICATIONS, REVIEWERS BELIEVED THE PAAD SHOULD PROVIDE THE FOLLOWING ADDITIONAL EXPLANATIONS AND ANALYSES:

A. CURRENT GAMBIAN FINANCIAL SECTOR - IN ORDER TO UNDERSTAND THE IMPACT WHICH RESTRUCTURING AND REVITALIZING THE GCDB WILL HAVE ON THE GAMBIAN FINANCIAL SECTOR, IT WILL FIRST BE NECESSARY TO DESCRIBE THAT SECTOR AND THE MANNER IN WHICH ITS VARIOUS ELEMENTS INTERACT. THE FOLLOWING ARE OFFERED AS EXAMPLES AND ARE NOT ALL - INCLUSIVE:

- WHAT ROLE DOES THE GAMBIAN CENTRAL BANK PLAY IN THE SECTOR?

- IS THERE AN INFORMAL FINANCIAL NETWORK AND, IF SO, HOW IMPORTANT IS ITS ROLE IN THE GAMBIAN ECONOMY?

- HOW IMPORTANT ARE THE ROLES OF PARASTATALS AND QUASI-PARASTATALS IN THE GAMBIAN FINANCIAL SECTOR?

- IS THE BCEAO CONSIDERING THE GAMBIA.S ADMISSION INTO WAMU? IF SO, HOW WOULD ADMISSION AFFECT THE GAMBIAN FINANCIAL SECTOR?

IN SUMMARY, REVIEWERS BELIEVED THAT THE PAAD SHOULD PRESENT A SNAP-SHOT DESCRIPTION OF THE GAMBIAN FINANCIAL SECTOR TO BETTER PRESENT THE CONTEXT AND SIGNIFICANCE OF THE A.I.D. ASSISTANCE. SOME OR ALL OF THIS INFORMATION MAY ALREADY BE AVAILABLE THROUGH THE IMF, IBRD OR OTHER SOURCES, AND MAY ONLY REQUIRE COLLECTION AND CONSOLIDATION.

B. PROBLEMS IN THE FINANCIAL SECTOR - ALTHOUGH THE AMENDMENT FOCUSES UPON PROBLEMS AT THE GCDB, EXISTING PROBLEMS IN OTHER PARTS OF THE GAMBIAN FINANCIAL SECTOR WILL AFFECT THE BANK'S OPERATIONS, AND THE SUCCESS OF ANTICIPATED BANK REFORMS. THE PAAD SHOULD DISCUSS PROBLEMS WITHIN THE SECTOR WHICH MAY AFFECT BANK OPERATIONS. THE FOLLOWING ARE OFFERED AS EXAMPLES AND ARE NOT ALL INCLUSIVE:

- THE GAMBIAN CENTRAL BANK MAY REQUIRE ATTENTION IN THE FUTURE IF IT CANNOT PRESENTLY OVERSEE AND SUPERVISE ACTIVITY IN THE FINANCIAL SECTOR. WHAT ARE THE PROBLEMS AT THE CENTRAL [illegible]

- PARASTATALS AND QUASI-PARASTATAL[illegible] SUCH AS THE [illegible] AND GPMB WILL CONTINUE TO EXIST AFTER THE GCDB IS

81

UNCLAS SECTION 22 OF 24 STATE [illegible]

RESTRUCTURED, AND WILL, PRESUMABLY, CONTINUE TO REQUIRE CREDIT SOURCES. WILL THIS PRESENT A PROBLEM FOR FUTURE GCDB OPERATIONS, PARTICULARLY IF THE GCDB CANNOT BE PRIVATIZED? HOW WILL THE BANK AVOID THE DANGER OF DECAPITALIZATION AS OCCURRED IN THE PAST?

- ARE THERE PROBLEMS IN THE GAMBIAN FINANCIAL SECTOR WHICH MAY NOT BE READILY APPARENT [illegible] ORGANIZATIONS WITHIN THE SECTOR? FOR EXAMPLE, ARE THERE PROBLEMS WITH THE GAMBIAN LAND TENURE, [illegible] LEGAL SYSTEMS WHICH MAY DISCOURAGE PRIVATE INVESTMENT OR WHICH MAY AFFECT THE GCDB'S WILLINGNESS TO MAKE CERTAIN TYPES OF LOANS?

IN SUMMARY, THE PAAD SHOULD CONTAIN AN ANALYSIS OF PROBLEM AREAS IN THE GAMBIAN FINANCIAL SECTOR WHICH MAY AFFECT GCDB OPERATIONS, OR WHICH MAY PRESENT OBSTACLES TO REVITALIZING AND REFORMING THE SECTOR. ONCE AGAIN, SUCH INFORMATION MAY ALREADY BE AVAILABLE FROM WORLD BANK OR OTHER SOURCES.

C. DONOR COORDINATION - ALTHOUGH NOT EXPLICITLY STATED IN THE AMENDMENT, THIS PROGRAM WILL BE PART OF A BROAD-RANGING REVIEW AND REFORM OF THE GAMBIAN FINANCIAL SECTOR. BOTH THE IBRD AND IMF WILL BE INVOLVED IN THESE REFORMS. REVIEWERS BELIEVED THE PAAD MUST BE VERY EXPLICIT IN DESCRIBING HOW A.I.D.'S ASSISTANCE WILL FIT INTO THIS MULTI-FACETED EFFORT. THE FOLLOWING ARE OFFERED AS EXAMPLES AND ARE NOT ALL INCLUSIVE:

- THE IMF IS APPARENTLY WORKING WITH THE GOTG TO LOWER THE GAMBIAN TREASURY BILL INTEREST RATE WITHOUT EXCESSIVELY STIMULATING INFLATIONARY PRESSURES IN THE GAMBIAN ECONOMY. WHAT STRATEGY DOES THE IMF ENVISION TO BRING ABOUT THIS CHANGE? WHAT ARE THE PROSPECTS FOR SUCCESS? HOW WOULD A LOWERING OF THE RATE AFFECT THE GCDB?

- THE IBRD IS APPARENTLY WORKING WITH THE GOTG TO REFORM THE GAMBIAN COOPERATIVE UNION. SINCE THE GCDB AND GCU SEEM TO BE INEXTRICABLY INTERTWINED, AND THE LATTER WOULD SEEM TO BE A PRIMARY CAUSE OF MANY GCDB PROBLEMS, IT IS VERY IMPORTANT THAT THE PAAD DISCUSS THE IBRD'S STRATEGY FOR REFORMING THE GCU. HOW WOULD ENVISIONED REFORM OF THE GCU AFFECT THE GCDB?

- OTHER DONORS SUCH AS THE IMF AND IBRD MAY HAVE A COORDINATED OR GRAND STRATEGY FOR REFORMING THE GAMBIAN FINANCIAL SECTOR. IF SO, WHAT IS THAT STRATEGY? HOW WOULD THE AEPRP EXTENSION FIT INTO THAT STRATEGY?

IN SUMMARY, NPA GUIDANCE UNDER THE DFA REQUIRES THAT A.I.D. CLOSELY COORDINATE ITS ACTIVITIES WITH OTHER DONORS TO BRING ABOUT LONG-LASTING SECTOR REFORM. WHILE OTHER DONORS ARE APPARENTLY ACTIVE IN THE GAMB[illegible] FINANCIAL SECTOR, AND EXPECT TO BRING ABOUT SU[illegible] [illegible]

82

CHANGES IN THAT SECTOR, THE AMENDMENT DOES NOT PROVIDE THIS OVERALL EFFORT. THE PAAD SHOULD EXPLAIN WHAT THE DONOR COMMUNITY EXPECTS THE SECTOR TO LOOK LIKE AFTER REFORMS ARE COMPLETED.

4. PRIVATIZATION - GCDB REFORMERS ARE LOOKING TOWARD THE BANK.S FUTURE PRIVATIZATION. HOWEVER, THE AMENDMENT STATES THAT NEITHER A.I.D. NOR THE GOTG CAN FORCE PRIVATIZATION IF BUYERS ARE UNWILLING TO INVEST IN THE BANK. THE PAAD SHOULD ADDRESS THIS ISSUE. FOR EXAMPLE.

- IF PROFITS ARE TO BE MADE BY FILLING UNMET CREDIT NEEDS IN THE GAMBIAN ECONOMY, WHY HAVEN'T INVESTORS BEEN WILLING TO ESTABLISH A NEW GAMBIAN BANK TO MEET THOSE NEEDS? THIS IS ESPECIALLY PUZZLING IN VIEW OF THE LARGE PROFITS BEING MADE BY FOREIGN-OWNED BANKS IN THE GAMBIA.

- HOW WOULD FAILURE TO PRIVATIZE AFFECT FUTURE BANK OPERATIONS?

- IS A.I.D. PREPARED TO SEE A PRIVATIZED GCDB COME UNDER NON-GAMBIAN CONTROL, OR RESTRICT ITS LENDING PRACTICES SO AS TO MAXIMIZE PROFITS? IF THE ANSWER IS AFFIRMATIVE, HOW CAN THIS BE RECONCILED WITH THE ARGUMENT THAT A FUNCTIONING GCDB IS NECESSARY TO SERVE THE NEEDS OF THE GAMBIAN SMALL DEPOSITOR AND LOAN APPLICANT?

- HOW ARE THE DEVELOPMENT BANK FUNCTIONS OF THE GCDB TO BE CARRIED OUT AFTER THE COMMERCIAL FUNCTION IS PRIVATIZED?

5. IMPACT ON SOCIETAL ELEMENTS - GUIDANCE FOR IMPLEMENTING DFA NON-PROJECT ASSISTANCE STATES THAT PROGRAM DOCUMENTS MUST DESCRIBE THE PROGRAM.S EFFECTS UPON ELEMENTS OF THE HOST COUNTRY SOCIETY, I.E., WHO

83

WINS AND WHO LOSES AS A RESULT OF THE A.I.D. INTERVENTION. REVIEWERS WERE CONCERNED THAT THE AMENDMENT DID NOT CLEARLY IDENTIFY WHICH SOCIETAL GROUP(S) WOULD BENEFIT THROUGH A REVITALIZED GCDB. WHAT UNMET CREDIT NEEDS EXIST IN THE GAMBIAN ECONOMY WHICH JUSTIFY A REVITALIZATION OF THE GCDB? THE PAAD SHOULD ALSO MORE CLEARLY IDENTIFY WHETHER ANY MEMBERS OF A.I.D.'S TRADITIONAL TARGET GROUPS WILL BE DETRIMENTALLY AFFECTED BY THE PROGRAM. IF SUCH GROUPS ARE EXPECTED TO BE DETRIMENTALLY AFFECTED, THE PAAD SHOULD DISCUSS PROPOSED ACTIONS TO MINIMIZE THE NEGATIVE IMPACT.

6. PROGRAMMING OPTION - WHILE MUCH OF THE INFORMATION NEEDED TO PRODUCE THE EXPLANATIONS AND ANALYSES DESCRIBED ABOVE MAY BE READILY AVAILABLE, IT MAY REQUIRE EXTENDED STAFF TIME AND RESOURCES TO GATHER, CONSOLIDATE AND REPORT THAT INFORMATION IN A PAAD. IF THE MISSION DETERMINES THAT THIS REVISION WILL REQUIRE SUCH EXTENDED EFFORT, IT MAY WISH TO CONSIDER ALTERNATIVE PROGRAMMING OPTIONS. FOR EXAMPLE, THE MISSION MAY WISH TO CONSIDER PROVIDING QUICK-DISBURSING DFA FUNDING LINKED TO

CONDITIONALITY DESIGNED TO ALLEVIATE STRUCTURAL CONSTRAINTS IN A LESS COMPLEX AREA SUCH AS POSSIBLE LEGAL REFORM. THIS OPTION IS OFFERED SOLELY AS A SUGGESTION FOR POSSIBLE CONSIDERATION. THE MISSION IS, OF COURSE, IN THE BEST POSITION TO MAKE SUCH PROGRAMMING DECISIONS.

7. TRAINING AND COMMODITIES - THE AMENDMENT BUDGETED DOLLARS 150,000 FOR GCDB STAFF TRAINING AND DOLLARS 150,000 FOR COMPUTERS FOR THE GCDB, BOTH TO BE PROVIDED THROUGH THE EPRS PROJECT. THE PROGRAM DOCUMENTATION SHOULD INCLUDE A PROCUREMENT PLAN AND A SUFFICIENT DESCRIPTION AND COSTING OF THESE PROJECTIZED ELEMENTS TO MEET SECTION 611(A) REQUIREMENTS, AS DISCUSSED IN SECTION III, C OF THE PRELIMINARY DFA/NPA GUIDANCE.

8. TECHNICAL ASSISTANCE - THE TECHNICAL ASSISTANCE

COMPONENT OF THE PROGRAM SHOULD BE DESCRIBED AND BUDGETED ONLY IN A SEPARATE PAAD ANNEX MARKED QUOTE SOURCE SELECTION INFORMATION UNQUOTE. UNDER THE NEW PROCUREMENT INTEGRITY LEGISLATION, SUCH INFORMATION INCLUDING RELATED PIOS AND PILS, MUST BE PROTECTED UNTIL THE RELATED CONTRACT AWARDS HAVE BEEN MET. (SEE THE A.I.D. GENERAL NOTICE, EFFECTIVE 16 JULY 1989, CONCERNING PROCUREMENT INTEGRITY SOURCE SELECTION INFORMATION).

9. DONOR COORDINATION - MEMBERS OF THE ECPR MET ON 28 SEPT 1989 WITH MS. DENISE WILLIAMSON OF THE WORLD BANK, AND MR. REINOLD VAN TIL OF THE IMF TO DISCUSS THEIR ORGANIZATIONS' ACTIVITIES IN RESTRUCTURING AND REFORMING THE GAMBIAN FINANCIAL/BANKING SECTOR, AND A.I.D.'S ROLE IN THAT OVERALL EFFORT. THE WORLD BANK AND IMF REPRESENTATIVES AGREED THAT A.I.D. ASSISTANCE WOULD BE PIVOTAL FOR THE SUCCESSFUL REVITALIZATION OF THE GCDB,

AND THAT A PROPERLY FUNCTIONING GCDB WOULD BE THE LINCHPIN OF GAMBIAN FINANCIAL SECTOR REFORM. DONORS WILL BE MEETING IN FEBRUARY 1990 TO DISCUSS THE STATUS OF THE ONGOING GAMBIAN FINANCIAL SECTOR REFORM PROGRAM. MORE SPECIFICALLY, THE REPRESENTATIVES STATED THAT

A. GCDB RESTRUCTURING - THE WORLD BANK HAS ALREADY DEVELOPED A PLAN FOR GCDB RESTRUCTURING, WHICH WAS AGREED TO BY THE GOTG. THE A.I.D. - FUNDED BANK

ADVISORS ARE AN INTEGRAL PART OF THAT PLAN. THE WORLD BANK REPRESENTATIVE NOTED THAT THE RESTRUCTURING DEFINITELY ENVISIONS THE DIVISION OF THE CURRENT GCDB INTO TWO SEPERATE AND INDEPENDENT BANKS - ONE COMMERCIAL, THE OTHER DEVELOPMENTAL. AT LEAST INITIALLY, THE DEVELOPMENT BANK WILL BE CAPITALIZED THROUGH DONOR CONTRIBUTIONS. THE WORLD BANK REPRESENTATIVE INDICATED THAT THE PRECISE RELATIONSHIP BETWEEN THE DEVELOPMENT BANK AND THE GOTG HAS YET TO BE DETERMINED. THE PAAD SHOULD THOROUGHLY ADDRESS THIS ELEMENT WHICH WILL BE CLOSELY EXAMINED BY THE REVIEW COMMITTEE.

B. GCU REFORM - THE WORLD BANK INITIATED A VILLAGE - BASED RESTRUCTURING PROGRAM AT THE GAMBIAN COOPERATIVE UNION IN 1988. WHILE NOT YET COMPLETED, THE BANK.S REPRESENTATIVE BELIEVED THE GCU REFORMS WERE THUS FAR PROCEEDING SATISFACTORILY. THE REPRESENTATIVE, HOWEVER, NEITHER IDENTIFIED ANY SPECIFIC SAFEGUARDS TO BE PUT IN PLACE TO PREVENT A REPETITION OF PAST GCU CALLS UPON THE GCDB FOR FARM LOAN FUNDS, NOR ARTICULATED AN OPINION AS TO POSSIBLE COMPETITION BETWEEN THE GCU AND THE FUTURE DEVELOPMENT BANK TO SERVE FARMER CREDIT NEEDS. BOTH ISSUES SHOULD BE ADDRESSED IN THE REVISED PAAD.

C. CENTRAL BANK SUPERVISION - THE IMF REPRESENTATIVE STATED THAT THE GAMBIAN CENTRAL BANK IS AWARE OF THE

85

GCDB.S PROBLEMS BUT HAS LACKED THE POLITICAL POWER RECTIFY THOSE PROBLEMS. ALTHOUGH THE REPRESENTATI CONCLUDED THAT CENTRAL BANK SUPERVISION WAS THEREF NOT A PROBLEM, THE PROJECT COMMITTEE IS CONCERNED LACK OF EFFECTIVE CENTRAL BANK OVERSIGHT COULD LEA REPETITION OF PAST EXPERIENCE AT THE GCDB. THIS I (CENTRAL BANK SUPERVISION) SHOULD BE ADDRESSED IN REVISED PAAD.

D. LEGAL ACTIONS TO EFFECT LOAN RECOVERIES - THE BANK REPRESENTATIVE STATED THAT THE GOTG HAD AGREE EXTENDED COURT SESSIONS TO EFFECTUATE LOAN RECOVERI HOWEVER, THE GOTG WILL APPARENTLY NOT INITIATE ANY EXTRAORDINARY FORMS OF COURT PROCEDURE TO RECOVER DELINQUENT LOANS. THE PAAD SHOULD DISCUSS WHETHER ACTIONS HAVE OR WILL BE DONE, COST IMPLICATIONS FO GOTG TO INITIATE SUCH ACTION, AND WHETHER A.I.D. O OTHER DONORS WILL BE CONTRIBUTING TO THIS ACTIVITY.

10. REDSO CONCURRENCES - AS PER INSTRUCTIONS CONT IN REVISED DELEGATION OF AUTHORITY NO. 551, AND IN AFRICA BUREAU INSTRUCTIONS ON REVISED DELEGATION O AUTHORITY NO. 551, USAID/BANJUL, AS A SCHEDULE B P SHOULD SUBMIT THE PAAD AND DOCUMENTATION TO REDSO/ FOR REVIEW AND CONCURRENCE PRIOR TO SUBMISSION TO A.I.D./W.

BAKER

86

ANNEX C

LOGICAL FRAMEWORK

THE GAMBIA - FINANCIAL SECTOR RESTRUCTURING (635-0228 AND 635-0231)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<u>Goal</u> Broad based sustainable growth in per capita income.	<u>Measures of Goal Achievement</u> 1. Real GDP grows faster than population in both the rural and urban sectors.	1. GOTG economic data	1. Good weather 2. No world Economic Recession 3. The Policy Framework Paper will continue to be the operational framework for GOTG policy. 4. Other Donor projects will be implemented effectively and on a timely basis.
<u>Program Purpose</u> To improve the efficiency of financial intermediation in promoting savings and investment and in allocating savings to their most productive uses.	<u>Conditions that will indicate purpose has been achieved:</u> <u>End of Program Status:</u> 1. Commercial banks increase savings and time deposits faster than economic growth. 2. Domestic savings rate increases. 3. Bank problem loans decrease. 4. Composition of bank credit indicates loans are being allocated to faster growing sectors in economy. 5. Bank credit extended without government intervention. 6. Domestic private investment increases.	1. GOTG Economic Data 2. CBG records. 3. Annual reports of Commercial banks.	1. Firms must be willing to invest. 2. Savings must be available. 3. Savings must be channeled to those who plan to invest and face the most attractive investment opportunities. 4. The GOTG does not interfere with individual bank's decision making. 5. Domestic economic activity continues to improve.

87

ANNEX C

LOGICAL FRAMEWORK

THE GAMBIA - FINANCIAL SECTOR RESTRUCTURING (635-0228 AND 635-0231)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program Outputs	**Magnitude of Outputs**		
1. Elination of administrative determination of individual bank's credit ceilings.	1. Central Bank controls availability of money and credit by controlling the monetary base.	1. Records of GOTG (MOFT)	1. Process of assessing policy reform and adjustment will continue to address identifiable constraints in the sector.
2. Financial institutions adhere to statutory and regulatory requirements governing their practices.	2. Central Bank's regulatory and inspection functions strengthened.	2. Records of Central Bank and Commercial Banks. 3. Parliamentary records.	
3. GOTG develops an action plan for implementing recommendations from technical studies.	3. Technical assistance teams conduct studies and make recommendations covering among other topics: a. debt recovery procedures b. adequacy and availability of rural credit and term loans; c. development banking.	4. Discussions with Bankers. 5. T.A. Reports	
4. Parastatal influence on lending decisions of GCDB is eliminated.	4. GCU and GPMB removed from ownership of GCDB and from GCDB's Board of Directors.		
5. Legislation necessary for for privatization of GCDB enacted by Parliament, signed by the President, and support provided to the NIB for privatization efforts.	5. GCDB functions as an independent competitive commercial bank.		

LOGICAL FRAMEWORK

THE GAMBIA - FINANCIAL SECTOR RESTRUCTURING (635-0228 AND 635-0231)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program Outputs	Magnitude of Outputs		
6. Private sector bank officers and Central Bank personnel better trained for carrying out responsibilities.	6. (a) Six person-months short term TA provided to GCDB and 12-15 bank personnel trained. (b) Six person-months Short term TA provided to CB and 8-10 Central Bank personnel trained.		
7. GCDB and CB computerize much of their operations.	7. Ten PCs provided to GCDB and five to Central Bank.		
8. GOTG pays off maturing external debt.	8. Five million dollars in external debt is retired.		

ANNEX C

LOGICAL FRAMEWORK

THE GAMBIA - FINANCIAL SECTOR RESTRUCTURING (635-0228 AND 635-0231)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program Inputs	Implementation Target (type and quantity)		Assumptions for providing inputs:
1. Foreign exchange grant to the GOTG.	1. Approved project Budget $5 million in US dollars over a 24 month period, 2 calendar years, 3 fiscal years.	1. Program Grant Agreement signed. Records of the Central Bank of The Gambia	1. Congressional Notification accepted.
2. GOTG comprehensive plan to restructure and privatize the GCDB.	2. Commercial Unit of GCDB prepared for privatization in 1992.	2. GOTG decrees or legislation.	2. Policy reforms will stabilize the financial system and open investment opportunities to private enterprise.
3. Other donor provision of technical assistance equipment and training for Bank Staff.	3. IBRD, ODA, USAID continue their ongoing assistance to the GCDB, MOFT, and CBG.	3. OAR/Banjul records.	
4. Appropriate equipment as needed to support banking experts in their work.	4. $160,000 in computers and training equipment.		
5. Short term training for financial institutions.	5. 15-20 bank staff trained, ($150,000)		
6. Technical Assistance for Studies.	6. TA to conduct studies ($420,000).		
7. Technical Assistance for financial institutions.	7. Short-term TA, for CBG and GCDB ($360,000).		
8. Personal Services Contractor for program management.	8. PSC for program manager.		

OVERVIEW OF FINANCIAL INSTITUTIONS IN THE GAMBIA

The Financial System

The financial sector is comprised of the commercial banking system, the Gambia Cooperative Union (GCU), several small donor or NGO supported activities, and the informal financial sector. The banking system in The Gambia consists of the Central Bank of The Gambia (CBG), and three commercial banks: the Gambia Commercial and Development Bank (GCDB), Standard Chartered Bank Gambia Limited (SCB), and Banque Internationale Pour le Commerce and l Industrie (BICI).

The Central Bank of The Gambia

The CBG was established in 1971 to assume the functions of The Gambia Currency Board and to act as banker to Government. It is responsible for defining and implementing national monetary and credit policies and for regulating the commercial banks. The principal objectives of the CBG as set out in section 4 of the Act establishing the CBG and amended in 1976 are:

(a) to regulate the issue, supply, availability and international exchange of money;
(b) to promote monetary stability, economic growth and development; and
(c) to promote a sound financial structure and credit and exchange conditions conducive to the orderly and balanced economic development of the country.

The Governor of the CBG is appointed for a term of five years by the President of The Gambia on the recommendation of the Minister of Finance and Trade. The Governor presides as chairman at the meetings of the Board. Five directors serve on the Board including the Governor, the Permanent Secretary of the MOFT, and three directors appointed by the President for three year terms each. The Directors and Governor are eligible for reappointment after their terms expire.

The authority of the Board includes the power to make by-laws and issue directives to regulate the conduct of the Bank's business and, with the approval of the Minister of Finance and Trade, make regulations for the purpose of setting interest rates and regulating the availability of money and credit. Decisions adopted by the Board are made on the basis of a simple majority of the votes of the members present, provided at least three directors are present. If there is a tie vote, the Governor shall have a second or deciding vote. The Act establishing the CBG is quite clear that the Minister of Finance and Trade can recommend to Government that the Board's decisions be changed. As stated in Section 42(4):

91

If, after consultation between the Minister and the Bank, the Minister is of the opinion that the policies being pursued by the Bank are not adequate for, or conductive to, the achievement of the objects of the Bank set out in Section 4, the Minister shall submit a recommendation to Government and Government may, by directive, determine the policy to be adopted by the Bank. The Minister shall inform the Bank of the policy so determined and that Government accepts responsibility for the adoption of the policy. The Bank shall thereupon give effect to that policy while the directive remains in operation.

The most important regulatory tools of the CBG are credit ceilings on the banking system, a ceiling on credit to the Government, both currently determined in consultation with the IMF, and a set of credit worthiness criteria which all banks must meet. Individual bank's credit ceilings are set in an administratively determined basis by the CBG. Although banks are free to set their lending rates, which are flexible, and the interest rate structure is determined on the basis of a bi-weekly tender system for treasury bills, the CBG seeks to encourage resource mobilization by establishing a minimum rate on short term (90 day) time deposits, currently 13 percent. As a financial institution, the CBG can lend to the Government, and it also provides credit to banks through rediscounting facilities.

In addition to respecting the credit ceilings, banks are expected to observe the CBG's reserve requirements, which at present amount to 24 percent of demand deposits plus 8 percent of savings and time deposits, of which 80 percent must be kept on deposit at the CBG, with the remaining 20 percent being held as cash. Also, 30 percent of a commercial bank's liabilities must be held as liquid assets.

The CBG's supervision over the management and operation of financial institutions has been based to a large extent on ensuring compliance with reporting requirements, and to a lesser extent on on-sight visits by banking inspectors. Enforcement by the CBG of its credit worthiness criteria has been uneven. In the past, BICI and SCBG have been held to the criteria, while GCDB has consistently disregarded them without CBG taking any steps to discipline it other than to debit its already overdrawn account at the Central Bank with charges and fees, until the accumulating losses and resultant drain on the Government forced suspension of GCDB's development lending activity and a severe contraction of its commercial lending.

From the mid-seventies on, the CBG, at GOTG direction, provided significant levels of re-finance to banks (latterly to GCDB only) for crop finance, most of which was for on-lending to the GCU and other licensed buyers for the purchase of groundnuts. Further moneys were advanced to GCDB to finance projects which the GOTG supported (by way of government guarantee) for various reasons. These arrangements increased the overall level of demand, put

97

pressure on the foreign exchange market, caused surges in the money supply and ultimately led to inflationary price movements and currency speculation.

Standard Chartered Bank of Gambia Limited

The SCB has been operating in The Gambia since 1906 and is a member of the Standard Chartered Bank Group which has extensive world wide operations. It offers a full range of banking services and is concerned mainly with trade and business financing. The SCB does not involve itself in financing development projects and its agricultural finance operation is limited to the provision of working capital to buyers of groundnuts. The SCB has achieved a strong deposit base and has at times refused to accept term deposits because it has been unable to utilize its funds fully. The SCB has relatively large holdings of GOTG securities and treasury bills. While the SCB has not fully utilized its credit ceilings in the past, it is currently trying to have its ceiling increased. Accordingly to Bank management, SCB is seeing more viable loans being requested now than it did formerly.

The SCB is the major dealer in foreign exchange and in 1986 held approximately 50 percent of the commercial pipeline of external payment arrears in the private sector. It is the major participant in the inter-bank foreign exchange market and because its demand for foreign exchange is greater than its endogenous supply, it tends to be the leader in exchange rate adjustments. The SCB has three expatriate officers, two of whom are the managing director and his deputy. The Bank is very profitable and its after tax profits were 73 percent of invested capital and reserves in 1988. In recent years, the bank has grown rapidly and now accounts for more demand and savings deposits than does the GCDB.

Banque Internationale Pour Le Commerce Et L'Industrie

The BICI , a branch of Senegal's BICI, has operated in The Gambia since 1968 and its main shareholder is the National Bank of Paris. A Gambian is the Chief Executive of the Gambian operation and he receives financial, administrative and technical support from the BICI head office in Dakar. The bank obviously has close links with Francophone countries and it finances much of the trade between them and The Gambia and it conducts significant business in CFA francs.

The bank's operational procedures are relatively efficient and its computer-based records permit accurate and timely reports and statistics to be produced. A passing difficulty arises from time to time through the absence of the Chief Executive and the lack of delegation of decision making processes to anyone else. Trade finance is the main area of activity and accounts for 75 percent of its income. Lending is short-term and takes the form of overdrafts and advances. The main recipients are distributive trades, tourism, and transportation.

Agricultural Development Bank (ADB)

The ADB was established in 1981 to provide specialized credit to the agricultural sector. By January 1983 it ceased new lending and the Government decided to liquidate it. Loans were extended for nonagricultural purposes and no proper evaluation of loan applications was conducted. In 1989, the GOTG allocated D2.5 million for settling the remaining claims arising from the liquidation of the ADB.

The Gambia Commercial and Development Bank (GCDB)

Before 1972, the only lending institutions in The Gambia were the British-controlled Standard Chartered Bank (SCB) and the French-controlled Banque International pour le Commerce et l Industrie (BICI). Both of these entities concentrated their lending to multinational corporations and to the well-established foreign trading houses and a few major local Lebanese and Gambian merchants. Very few indigenous Gambian individuals or institutions (including parastatals) had ready access to formal sector credit.

To fill this gap, the GCDB was established in 1972 and it quickly became the major source of institutional credit in the country. In addition to its role as a development-oriented entity, by the mid-1980s, the GCDB had become The Gambia's largest commercial bank, accounting for almost half of the total deposits, more than 87 percent of the total loans, and more than half of the total commercial bank assets.

The SCB and the BICI both have a long history in The Gambia and a strong market position with the top tier of clients, including the multinational companies which account for a major portion of their respective loans portfolios. GCDB essentially has the Government, the parastatals or State-Owned Enterprises (SOEs), and the remaining public as its clients. Thus, GCDB has not been in direct competition with the other banks, but it does provide indispensable banking services to a broader spectrum of Gambians who do not have access to the foreign banks. Within its market segment, GCDB effectively has no competition. Unfortunately, this monopoly and government ownership has, in the past, led to government and social pressure to finance projects which had no commercial justification. This factor, plus inappropriate credit management, led to a significant accumulation of non-performing loans. These non-performing loans impaired the financial condition of the bank and restrained the bank's ability to finance credit-worthy borrowers to the detriment of national economic development.

Data provided by the GCDB indicate that for March 1989 the GCDB accounted for 30 percent of total demand deposits in the country, 30 percent of savings deposits, and 81 percent of time deposits. A diagnostic study of the bank in 1988 led to a number fo reforms including the replacement of top management. Both the World Bank

98

and USAID have pledged technical support to help in the restructuring of the bank. The GOTG assumed D70 million of debts owed to the GCDB in January 1987 and a further D48 million in September 1989. Furthermore the GOTG has budgeted D20 million to be added to GCDB's capital stock. Based on the restructuring, the bank is now profitable and even participated recently in the treasury bill market. Its development banking operations have been stopped until the bank is reorganized into separate commercial and development banking components.

GAMBIA COOPERATIVE UNION

Organization Description: The Gambian Cooperative Union (GCU) is a semi-private organization supplying inputs such as seeds, fertilizers and tools to farmers on credit and is the chief purchaser and transporter of groundnuts (handling between 71 and 81% of the official market) to the Gambia Produce and Marketing Board (GPMB) which handles between 60 and 85% of production. GPMB has a legal monopoly on the processing and export of the groundnut crop, although significant portions of each year s crop are sold in Senegal (by farmers themselves or by Senegalese traders buying in The Gambia). The funds for credit to farmers and for purchase of the groundnut harvest used to originate in the Central Bank of the Gambia (CBG) and were provided to GCU by the Gambia Commercial and Development Bank (GCDB). GCU also borrows from GPMB for financing crop purchases and providing members with credit.

GCU has evolved substantially from its original form and continues to undergo scrutiny of its functions and management. From 1959 to 1977, GCU and its forerunner made loans available exclusively in the form of cash to farmers through member societies termed Cooperative Produce and Marketing Societies (CPMS). Loan recoveries averaged 97% during this time. In 1978, the First Rural Development Project (RDP I) funded by World Bank, EEC and ODA introduced an agricultural credit component for "in-kind" production loans in the form of seed nuts, fertilizer, and farm implements. Serious accountability problems led to extremely poor loan recovery. RDP I was terminated in 1982.

In 1982, as precursor to a second project scheduled for implementation from 1984-90, the Second Agricultural Development Project, (see description of ADP II), the management of GCU was reorganized and a specialized agricultural credit unit formed. ADP II is funded by loans and in kind donations mainly from external sources and includes a major credit component. Sources of funding for GCU credit programs are shown below.

95

Sources of Funds in Dalasi '000

Year	GCDB	GPMB	GCU	ADP II	Total
81/82	4,518	755			5,273
82/83	3,440				3,440
83/84	5,194				5,194
84/85	4,540	5,251			9,791
85/86	481			1,128	1,609
86/87	4,020	2,884	280	4,619	11,803
87/88				6,934	6,934
88/89			356	2,120	2,476
89/90			2,910	1,445	4,355

The GCU credit unit is responsible for all aspects of loan management from processing applications to disbursement and recovery. It is staffed by a manager, assistant manager and two senior credit officers at the headquarters level. Eight credit officers and 32 credit supervisors work at the CPMS level.

<u>GCU Credit Program</u>: The loan application process involves three tiers of review: Village Branch, CPMS and GCU management. A Village Branch composed of five men acts as a loan committee for each village served by the CPMS. The function of the loan committee is to plan future loan requirements and screen and approve loans to individual members in the village. The Village Branch reports to the CPMS which serves as the borrower from GCU and lends the inputs to its members. Oversight of the loan process is conducted by GCU management.

Credit eligibility requirements for the CPMS are:

1. Registration with GCU
2. Classification as "viable" or "potentially viable"
3. A recovery rate averaging 85% on credit over a three year period.

Interest rates have risen considerably since 1984 due to interest rate liberalization in 1985, adjustment for the previous subsidized rates by GCU, and for recovery of arrears. Interest rates now more accurately reflect the true cost of the loans.

ab

Interest Rates

	Charges to GCU GPMB	Charges to GCU GCDB	Charges to CPMS by GCU (Fertilizer)	Charges to Members by CPMS
80 - 84	0	9%	0	0
84/85	21%	17%	11%	13%
85/86	18%	21%	11%	13%
86/87	18%	21%	22%	24%
87/88	19%	24%	22%	24%

GCU has no savings programs at present.

Social Impact: The GCU credit program is the chief source of credit to farmers in The Gambia. From an estimated total of 125,000 farm families, GCU claims 100,000 are members and fifty percent of these have access to credit. In theory, this number will increase as other CPMS groups establish viability. Although alternative credit sources exist, the magnitude of the GCU network and its established link to formal banking institutions renders it a vital component of agricultural development.

Goals and Constraints: The operation of GCU has been fraught with problems. Outstanding among them are improper management, lack of coordination between headquarters and member societies and subsidized lending. These culminated in failure to properly register and collect loans and eventually resulted in high loan debts to GCDB. It is estimated that approximately D5 million will have to be written off.

GCU is currently in a period of consolidation brought about by the Economic Recovery Program in The Gambia which promotes a free market environment. The GCU has lost its monopoly on provision of agricultural inputs and its preferential access to credit, as well as preferential fee structures. Further, sound principles for the management of agricultural credit services have been established and are overseen by a consultant agricultural credit manager. These include:

1. Use of funds solely for agricultural purposes that generate adequate profit margins and are channeled through Village Branch Group Lending Systems.

2. Requirement of repayment in full by the end of the production season. No cooperative society or its members defaulting on loans will continue to gain access to credit.

3. Establishment of functional systems of accounting at all levels.

a

GCU plans to consider future loans in modes other than in-kind and to identify additional potential target groups at the community level.

Major steps still to be taken include setting cost effective interest rates, moderating attitudes from headquarters on down to need for adherence to proper management procedures, and streamlining operations to provide timely delivery of quality inputs to farmers. Only time will tell whether or not GCU can adequately fulfill its intended role or if an alternative approach must be taken. A recent study undertaken by the EFPA project recommends decentralization of GCU to independent cooperative enterprises within the five administrative divisions.

AGRICULTURAL CREDIT UNIT OF THE CENTRAL BANK OF THE GAMBIA (CBG)

<u>Program Description</u>: The CBG has recently set up an Agricultural Credit Unit within its Research Department. Staffing includes an FAO funded Advisor. The major functions are as follows.

1. Conduct research on credit for agricultural and rural development and act as advisor to GOTG and financial institutions.

2. Design and promote an appropriate institutional based credit structure to the village level.
3. Coordinate the operations of banks and other institutions with regard to rural credit.

4. Assist in formulating a refinancing policy for institutions providing rural credit.

5. Estimate total requirements of rural credit and long term plan for supply of credit.

6. Plan and review national policy on agricultural credit and role in achieving growth in GDP.

7. Implement training programs, surveys and studies in credit for agricultural development.

<u>Social Impact</u>: The role of CBG is to help stabilize the financial structure by supervising banks and other credit institutions. In the agricultural-based economy of The Gambia, this specially targeted unit of CBG will focus on needs of the farming sector and recommend a national policy on agricultural credit. A workable policy of loans and extension of bank services will benefit both financial and agricultural sectors.

<u>Goals and Constraints</u>: The resistance on the part of formal banking institutions to loans to the agricultural sector stems from the high risk nature of the loans. Many alternative and partially subsidized programs for credit have sprung up as a result. The formal and informal credit systems in the rural areas, however, must be tied to a permanent or formal institu[illegible]tually to have a real, developmental impact. [illegible]o motivate the banks to cater to the largest sector of the population, t[illegible]ablishment of two types of buffer funds might be realized. Two type are being considered by the Unit:

1. Development Fund: This fund would provide loans for high cost items such as farm machinery which would require a long term for repayment by the farmers.

2. Stabilization fund: This fund would provide for refinancing of loans when crops fail due to drought or pests.

The Agricultural Credit Unit will face a major challenge in helping to determine the future of farming credit. It may be able to draw on the experience of the PVOs in financing farming inputs.

SOCIAL SECURITY AND HOUSING FINANCE CORPORATION

Program Description: Social Security and Housing Finance Corporation (SSHFC) is a parastatal organization overseen by the Ministry of Finance and Trade. It was established in 1982 with the dual purpose of administrating social security funds and establishing a housing finance office. Funds amassed from social security contributions were to provide capital for the housing division. Its current investment portfolio is D70 million and its net surplus was D4.1 million for FY 1988/89.

Due partially to the downward trend of the economy in 1982, the flow of funds did not work out as planned. A loan was obtained from World Bank/IDA of 1.03 million SDR in support of a 'Site and Services Scheme' to provide infrastructure development for 700 building sites in Kanifing East. The project, which is estimated to cost a total of 11.2 million SDR, also offers a 'Building Materials Loan Scheme' to enable future home owners to initiate construction of houses.

Since its establishment the Housing Office has overseen the completion of the Bakoteh housing project backed by the Norwegian Government beginning in 1979. The housing units were allocated in 1984 and loan repayments are now collected by SSHFC. The housing fund is operating at a loss which was D104.7 thousand in 1989 and D313.2 thousand in 1988.

Housing Project Credit Scheme: Using the IDA loan, SSHFC developed a road network, electric lines and a community center for the land tract in Kanifing East which is divided into 700 plots. Size of the plots vary between 250-350 square meters. The land will remain GOTG-owned although project participants will repay the development costs. To be eligible for the program, the participant must:

1. Have Gambian citizenship.

2. Own no land in the Banjul area (participant or spouse).

3. Be a resident of Banjul area for more than two years.

4. Be between the ages of 18 and 46.

5. Have a steady income (allowable salary range is D310 to D1189 per month).

99

The interest rate on the land development loan is 9% to repaid over 25 years. The average amount of the loan will be D5,000-7,000. After the applicant signs a lease document, he or she may opt to use the Building Materials Loan Scheme. Generally, loans of building materials will be given in kind, procured by SSFHC from the least expensive source. These loans may be given up to D22,000 and are also subject to a 9% interest rate to be repaid in 25 years. It is estimated that construction will begin on many homes by March of 1990. Supervisors from SSFHC will oversee use of the building materials.

Social Impact: The Kanifing project provides a unique opportunity for new and improved housing to low and lower-mid level income earners. Over 1,200 applications were received. Although the loan is decidedly subsidized, this project is a pilot effort and will provide a basis from which the SSHFC Housing Office can plan future projects. The repayment rate from the Bakoteh housing project has been poor and it is hoped that the fastidious planning invested in this project will result in better repayment.

Goals and Constraints: Primarily, the Housing Office lacks capital to develop housing projects. This is partially due to GOTG's failure to properly judge the investment climate in 1982 and to adequately support SSHFC's activities as promised. Yearly earnings have been poor. A performance contract is about to be negotiated between SSFHC and GOTG for the coming years.

SSHFC envisages land development projects that are profit making. Unfortunately, it will take significant time before many aspects of the ERP program create a climate for such projects. SSHFC is moving slowly down the path to privatization.

SSHFC has requested permission from the Central Bank to start a savings program for future home owners.

GOVERNMENT POST OFFICE SAVINGS BANK

Program Description: The Post Office Savings Bank, a component of The Gambia General Post Office, was designed to provide savings facilities as well as mobile postal services to the rural communities. Records of savings activities date back to July 1975. The countrywide operation has 83 employees and is headquartered in Banjul. Funding for operations is provided by GOTG, the Universal Postal Union and United National Capital Development Fund.

To open an account, a completed application form, two passport-sized photos and a minimum deposit of 25 bututs (three cents) are required. After a year of maintaining the account, the depositor receives 15% interest. All funds collected are deposited with the Central Bank. At present, no credit programs are available.

Social Impact: The Post Office banks offer accessibility to formalized savings accounts that are otherwise difficult to obtain, particularly for the rural population living away from major towns. The minimum deposit is particularly low and makes saving possible even for children. (Some commercial banks require a minimum deposit that may be as high as D150.) After a UNDP assessment mission in 1988, several changes helped the banks to offer better service, such as increase of withdrawal on demand from D100 to 500, streamlining of the passbook stamping procedure and upgrading of staff. It is estimated that between D4-5 million have been deposited in the postal savings program has which now has over 40,000 accounts.

Goals and Constraints: The initial appraisal of the savings system by UNDP revealed improper or non-existant record keeping, malfunctioning machinery and a general attitude of apathy from staff. As mentioned above, several positive changes did occur as a result of the recommendations. In addition an advertising campaign has been initiated. Unfortunately, the Post Office Savings program has not been self sustaining and a deficit of several thousand dalasi was recorded in the period 1975-1988.

It has been recommended that accounting operations at headquarters be computerized and a generator and photocopier purchased. Proposals have been submitted for consideration by donors. The future of the Post Office program may be somewhat dependent on commitment by external sources to provide considerable technical and financial assistance.

ENTERPRISE DEVELOPMENT PROJECT

Project Description: In support of the GOTG's policy of strengthening the private sector, the Enterprise Development Project (EDP) offers an integrated package of credit, technical assistance and training in support of small and medium enterprises (SME). Total project funds, $10 million, are made available by the World Bank/IDA, and include a Private Enterprise Loan Program (PELP), which is a $5.4 million line of credit, ($1 million earmarked for women) to be issued through qualified participating banks. Using IDA funds, GOTG will provide a grant of $1.2 million to the National Investment Board (NIB) to administer the public enterprise reform and privatization program. The remaining $3.4 million will: a) provide training, technical assistance and logistical support to participating banks, SME support institutions and the Gambian Commercial and Development Bank (GCDB) Apex Unit and; b) restructure and strengthen the GCDB.

Some of the SME support institutions that will benefit include Gambian Women's Finance Corporation, Indigenous Business Advisory Service, Management Development Institute, and the Gambia Technical Training Institute.

Social Impact: By its support of SMEs, the EDP will assist development of entrepreneurs and create job opportunities at a relatively low capital cost. The credit component is expected to generate investments totaling $8.3 million and 1,400 new jobs at an average cost of $6,000 per job. The project also focuses on women and will upgrade their skills and ease their access to institutional credit. The financial sector will also be strengthened by the restructuring of GCDB.

Constraints: As the first operation of its type in The Gambia, the project will introduce new arrangements to the Central Bank and intermediate institutions. Delays have already been encountered in the appraisal and supervision of SME projects. Further, the success of the project is contingent on the GOTG's progress in the overall Economic Recovery Program as it relates to private sector development and investor interest.

SECOND AGRICULTURAL DEVELOPMENT PROJECT (ADP II)

Project Description: The ADP II project will attempt to consolidate progress made under the Rural Development project (RDP I), to assist with major government sectoral reforms, and to increase agricultural production of both export and food crops through strengthening support institutions, improved research and seed multiplications. The planned implementation period is six years (1984-90).

The objectives will be achieved by:

1. Providing financing for farm inputs to be distributed by GCU.

2. Assisting with reorganization of the Ministry of Agriculture (MOA) field extension services.

3. Improving the infrastructure to conduct research.

4. Assisting the GOTG to remove fertilizer subsidies.

5. Improvement of the seed multiplication unit at Sapu.

6. Providing financing for groundnut storage facilities.

7. Monitoring of the project by MOA Programming and Monitoring Unit (PPMU).

Sources of Funding: The cost of the project is approximately $30 million. It is financed by loans from World Bank/IDA ($8.9 million, IFAD ($4.75 million) and gifts from the Government of Italy ($9.5 million). The remainder is obtained through GOTG and farmer payments.

Social Impact: The project outcome relates directly to increased crop production with implied concomitant increases in net foreign exchange, farm income and nutritional benefits. In addition, a much needed strengthening of the agricultural institutions would occur.

A mid term project review of the implementation of the project, conducted in 1986, found mixed results. A follow up mission in 1987 by three donor/lender representatives noted positive action by GCU to improve the loan structure and to seek a credit manager. It was recommended that PPMU closely monitor the GCU credit eligibility system and the quality of seeds available in village stores. The mission gave highest priority to establishment of an agriculture extension system.

Goals and Constraints: The project aims to extend agricultural services to 10,500 additional farm households than it presently reaches by the end of the project period. Various constraints exist including lack of long term plans in dealing with pest invasions of crops and bureaucratic lethargy in the reorganization of the Ministry of Agriculture. Draw downs on project funds are behind schedule with only half of loan pools utilized.

INFORMAL FINANCIAL SYSTEMS OF THE GAMBIA*

Characteristics

An important feature of the Gambian rural financial market is its seasonal nature. Peaks occur in loan repayment and trade after harvest, followed by borrowing in June to finance agricultural inputs and then more borrowing to cover food and cash deficits until the first harvest in September. Rural Gambians are often involved in multiple occupations and move resources between these. Savings and lending take place in cash and in kind with men and women usually pursuing separate strategies.

Savings

Rural Gambians view cash as an unstable form of wealth due to inflation and frequent borrowing by family and friends. Money was traditionally buried but now is sealed in boxes at home or given to a money keeper who might hold it interest free for periods up to months. Wage earners may request employers to withhold wages for similar lengths of time. Seasonal savings are generally meager excepting amounts allocated to ceremonial occasions, education, or wage labor migration.

*This synopsis was derived from a report by Parker Shipton, consultant to the EFPA project. The report resulted from a structured survey of 138 farmers in three villages in addition to interviews and observations. It was published in June of 1987.

Banking is practiced only by a small proportion of the rural population and by almost no women. In general, women have access to financial institutions only through men. Banks, however, are mainly inaccessible and are also perceived as unreliable.

Thus, non-monetary savings take on great importance. Livestock, in particular, are a highly valued cultural asset for males and are safe from potential borrowers. At times, however, animals are shared to minimize risk, divide labor and optimize pasture use. Female forms of non-monetary savings include gold and silver jewelry. Wealth is also stored in the form of crops and goods bought for the farm and household and later sold.

Sources of Informal Credit

Relatives are the easiest sources of credit and these loans are most often interest free. Families often lend significant amounts for marriages and to young men who do migrant work. These debts may last for many years but are likely to be given priority for repayment over institutional debts.

Friends also lend a variety of goods and services with many varied repayment schedules, interest rates and guarantees. Rural business people are an important source of short term loans of money, food and other resources. They are regarded as hard bargainers and may use legal means to obtain repayment. As a last resort, farmers may turn to village or religious leaders for help to locate sources for loans.

Most small businesses in rural areas begin with informal credit, mainly from relatives with other businesses. Even women with small market stalls may depend on loans from other merchants which can be repaid in work.

Interest

The Gambian concept of interest must be understood in relation to Islamic law and custom. The Koran forbids usury, which can be interpreted to mean interest of any kind but generally refers to unfairly high interest, and is judged by total interest paid. Short term loans are therefore preferred even though the long term rate may be much lower. Lenders commonly circumvent the rule by hiding interest rates. This can be done by demanding a return much higher or in a different commodity than the loan, such as a full bag of groundnuts in repayment for a cash loan worth 25% of a bag, or by calling for a fee or service charge in lieu of interest.

Private lender interest rates vary from zero to several hundred percent, being affected by factors such as the size and time of year of the loan and the wealth of the borrower. Loans issued in cash are likely to be more expensive.

Local Savings and Credit Groups

Kafo groups are hierarchically structured associations of either sex or both who have one or more common interests. These groups are increasingly taking on programs of savings and credit programs. Some PVOs have successfully used kafos as conduits for financial assistance. The kafos are able to exert some pressure on their members to cooperate.

The osusu is a rotating savings and credit association found usually in urban areas but sometimes in the countryside. Most osusus are women's groups where members contribute and withdraw in a cycle. This system is highly accessible and requires no paper work, but members must be highly disciplined for it to work. The function and structure of the osusu and its possible tie-in to the formal banking system should be looked at in more detail.

Institutional Credit

The services of the government controlled cooperatives, currently (1989) undergoing re-organization, are of great value to the farmer. The inputs are often re-loaned or sold within the village. PVOs have turned to credit in lieu of grants to promote agricultural and off-farm income generating activities. PVO programs are moving toward more realistic interest figures and offer a needed increase in the options for savings and credit.

ACTION AID

Program Description: Action Aid/The Gambia is a rural development program which began operations in 1979. Its budget for 1989 was around $2.8 million. The agency headquarters are in Kanifing and field operations are targeted in four areas of the countryside: Lower River Division, MacCarthy Division-North, MacCarthy Division-South, and North Bank Division/Upper River Division-North. Regional field headquarters are in Mansakonko, Bansang and Farafenni towns. The agency performs in four sectors:

1. Food Production Support Sector

2. Basic Education and Skills Training

3. Community Health Improvement Project

4. Sponsorship and Donor Services

Funds are obtained primarily (approximately 75%) through child sponsorship by British citizens. The sponsorship level is 13,145. In addition, a program named 'Community Links' relates a rural Gambian community with one in the UK for the purpose of fund raising. Overseas Development Agency (ODA) and the EEC provide funds for operations. ODA has targeted two other projects, the group revolving fund (GRF) and community and health instructors training, for funding from 1989-92. A pilot GRF project will be conducted in 11 villages.

Credit Program: This program assists groups implementing self-help projects to purchase needed inputs. Short term or seasonal credit is repayable within ten months and medium term credit for larger investments may have a repayment schedule up to five years. Credit is only given to groups by Action Aid. When the GRF project begins, the groups will form a revolving fund and loan to its members. No interest is charged by Action Aid to the groups, however, the groups will charge interest to their members (maximum 10%) for cash loans from the revolving fund. Much of the credit is given to the groups in kind and an unsubsidized cost is repaid to Action Aid. GRF funds will be kept in commercial bank accounts.

At present, no formalized savings program exists but GRF membership fees will be contributed on a monthly basis to the revolving fund. The revolving fund can then be drawn upon for loans and up to 10% can be used for emergencies such as disaster relief.

Social Impact: The Action Aid credit program helps rural communities purchase inputs, such as oxen, farm machinery and outboard motors, that require long term repayment. The loans facilitate the adoption of improved production techniques. The GRF, when implemented, should lead to sustainability of a village based loan program. Approximately 200 groups have received in kind loans amounting to D2,560,669 from January through June of 1989. Repayment rate has been 75%.

Goals and Constraints: Action Aid plans to strengthen auditing and accounting for its loans programs in conjunction with the start up of the GRF pilot project. Consideration is being given to a needed training component for GRF members in literacy and numeracy.

Plans for the latter part of 1989 to improve rural transportation of farm produce include providing 203 animal drawn carts. Large equipment such as power tillers, weeders and threshers will also be provided.

GAMBIA WOMEN'S FINANCE CORPORATION

Project Description: The Gambian Women's Finance Corporation (GWFC) is a non-governmental organization affiliated with Women's World Banking (WWB), a Washington, DC-based institution addressing women's banking needs through an international network. GWFC, established in 1987, is not yet operational due to some funding gaps. It will operate in an advisory capacity to direct women to sources for loans, act as partial guarantor and organize training programs countrywide. Loans can be obtained through cooperating commercial banks, SCBG and BICI, at a low risk but market determined interest rate. GWFC has a project coordinator and three support staff members.

Sources of Funding: Part of the World Bank Private Enterprise Development Program (total $5.4 million), $1 million, has been set aside for women's credit. In addition, World Bank has contributed $225,000 directly to GWFC for consultants and implementation of training programs. Local fund raising and membership fees and a 1% guarantor fee will provide other funds. In-kind donations have been made by MOFT and office space provided by NIB. GWFC still seeks supplemental funding for operations.

Loan Guarantee Program: The loans are guaranteed by WWB (50%), GWFC (25%) and the cooperating bank (25%). Loan applications are reviewed by GWFC management, a specially formed credit committee and then by the bank. Interest rates are 23.5% to 24.5%, the lowest rate available for prime secured lending. No loans have been secured yet through GWFC.

Savings Mobilization Campaign: GWFC plans to work with NGOs and GOs to promote savings through postal savings and commercial banks.

Social Impact: The aim of the program is provide women entrepreneurs who lack collateral with access to institutional credit and training in modern business techniques. The GWFC program is one of the first in The Gambia to bridge the gap between commercial banks and high risk borrowers. Banks should benefit by increasing their patronage and generating a more positive public image. Women borrowers, in addition to securing capital, will become experienced in finance and marketing techniques. Current membership stands at 300 including 12 directors and 6 technical advisors.

Goals and Constraints: Based on the eventual success of the loan guarantee program, GWFC wishes to establish a direct lending program of small loans for expansion of established enterprises. Unfortunately, GWFC will not be fully operational until funds are committed for operations. All systems for review of applications, management assistance and training are in place.

GRASSROOTS DEVELOPMENT FUND PROJECT

Program Description: The Department of Community Development (DCD) of The Gambia was established in 1977 as part of the Ministry of Economic Planning and Industrial Development. The DCD has long been coordinating savings groups composed mainly of rural women. These savings schemes are funded by membership dues, personal contributions, sales of handicrafts, produce and labor, and assistance from NGOs.

The DCD sought donor assistance to begin a credit program for use by rural women, youth, landless farmers and artisans, and in 1987 UNDP agreed to fund the Grassroots Development Fund Project (GDFP). The project is staffed by a National Coordinator, project Coordinator and two support staff. A Board of Trustees consists of representatives from UNDP and MEPID and two local businessmen. The Technical Working group which oversees the administrative affairs consists of 15 directors of NGOs and GOs.

Loan Program: No collateral is required for loans. Interest rates are 10% on an 18 month repayment schedule. Agricultural loans receive a 36 month repayment schedule. Village Development Committees supervise application, project implementation and loan repayment.

Savings Programs: Rural women's savings group, also known as kafos, save money mainly on an informal basis with about 10% of groups using commercial bank accounts. In most cases group leaders hold the funds which are not invested but rather redistributed among the members.

Social Impact: Priority is being given to small scale, income generating activities that are endorsed by the communities and could not be established without financial assistance. Loans ranging from D250 to D32,000 have been made to 20 groups of 1,771 total members. About 26% of this number are women. Savings groups total 176 and are located in 86 villages throughout the country. Average savings per group is D1,748.42.

Goals and Constraints: The greatest constraint to most rural savers and borrowers is inaccessibility of banking institutions. GDFP is talking with commercial banks to explore possibilities for creating rural banking units. Meanwhile, plans are to increase the number of villages with access to GDFP credit and savings programs to 100 by 1991.

INDIGENOUS BUSINESS ADVISORY SERVICE (IBAS)

Program Description: IBAS was established in 1976 under the Ministry of Economic Planning and Industrial Development. As part of the GOTG's strategy to upgrade the small enterprise sector, IBAS has three main objectives:

1. To provide advisory services for local entrepreneurs,

2. To create possibilities for further expansion of the private sector through an increase in self-employment opportunities, and

3. To provide training and technical services to small scale enterprises in the informal sector.

IBAS has 25 professional staff assisted by 19 extension staff and has four offices in addition to headquarters in Bakau. These are located in Farafenni, Bansang, Barra and Basse. In conjunction with Gambian Technical Training Institute, IBAS has developed a two year course in self-employment. The GOTG provides funding for IBAS and services of the organization are provided free of charge.

Credit Program: IBAS has also assumed the role of administering grant funds for loans to the informal sector. A loan scheme funded by United Nations Capital Development Fund (UNCDF) and GOTG distributed about D700,000 but experienced an extremely high default

105

rate and was suspended in 1982. In 1985, IBAS received another grant of $375,000 from UNCDF, supplemented by $125,000 by GOTG. This program is now under suspension, pending collection of arrears loans. Loans were given totaling $600,000. A sum of $100,000 remains in the loan pool. Only a thirty percent repayment rate has been achieved.

Social Impact: Although its loan administration failed, IBAS was successful in its support of potential and existing entrepreneurs through extension of credit and provision of advisory services. Reasons for the failure included lack of defined roles in the loan process by participating institutions, political interference and poor collection efforts. IBAS is still considered to be an important player in the transition of small and medium businesses into the formal sector.

Goals: The GOTG is in the process of restructuring IBAS. Under the new plan, IBAS will receive managerial and financial autonomy, including its own board of directors. IBAS will take on more of a private sector orientation which will offer competitive salaries. It will also begin to charge fees to businesses for its services. When the legislation to transform IBAS is submitted for review to World Bank/IDA, IBAS may receive funding from the Enterprise Development Project.

JAHALLY PACHARR SELF MANAGED VILLAGE BANKS

Project Description: The internationally funded Jahally Pacharr rice irrigation project is well established on the south bank of the McCarthy Island District. In February, 1988, one of the donors, German Banking Corporation (KFW), conducted a survey in participating villages to determine farmer interest in a credit scheme at the village level. A two year pilot project was then funded to study the feasibility of a regional network of village banks and to create a small number of banks to collect savings and redistribute them as credit. The banks are to operate without injection of external funds. An expatriate advisor from the French International Center for Development and Research (CIDR) manages the program. Training is provided for bank staff and village credit committees.

Savings and Loans Programs: A bank management committee is responsible for setting policy and for granting loans. Its members are elected by villagers and are gender split. In the first months, savings were collected with no loans. Three banks are in operation representing the major area tribes: Fula, Mandinka and Serahuli. Three more banks are due to open this year including one for Wolof speakers.

Social Impact: The results of the pilot banking scheme and accompanying research will provide interesting and valuable information regarding village banking networks. Membership numbers 272, of which 56% are women. Forty loans have been granted for a total of D9,595. Savings deposits are D19,495. Villagers seem to view the movement positively and are pleased to be able to apply for loans year-round. The availability of funds has encouraged villagers to plan income generating activities.

Goals and Constraints: Funding for the pilot project will lapse in January, 1990. At the end of 1989, an appraisal will determine the continuance of support by KFW.

NATIONAL WOMEN'S BUREAU

Program Description: The Gambia established a National Women's Council in July of 1980. The Council is an advisory body to the Women's Bureau, responsible for implementing programs and projects for women. The functions of the Women's Bureau include:

1. Advise GOTG on matters affecting development and welfare of women, including education and training.

2. Advise GOTG on measures for integration of women as equal partners in economic, social and cultural development.

3. Examine and advise GOTG about the effects of traditional beliefs and practices on the advancement of women and recommend alternative action.

4. Study and recommend large scale non-formal education and training programs to improve the standard of living of women and eradicate illiteracy.

5. Organize seminars, meetings and courses for women.

6. Use existing institutions for dissemination of information for the advancement of women.

Funding for the Bureau is provided by monies appropriated by Parliament and those received by donations and payments. Projects promoting Women In Development (WID) such as World Bank, UNDP, UNIFEM and others also contribute.

Credit Scheme: The Gambian Government provides funds for a revolving credit program first implemented by the Women's Bureau in 1986. In 1986 and again in 1987, D50,000 were provided by GOTG. The amount in 1988 was D30,000 and the total amount for 1989 is still undetermined. Total amounts for lending were D44,000 in 1988, and D126,000 expected for 1989.

About 200 applicants countrywide are selected each year to receive loans. Loans range from D550-1500 for urban areas and D200-400 for rural areas. Interest rates on a six month term of repayment is 10% and 5% on a three month term.

Savings Programs: UNIFEM has funded a project involving sorghum and millet decorticating mills. Three mills are loaned to women entrepreneurs who charge a fee for their use. Part of money earned is used for maintenance and the rest saved by a management committee. This savings will be used to purchase another machine.

Social Impact: The Women' Bureau has a broad mandate to assist women in The Gambia. The savings and loans program focus on promoting agricultural and small scale industries and appropriate technology and labor saving devices for women.

Goals and Constraints: The major constraints in promoting women's concerns in development programs and projects are:

1. Fear by the communities toward economic independence and political strength by women. This has resulted in unwillingness to cooperate, rejection and sometimes even sabotage. WID ideas are viewed as being non-traditional, therefore unacceptable.

2. Lack of required financial, human and material resources to execute programs.

3. Inadequate urban and rural infrastructures for development purposes such as day care centers and vocational training centers.

4. The great majority of Gambian women are illiterate.

SAVE THE CHILDREN USA

Program Description: Save the Children Federation (SCF)/USA, works in the North Bank Division of The Gambia. In 1986, Oxfam/USA provided funding for a Credit and Technical Assistance Program (CTAP) to be implemented by SCF. The project was initiated in ten villages of Upper Baddibu area, expanding in 1988 to include three additional villages. One Economic Development Coordinator is employed by CTAP to oversee its operation. Loan applicants are generally small business entrepreneurs. The project includes a training element in money and business management.

Loan Program: CTAP uses formal lending procedures such as eligibility criteria, feasibility studies, repayment schedules and contracts. Village Development Committees (VDC) guarantee loans and also collect repayments. Terms of repayment are negotiated based on project appraisals. Following a recent assessment of the CTAP program, interest rates will increase from 8% to 15%, better reflecting the cost of the loans. CTAP contains no savings component but encourages constituents to open accounts at the local branch of GCDB.

Social Impact of the Program: CTAP, like other alternative schemes, offers credit to groups and individuals not qualified for commercial bank loans. Through its secure standing in the communities, SCF is in a good position to judge applicant viability and to exert some pressure to repay. Support has been given for a wide variety of income generating projects involving fish, baked goods, gardens, carpentry, blacksmithing and soap.

Loans have been relatively small, ranging from D43 to D9,000. A total of D127,315 has been loaned as of September, 1989, benefitting 35 individuals or groups in the target area (10-12,000 population). An impressive 95% repayment rate has been achieved to date.

Goals and Constraints: The ultimate goal of SCF/CTAP is to establish self-sustaining village based credit programs with linkage to a formal lending institution. At present, however, no bank in The Gambia deals directly with the small loans needed by village level business people who lack collateral and ability to repay at a high interest rate.

The groundwork is being formed for sustainability by development of village level management skills through training programs and strict adherence to established procedures for loan administration. Relationships with formal banks are encouraged through savings accounts.

The major constraints faced by SCF in terms of the target population are lack of commitment to community development and lack of literacy and numeracy (literacy rate in target area is 7% for males and 2% for females).

WOMEN IN SERVICE DEVELOPMENT ORGANIZATION MANAGEMENT (WISDOM)

Program Description: WISDOM is a non-government, non-profit organization established by rural and urban women representing the informal sector. The women are organized into groups called 'osusus' according to occupation. The osusu is a traditional method of savings and lending and has been developed by WISDOM into a viable scheme. Osusus are divided into smaller groups of 10-20. Each group has a management committee and opens a savings account at a commercial bank. The groups also receive training in literacy and numeracy.

Funds are generated by the osusus by way of regular contributions by members which are then redistributed in cycles. This provides large amounts of capital for a woman to purchase needed inputs for business.

Loan Program: WISDOM Indigenous Lending Scheme (WILS), provides shares which members purchase. Members then receive dividends on the shares based on the loan profit margins. WILS loans money to groups who then lend to the members. Interest rate is 11% with a repayment schedule from one to three years. Groups lend money to their members at a 15% rate of interest with the terms of repayment agreed upon within the group.

Savings Program: Interest from loans is deposited in the group savings accounts along with regular member contributions. The frequency and amount of the contribution is determined by the groups. At a designated time, a lump sum will be paid to one member.

Social Impact: WISDOM provides easy access to credit for women and develops their abilities to organize and manage their financial activities. Women's groups represent at least 11 different occupations. Total number of members is 1,746 including shareholders.

Goals and Constraints: The major drawback to the informal lending system is the limited amount of credit available. Because of the informality of the groups, there is also a danger of borrowers being caught in a cycle of indebtedness. The limitations of the informal system inhibit long term planning and investment decisions that borrowers must make to improve productivity. The osusu systems do, however, indicate the extent of the need for credit by women and can serve as examples for creation of credit programs with features useful to women.

WISDOM is seeking donor contributions and wishes to establish other development projects.

SOURCE SELECTION INFORMATION

A. Technical Assistance Requirements

The projectized component of the proposed program will fund all the technical expertise needed to assist the process of financial sector review, provide training for GCDB and CBG staff and provide a manager to monitor the program. The proposed TA will work closely with USAID-funded technical experts. Under the ongoing USAID funded Economic and Financial Policy Analyses Project (635-0225), two long-term financial experts and occasional short-term experts are attached to the MOFT from the Harvard Institute for International Development (HIID) and will continue their policy studies and advisory function to the MOFT during the period the proposed program is being implemented. The HIID team will continue to monitor some of the changes in the financial sector brought about by this program. Under the GAEPRP (635-0228 and 635-0231) authorized in 1987, funds are budgeted for three banking advisors to assist in the rehabilitation, restructuring and recapitalization of the GCDB. The three banking experts will also identify areas where short term technical assistance would be needed. Such assistance would be funded out of our proposed program. The banking advisors will also identify and evaluate staff who could benefit from short-term training and determine whether such training would be best acquired in country or in the U.S. Staff members that could benefit from training include cashiers (15), Bank clerks (45), ledger keepers (15), accountants (20), mid level managers (12), and senior managers (5). The magnitude and mode of training would be determined by the project 0231 technical assistance team. In addition to training, the technical assistance team will determine the equipment needed to enhance their work and enable efficient operations at the GCDB. A detailed equipment plan would be prepared by the team and submitted to OAR/Banjul for approval and funding under the proposed projectized assistance component. A preliminary training plan and equipment list is however included in the program budget.

Procurement of Technical Assistance: Standard HB 3 Development Assistance Authorization, implementation procedures and regulations will be used to obligate funds and implement the technical assistance, training and procurement of goods and services in this program except where Africa Bureau Procurement Policy Recommendations on Section 604(a)-type waiver contained in the DFA authorization applies.

Source and Origin of Procurement: The authorized source and origin of goods and services for DFA funded programs and projects is geographical code 935. However, based on Approved Policy Recommendations governing the implementation of DFA funded activities, all technical services experts, long and short-term training and equipment are expected to come from U.S. sources as defined in existing nationality rules.

All procurement will be AID/Direct under HB 14 regulations which conforms to OAR/Banjul current policies on program financing and implementations.

Technical Assistance: Four sets of technical expertise will be required to implement this program. However, two contracting mechanisms will be used to acquire the technical expertise: (1) all short-term technical assistance will be procured through the IQC firm mechanism; (2) a personal services contracting (PSC) mechanism will be used to procure the services of a project manager to assist the Economics Office monitor the proposed program and other ongoing financial policy reform programs and projects. The four sets of technical expertise required for the program are:

(i) Technical Assistance for Studies

The topics to be studied will be determined by the GOTG in consultations with OAR/Banjul and would cover among other subjects:

a) the Central Bank's regulation and supervision of financial institutions: adequacy of staffing, in terms of numbers and training; adequacy of regulatory powers granted the CBG; adequacy of CBG's enforcement of regulatory powers; adequacy of accounting standards used in the country; and adequacy of reporting requirements.

b) debt recovery procedures, including both laws and courts: property rights and adequacy of collateral assignment and transferability of property rights; enforcement of contracts; bankruptcy laws; access to information by both borrowers and lenders; and adequacy of court system to handle debt recovery.

c) adequacy and availability of rural credit and term loans.

d) development banking: role; subsidization issues; need for providing managerial assistance to borrowers; and alternatives, such as an institution to refinance development loans of commercial banks.

It is envisioned that 14 person months of short-term technical assistance would be needed to develop the Terms of Reference for the studies and to conduct the studies. At least three teams each are likely, consisting of two or three experts who will be in country for 2-3 months each, being well-versed in regulations governing financial institutions, laws and contracts.

(ii) Technical Assistance for GCDB

Six person months of technical assistance to the GCDB are programmed. These experts will supplement the U.S.A.I.D. funded long-term technical experts attached to the GCDB. Two person months will be used to analyse staff potential and develop a detailed training plan tailored to the needs of the bank.

The remaining four person months of technical assistance will be provided for such activities like facilitating the privatization process, computerization of banking operations, management information systems, loan recovery, training of trainers, strategic corporate planning, branch banking, foreign exchange department management and assets and liability management.

(iii) Technical Assistance and Equipment for CBG

Six person months of technical assistance are programmed to assist the Central Bank in improving bank supervision, in implementing changes in policy recommended by the studies, and in switching to a system of controlling the monetary base. In addition five PC's with associated software and printers will be purchased with project funds to assist the CBG in implementing recommended changes.

(iv) Program Manager

A program manager who will assist the OAR/Banjul Economics Office in the day-to-day management of this program is budgeted for. In addition project funds will be used to purchase one PC and printer plus required software.

The proposed Terms of Reference for the Program Manager:

Objective:

Working under the supervision of the Program Economist, the program manager will be concerned with the management of this program.

Scope of Work

1. The Program Manager will manage the current program, 635-0233 and 635-0234.

2. Prepare scopes of work and the required documentation to acquire the technical services for in-depth studies of various policy, legislative, and program issues requiring specialized expertise.

3. Liaise with USAID funded consultants conducting studies in The Gambia financial sector and facilitate their work to ensure a smooth generation of data, analysis and recommendations pertinent to the program.

4. Develop contacts among a variety of host country agencies, other donor organizations and the private sector and work with their staff to develop and perform studies, and answer their routine requests for information on OAR/Banjul's program on the financial sector.

5. Share his/her knowledge and skills with employees of OAR/Banjul, the U.S. Embassy and the GOTG informally or formally through participation in workshops, seminars conducted at The Gambia Management Development Institute or other facilities.

116

6. Prepare reports on the Gambian financial system and identify areas for further study.

Illustrative Budget for Projectized Component

Technical Assistance for Studies and Training

Review Studies 14 person months at $30,000 per person months.	$420,000
GCDB T.A. 6 person months at $30,000 per month	$180,000
CBG TA 6 person months at $30,000 per month	$180,000
Training	
a) Incountry for 100 people at $200 each	$ 20,000
b) Third country for at least 10 people at $6,000 per trip	$ 60,000
c) Short courses in the U.S. for 12 people at least $9,500 per course	$120,000
Equipment	
16 P.C. Computers at $10,000 per computer including software and 1 yr of service contract	$160,000
Other training material such as VCR, TV, flip charts, other charts, journals etc. books, pamphlets etc.	$ 50,000
Program Manager	
Salary $30,000 per year for 2 years	$ 60,000
Benefits and FICA insurance	$ 10,000
Travel, training, per diem and other costs	$ 10,000
Evaluation	$ 50,000
Financial Review	$ 30,000
Contingency and Other Costs (10%)	$150,000
Total Estimate	$1,500.000
	==========

PAAD Bibliographic Materials

BICI, Annual Report, various issues.

Central Bank of The Gambia, "Bulletin", various quarterly issues.

Clark, R.H. "A Study of Agricultural Credit Operations of the Cooperative Movement in The Gambia," April 1987.

- , "Lending to Small Scale Farmers: The Experience of The Gambia Cooperative Union," October 1989.

Demissie, Asafa et al., "Study of the Operations and Management of the Gambian Cooperative Union", report prepared for MOFT by HIID, September 15, 1989.

Duesenberry, James, "Fiscal and Monetary Policy in The Gambia" report prepared for MOFT by HIID.

- , "GCDB", report prepared for MOFT by HIID.

- , "Monetary Control in Gambia," report prepared for USAID by HIID, November 30, 1989.

Duesenberry, James and Brendan Walsh, "Financial Markets in The Gambia" report prepared for USAID, September 1989.

GCDB, Annual Report, various issues.

GOTG, "Central Bank of The Gambia Act", 1971.

- , "The Financial Institutions Act," 1974.

- , "The Gambia Commercial and Development Bank Act", 1972.

- , "Moneylenders Act", 1955.

GCDB, "Report prepared for USAID".

IMF, "Staff Report for the 1989 Article IV Consultation", October 16, 1989.

- , "The Gambia - Recent Economic Developments", November 7, 1988.

- , "The Gambia Statistical Annex", October 19, 1989.

Jabara, Cathy L. "Economic Reform and Poverty in The Gambia: A Survey of Pre - and Post - ERP Experience:", report prepared for USAID by Cornell University.

Ladd, James W. "The Gambia: Stock Market Feasibility," report prepared for USAID by Price Waterhouse", May 1989,

118

McPherson, Malcolm, "The Gambia's Economic Recovery Program", September 1988

– , "Monetary Policy in The Gambia", December 1983.

McPherson, Malcolm and Steven Radelet, "Economic Reform in The Gambia: Policies, Politics, Foreign Aid, and Luck", May 11, 1989.

Mulligan, Paul, "Evaluation of The Gambia's AEPRP", A.I.D. evaluation, July 1989.

Phillips, Lucie, C. et al., "The Senegambia Confederation", report prepared for USAID by the Institute for Development Anthropology, February, 1987.

Pugh, William and J.B. Wyckoff, "Private Sector Assessment and Strategy Study on The Gambia," report prepared for USAID, February 1989.

Robert R. Nathan Associaties, "Diagnostic Study of the GCDB", June 17, 1988.

– , "Interim Report on Investment Opportunities in The Gambia", report prepared for USAID, September 19, 1989".

Sarr, Babou Modou, "The Impact of Supply-Lending Finance on Public Financial Institutions: The Case of GCDB", M.A. Thesis, 1989.

SCB, "Annual Report", various issues.

Shipton, Parker, "Time and Money in the Western Sahel: The Cultural Economy of Interest and Usury in Informal Gambian Rural Finance", report prepared for USAID by HIID, June 1989.

– , "Borrowers and Lenders in the Gambia", report prepared for MOFT by HIID, June 21, 1987

USAID, "African Bureau Instructions in Implementing Special Procurement Policy Rules Governing DFA".

USAID, "African Economic Policy Reform Program for The Gambia, Project Paper", September 1987.

– , CDSS FY 1991 - 1995, May 1989.

– , Financial Markets Development, A.I.D. Policy Paper, August 1988.

USAID, "Implementing A.I.D. Privatization Objectives, PB-14", June 1986.

— , "Interest Rate Controls and Financial Repression in Developing Countries", report prepared for USAID by Authur Young, Feb 4, 1987.

— , "Preliminary African Bureau Guidance for Non-Project Assistance Under the Development Fund for Africa", July 1988.

UNDP, "Gambia: Financial Services", Berne, 1989.

Van der Veen, Jan et al., "Impact Evaluation of The Gambia's Economic Policy Reform Program", A.I.D. evaluations, October 1989.

Walsh, Brendan, "AEPRP Amendment, memo to USAID from HIID, September 1989.

Wharton Econometrics, "The Role of the African Financial Sector in Development," report prepared for USAID, July 31, 1987.

Wing, Michael, "The Credit System in The Gambia", report prepared for USAID, April 30, 1983.

World Bank, "Financial Sector Reforms in Adjustment Program, Working Paper", March, 1989.

— , "Report of the Task Force on Financial Sector Operations", August 1, 1989

— , "Republic of The Gambia: Second Structural Adjustment Program:", May 12, 1989

— , "The Gambia, Enterprise Development Project", November 30, 1988.

— , The Gambia: Development Issues and Prospects, September 1985".

— , "The Gambia: Policy Framework Paper, 1989/90 - 1991/92," October 16, 1989

120

A.I.D. Geographic Code 899 refers to any area or country in the Free World, excluding the participating country itself. The Free World excludes the following areas or countries:

Albania

Bulgaria

Cambodia

China (The People's Republic of China)

Cuba

Czechoslovakia

Estonia

German Democratic Republic (East Germany)

Hungary

Laos

Latvia

Lithuania

Mongolia

North Korea

Poland

Romania

U.S.S.R.

Vietnam

121

Initial Environmental Examination
or
Categorical Exclusion

Country: The Gambia

Title of Activity: The Gambia Financial Sector Restructuring (635-0233)

The Gambia Financial Sector Restructuring Support - (635-0234)

Funding: FY 1990 - $6.5 Million

Period of Project: November 1989 - November 1991

IEE Drafted by: REDSO/WCA, Janet Schulman, PDO

Environmental Action: Categorical Exclusion

Discussion: This activity meets the criteria for Categorical Exclusio in accordance with Section 216.2(c) of Regulation 16, and is therefore exempted from the need for further environmental review. A total of five million ($5,000,000) represents a cash transfer to the Government of The Gambia in support of policy changes and reforms in the financial sector and encourage privatization of the Gambia Commercial and Development Bank; the largest domestic Commercial Bank in The Gambia. The balance of $1,500,000 will be used for technical services, studies on the legislation that affect the sector, short-term training, equipment, evaluation and financial review.

The use of program funds is not tied to financing specific commodities or for a specifically identified project or projects. The categorical exclusion from environmental procedures for education, technical assistance training, analyses and studies, academic or research

122

workshops and meetings is applicable here. Sec. 216.2(c) (2) (i) and (iii). This activity also meets the criteria of Section 216.2 (c). (2) (vi). The proposed action will not affect the environment.

Concurrence: ______________________
J.M. Stone
AID Representative

Bureau Environmental Officer's Decision:

Approved: ____________________
Disapproved: ____________________
Date: ____________________

Clearance: REDSO/WCA ________________
Anthony Vance

Date: ______________________________

ANNEX I

A.2 - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

The Financial Sector Restructuring Program for The Gambia (635-0233).

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

YES

YES

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1989 Appropriations Act Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.

CONGRESSIONAL NOTIFICATION

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

N/A

3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

NO

N/A

N/A

124

4. FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

4. (a) Trade will increase indirectly as more investments are made to increase production;
(b) The policy reforms should encourage more private investment as the GCDB is restored to a financially sound base; more competition in the banking sector will result
(c) The policy reforms are designed to strengthen the GCDB, a savings and loan institution.
(d) The policy reforms should discourage monopolistic practices;
(e) The policy reforms should encourage technical efficiency in the financial sector and the GCDB;
(f) N/A.

5. FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

5. As the privatization of the GCDB is effected, there should be an opportunity for US investors, including US banks, to invest in the GCDB and other financial services.

6. FAA Secs. 612(b), 636(h); FY 1989 Appropriations Act Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

6. N/A

7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

7. NO

8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

8. YES

9. FAA Sec. 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?

9. YES

10. FY 1989 Appropriations Act. Will assistance be designed so that the percentage of women participants will be demonstrably increased?

10. YES

125

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

1. N/A

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

a. N/A

b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities?

b. N/A

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

c. N/A

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

d. N/A

e. FY 1989 Appropriations Act. If assistance is in the form of a cash transfer: (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currences that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA

e. N/A

126

would the[illegible]lves be available? (c) Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

2. <u>Nonproject Criteria for Development Assistance</u>

a. <u>FAA s. 102(b), 111, 113, 281(a).</u> Extent to which activity will (a) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

2. a. The GCDB branches up-country will provide access to formal sector financial services for the poor, including rural residents.

b. N/A

c. A recapitalized, privatized GCDB will play a key role in financing the investments needed to support the efforts of The Gambians to promote sustained development.

127

b. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Is assistance being made available (include only applicable paragraph which corresponds to source of funds used; if more than one fund source is used for assistance, include relevant paragraph for each fund source):

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

b. (1) N/A

(2) [104] for population planning under Sec. 104(b) or health under Sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

(2) N/A

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(3) N/A

(4) [106] for energy, private voluntary organizations, and selected development problems; if so, extent activity is:

(4) N/A

(i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

(ii) concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations; N/A

(iii) research into, and evaluation of, economic development processes and techniques; N/A

(iv) reconstruction after natural or manmade disaster and program disaster preparedness; N/A

(v) for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance; N/A

(vi) for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development. N/A

(5) [120-21] for the Sahelian region; if so, (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multidonor development plan which calls for equitable burden-sharing with other donors; (b) has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom)?

(5) USAID and the IBRD are cooperating in the restructuring of the GCDB. The GOTG has participated in the design of the reform agenda. The recapitalization of the GCDB and its privatization are a matter of national priority. The GOTG ERP is a multi-donor funded development plan which involves equitable burden-sharing among the donors.

(5) (b) YES

c. FY 1989 Appropriations Act. Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U. S. Government?

c. N/A

d. FAA Sec. 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

d. N/A

e. FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

e. The GCDB is the only domestic (national) bank in the financial sector. It is important to the people of The Gambia that it be restructured and recapitalized so that the vast majority of Gambians who are its customers (savers and borrowers) continue to have access to formal sector financial services. The policy reforms will encourage and promote the institutional development of the GCDB as a commercially viable financial institution.

f. FAA Sec. 101(a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

f. YES

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

The Financial Sector Restructuring Support Project for The Gambia (635-0234)

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

YES

YES

A. <u>GENERAL CRITERIA FOR PROJECT</u>

1. <u>FY 1989 Appropriations Act Sec. 523; FAA Sec. 634A</u>. If money is sought to obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?

A. 1. YES

2. <u>FAA Sec. 611(a)(1)</u>. Prior to an obligation in excess of $500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

2. (a) YES
(b) YES

3. <u>FAA Sec. 611(a)(2)</u>. If legislative action is required within recipient country, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

3. Technical assistance being provided to the GCDB and the GOTG will assist in drafting any legislation which may be required. The restructuring and privatization of the GCDB is a condition precedent and policy reform of AEPRP grant agreement.

132

4. FAA Sec. 611(b); FY 1989 Appropriations Act Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

4. N/A

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

5. N/A

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

6. NO

7. FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

7. (a) More productive investments will increase production and trade.
(b) The policy reforms will encourage more private investment.
(c) The technical assistance will contribute to the strengthening of the GCDB, a savings and loan institution.
(d) The technical assistance will discourage monopolistic practices.
(e) Technical assistance will improve the GCDB's technical efficiency;
(f) N/A.

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

8. The technical assistance is being provided by US firm. This should encourage more us involvement and investment as US firms become more involved in the financial sector.

137

9. FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars. 9. N/A

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been for its release? 10. NO

11. FY 1989 Appropriations Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? 11. N/A

12. FY 1989 Appropriations Act Sec. 549. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? 12. NO

13. FAA Sec. 119(g)(4)-(6) & (10). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other 13. N/A

134

wild'ife habitats; (c) support efforts to identify and s rvey ecosystems in recipient countr es worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

14. FAA Sec. 121(d). If a Sahel project, has a determination been made that the host government has an adequate syst for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)? 14. YES

15. FY 1989 Appropriations Act. If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? 15. N/A

16. FY 1989 Appropriations Act Sec. 538. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? 16. N/A

17. FY 1989 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has prior approval of the Appropriations Committees of Congress been obtained? 17. N/A

18. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision). 18. YES

B. FUNDING CRITERIA [illegible] PROJECT

1. Development Assistance Project Criteria

a. FY 1989 Appropriations Act Sec. 548 (as interpreted by conference report for original enactment). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduc[illegible], consultancy, publicat[illegible], conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (b) in support of research that is intended primarily to benefit U.S. producers?

B. 1.a. N/A

b. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental

b. The technical assistance and training will increase the ability of the GCDB to provide better financial services to the vast majority of Gambians in urban and rural areas especially through its branch offices up-country.

(b) N/A

136

institutions; (c) supp.rt the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

(c) traini.g and technical will help the ADB play a key role in financing self-help efforts.
(d) equitable access to financial services for women will be sustained.

(e) N/A

c. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY Appropriations Act (Development .und for Africa). Does the project fit the criteria for the source of funds (functional account) being used?

c. YES

d. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

d. N/A

e. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

e. NO. The Gambia is a relatively least developed country and the cost-sharing requirement is being waived.

f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

f. YES

137

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

g. The GCDB is the only domestic bank and as such meets the needs of the vast majority of Gambians who save and borrow from the formal sector. Therefore, technical assistance and training will meet the needs of the people to have a domestic bank which serves the national interests of The Gar

h. FY 1989 Appropriations Act Sec. 536. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

h. NO

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

NO

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

NO

i. FY 1989 Appropriations Act. Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program of coercive abortion or involuntary sterilization?

i. NO

If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?

NO

j. F' Sec. 601(e). Will the project ilize competitive selection rocedures for the awarding of contracts, except where applicable procurement rules allow other' se? — j. YES

k. FY 1989 Appropriations Act. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)? — k. N/A

l. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded by helping to increase — l. N/A production on lands already cleared or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k)/utilize the resources and abilities of all relevant U.S. government agencies?

m. <u>FAA Sec. 118(c)(13)</u>. If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (b)/take full account of the environmental impacts of the proposed activities on biological diversity?

m. N/A

n. FAA Sec. 118(c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas?

n. N/A

o. FAA Sec. 118(c)(15). Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; (c) the colonization of forest lands; or (d) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

o. N/A

p. FY 1989 Appropriations Act. If assistance will come from the Sub-Saharan Africa DA account, is it (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) being provided in accordance with the policies contained in section 102 of the FAA;

p. (a) YES

(b) YES

141

(c) being provided, when consistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (e) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

(c) N/A

(d) YES

(e) N/A

1112

q. FY 1989 Appropriations Act Sec. 515. If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified?

q. N/A

2. Development Assistance Project Criteria (Loans Only)

2. N/A

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

c. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

143

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

3. N/A

b. FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes?

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

To: LEE @ DISC
From: POPE, MARGARET -D
Subject: re: Gambia Desk PSI Approval
Date: 10/15/92 Time: 4:42p

Originated by: LEEW	0/00/00	3:14p
Forwarded by: LEEW	0/00/00	3:58p (CHANGED)
Forwarded by: MARGARET	0/00/00	4:41p (UNCHANGED)

To: DISC:LEE, DISC:VALERID

Margaret - Please forward this for Valerie for processing the subject document, now that it has been released. - Lee White

P.S. I am also forwarding the memo to which Richard Day has responded which identifies the specific document.

The text from Richard Day follows:

Given the status of implementation of the Gambia Financial Sector Restructuring program (635-0233/0234), no longer needs to be classified "procurement sensitive" and may be released externally in its entirety.

Dick Day
Country Development Officer
AFR/SWA