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ASSESSMENT OF THE FINANCIAL SECTOR IN THE GAMBIA

PREPARED FOR THE

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

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I. INTRODUCTION

This report contains an assessment of the formal and urban financial sector in the Republic of The Gambia. The purpose of the project is to review the adequacy of the existing legal, regulatory, supervisory, tax, and accounting systems to support modern financial processes; to identify specific impediments to the expansion and deepening of the financial sector; to recommend policy actions to encourage savings and investment in the Gambian economy; and to present a sequenced schedule of policy initiatives to improve the financial sector that could be used as a basis for conditionality in USAID's multi-year Financial and Private Enterprise Development Project.

The report represents the work of an interdisciplinary team of consultants working on-site in The Gambia during the period March 26 through April 26, 1990. The team conducted a review of the recent literature on economic and financial problems and initiatives in The Gambia, interviewed knowledgeable officials in all of the formal financial institutions and relevant ministries (see Appendix A), and collected economic and financial data from the major public and private institutions.

Concurrently, a separate report addressing specific deficiencies in the legal structure of the financial sector has has been prepared by Cosult International, Inc. In preparation for the legal review, the Deloitte team conducted a preliminary survey of legislation affecting the financial sector to identify and obtain copies of specific laws that required intensive review.

Our report is structured as follows. Chapter II presents an overview of the Gambian economy and describes the challenge facing the financial system in supporting the future development of the economy. Chapter III identifies and briefly describes each of the financial institutions in The Gambia.

Chapter IV reviews the competitive conditions in each of the major financial markets, and then identifies problems and required improvements in regulation, supervision, tax, and accounting. Chapter V summarizes the team's conclusions concerning impediments to financial sector growth and modernization; projects the likely growth path of the financial sector absent any further Government action other than those interventions already agreed to by the Government under current conditionality; and presents a broad outline of a recommended strategy for further Government action and technical assistance by donor agencies.

Chapter VI details and explains specific recommended policy initiatives and actions to implement the general strategy. Finally, Chapter VII presents an implementation schedule for the recommended policy initiatives and actions.

II. OVERVIEW OF THE ECONOMY

This chapter of the report presents an overview of the Gambian economy. The discussion includes a brief description of the economic base, the Economic Recovery Program, recent macroeconomic trends and prospects, and the government's economic development strategy. It concludes with a discussion of the economic growth challenge facing the financial sector.

A. ECONOMIC BASE

The Gambian economy is based primarily on agriculture, fishing and trade. The manufacturing, construction, and service (excluding government, trade, and tourism) sectors remain very weak. Export of groundnuts and seafood, the reexport of imported commodities to other West African countries, tourism, and foreign aid generate virtually all of the foreign exchange that finances imports into the Gambia.

Agriculture and fishing provide the majority of employment in The Gambia. Salaried employment represents only about 30,000 out of a population of about 800,000, and approximately half of these positions are in Government ministries and parastatal companies. Fishing is largely an individual enterprise, although there are a few fishing enterprises that are large enough to have employees. Employment in the tourism industry is concentrated mostly in beach hotels, and to a lesser extent in restaurants and tour operators.

B. ECONOMIC RECOVERY PROGRAM

After gaining Independence, the Government of The Gambia pursued an increasingly interventionist economic development policy. Major features included price controls on many commodities, government-owned monopolies for marketing of export crops, subsidized parastatal companies for utilities and public transport, and subsidized investment in the productive sectors primarily through preferential credit mechanisms. These policies, exacerbated by a period of prolonged drought and reduced harvests, produced large fiscal deficits. The fiscal deficits were financed by rapid expansion of foreign and domestic credit, resulting in serious inflation and declining per capita real income, particularly among rural and poor families.

In 1985, the deteriorating economic situation led the Government to undertake a major Economic Recovery Program, financed largely by and coordinated with multilateral lending agencies and various other external donor organizations, including USAID. The major features include elimination of government monopolies and price controls, liberalization of exchange rate controls leading to a free floating Gambian currency, gradual reduction of the fiscal deficit through decreased government employment and improvements in tax policy and administration, sale of some state enterprises and elimination of operating deficits of those remaining under government ownership, and imposition of tight credit controls on the public and private sectors.

The Program has largely accomplished its mid-term macroeconomic stabilization goals, and has further produced three years of real per capita economic growth, despite depressed world agricultural prices, regional economic stagnation in West Africa, and high real interest rates in major trading partner countries. Not surprisingly, however, a restrictive monetary policy and scheme of administered credit controls, in parallel with a substantial (though declining) public sector fiscal deficit, has led to very high real interest rates.

The Government will pay its remaining arrears on its external debt service in June of this year, and will attempt to make the transition from economic recovery to sustained economic growth. Although free market policies and careful management of the economy during the last four years have established a positive economic environment, the rapid expansions of tourism and the reexport trade, which have been the engines of growth, have abated due to external factors. As a result, overall economic performance has been impaired during the current year, although overall growth has been good due to the excellent groundnut harvest and strong world market prices for the crop.

C. MACROECONOMIC TRENDS AND PROSPECTS

1. Macroeconomic Performance

Exhibit II-1 highlights the overall progress made during the last five years in stabilizing the economy and returning to positive real per capita growth. As the Exhibit shows, the overall public sector fiscal deficit (excluding grants) has been reduced from 14.9% of Gross Domestic Product (GDP) in 1984-85 to 6.8% in 1988-89. The inflation rate has been reduced from 21.1% to 8.0%. The current account balance excluding official transfers has been reduced from -33.2% of GDP to -18.2% of GDP, during a period when external arrears had to be paid in connection with rescheduling with the Paris and London Clubs.

EXHIBIT II-1

HIGHLIGHTS OF MACROECONOMIC PERFORMANCE IN THE GAMBIA, 1983/84 - 1988/89

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Public sector fiscal surplus/ deficit (excluding grants) (% of GDP)	-14.9	-13.0	-13.0	-22.0	-22.0	-6.8
Inflation rate	18.8	9.0	28.1	19.0	10.0	13.8*
Current account balance (% of GDP) (exc. official transfers)	-18.8	-21.1	-29.7	-31.5	-21.0	-18.2
Real GDP growth rate	-1.6	3.1	-0.3	5.4	5.5	5.6
Central government expenditure and net lending (% of GDP)	35.2	39.0	33.1	50.3	48.5	34.6

* 8.0% at end of June, 1989

Source: IMF Statistical Annex, October 19, 1989

Real GDP growth has averaged 5.5% over the last three years, or slightly above 2% in per capita terms. Central government expenditure and net lending have declined from a high of 50.3% in 1986/87, to 34.6% in 1988/89, reflecting the fiscal restraint policies of the Economic Recovery Program.

2. Saving and Investment

The role of the financial sector in economic development is financial intermediation between accumulated savings and investment. To some extent, one can evaluate the effectiveness of the financial sector in its development capacity by examining trends in the rates of saving and investment in some detail, both over time, and in comparison to other developing countries. Exhibit II-2 highlights consumption, saving, and investment in The Gambia as a percent of GDP from 1983/84 through 1988/89. Although recent government economic policies in The Gambia have achieved some success in mobilizing savings, the financial sector has not increased its ability to channel these additional savings into productive investments.

The flow of domestic saving (defined as GDP less consumption) increased from -3.8% to 7.1% of GDP during the period from 1983/84 through 1988/89, largely at the expense of private consumption, which decreased from 83.2% to 76.0% of GDP. The turnaround from dissaving to a positive saving rate has generally been attributed to the Economic Recovery Program, particularly the deliberate policy of high real interest rates for savers and borrowers. Gross saving (domestic saving, plus foreign grants and private transfers) increased from 7.5% to 20.7% of GDP.

In contrast to the improvement in domestic saving, overall domestic investment remained stable between 17 and 21 percent of GDP. Private investment increased only slightly from 5.6 to 7.2% of GDP. Public investment has fluctuated between 10 and 16 percent of GDP. The resource gap (saving less investment) decreased from -21.1% to -10.8% of GDP, reflecting the improvement in domestic saving.

In general, the data show that the level of private investment has not been responsive to the level of private saving. Public investment appears to have been funded largely through foreign aid.

As shown in Exhibit II-3, the Gambian economy's overall investment performance during the last five years compares favorably to other sub-Saharan African economies in 1987, but is below average for developing countries as a whole. Domestic saving, although improved, is still well below average for all regions, despite high real interest rates for savers.

EXHIBIT II-2

CONSUMPTION, SAVING AND INVESTMENT IN THE GAMBIA, AS PERCENT OF GDP, 1983/84 - 1988/89

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Domestic saving	-3.8	-4.6	7.3	4.4	7.0	7.1
Consumption						
public	20.6	18.2	16.4	22.8	20.0	16.9
private	83.2	86.5	76.3	72.9	73.0	76.0
Gross saving	7.5	10.5	15.1	16.3	23.5	20.7
Domestic investment	17.3	19.2	15.8	20.4	18.5	17.9
public	11.7	16.2	10.6	14.9	14.1	10.7
private	5.6	3.0	5.2	5.4	4.4	7.2
Resource gap	-21.1	-23.8	-8.6	-16.0	-11.5	-10.8

Source: IMF National Accounts data

EXHIBIT II-3

SAVING AND INVESTMENT IN DEVELOPING COUNTRIES BY REGION AS PERCENT OF GDP, 1987

	Domestic Saving	Domestic Investment
Sub-Saharan Africa	13	16
East Asia	35	30
South Asia	19	22
Latin America and the Caribbean	20	18
All low and middle income LDC's	25	24

Source: World Bank, World Development Report, 1989, pp. 180-81.

D. ECONOMIC DEVELOPMENT STRATEGY

The government's economic development strategy emphasizes sustained, export-led economic growth through continuation of free market policies, privatization of public enterprises, and fiscal and monetary restraint. The mid-term economic program, however, is highly dependent on continued grant support from external donors, currently budgeted at 9.0% of GDP (1989-90). A substantial portion of foreign assistance will be required to meet the government's external debt service obligations.

The government and the IMF have agreed on a set of economic management policies as conditions for continued support. Notably, the government will continue to reduce the fiscal deficit, restrain the growth of domestic credit, and abstain from borrowing externally and guaranteeing external debt. The government will appropriate funds to retire the debts of the state-owned enterprises in preparation for private sale of these companies. In addition, the government will not direct credit to specific sectors of the economy or subsidize borrowers through use of below-market interest rates.

As part of the Economic Recovery Program, most tax rates have been reduced during the last two years, and the government has committed itself to a pro-development taxation policy. Considering that growth of the reexport trade has slackened, government revenues from customs fees, which provide approximately half of current revenues, are expected to grow at a much slower rate.

The net effect of the above trends is that, in the near to mid-term, government investment and current expenditures will be severely constrained and effectively limited to essential government services such as roads, public health, education, defense, and law enforcement. Some rural and agricultural development will continue to receive direct, subsidized funding from external donor agencies. Other private sector development, however, will require financing from private domestic or external sources, and without substantial levels of subsidy from the Government of the Gambia (GOTG).

E. IMPLICATIONS FOR THE FINANCIAL SECTOR

Future private sector development will depend heavily on the ability of the financial sector to mobilize domestic savings and direct them into productive enterprises. Although some private external capital will undoubtedly be attracted into The Gambia by the free market policies of the Government and reasonably competitive levels of taxation, the bulk of investment capital will have to be derived from existing domestic sources.

It is clear that persistence of the extremely high real interest rates that have confronted private borrowers since the beginning of the Economic Recovery Program will constitute a severe impediment to continued economic growth. As discussed in Chapter IV, these high lending rates are as much a symptom of the lack of competition in the financial sector as they are a constraint to development in and of themselves. Accordingly, our recommendations are heavily influenced by a perceived need to introduce higher levels of competition into the major financial markets. From increased competition for existing financial markets will flow the incentive for financial institutions to seek out new lending and investment opportunities.

Any reorientation of the financial sector must be accomplished within the economic policies, free market principles, and general direction toward privatization that form the basis of the Economic Recovery Program. Thus the challenge facing policy makers is a difficult one: to induce the financial sector to improve its performance in mobilizing domestic savings and channelling them into productive activities, without reverting to the interventionist policies of the past, and without upsetting the delicate balance of fiscal and monetary policies that have been shown to be necessary for macroeconomic stability.

III. STRUCTURE OF THE FORMAL FINANCIAL SECTOR

This section of the report briefly describes the institutions in the formal Gambian financial sector including non-bank financial institutions and insurance companies, that have tended to be overlooked in previous studies.

A. OVERVIEW

The Gambia's formal financial sector is focused at present almost exclusively on providing credit and other services to institutions and individuals located in urban areas. As reflected in Exhibit III-1, the structure of this formal, urban-oriented system is dominated by three banks (two private commercial banks and a government-owned development bank in the early stages of being restructured into privately owned commercial bank) and one relatively large non-bank financial institution, the parastatal Social Security and Housing Finance Corporation. In addition, there are two very small non-bank financial institutions (the moribund General Post Office Savings Bank, and a fledgling foreign exchange bureau) and a small insurance company sector (consisting of three private firms and a parastatal which is about to be offered to the public). Except for the Government Post Office Savings Bank, the other nine institutions are served by three accounting firms resident in Banjul (two foreign and one Gambian), that undertake annual external audits. Finally, there are three other support institutions directly involved, either presently or potentially, in providing qualified manpower and customers to the financial sector (Management Development Institute, Gambia Women's Finance Company, and Indigenous Business Advisory Services).

The relative size of the banks and non-bank financial institutions (NBFI's) indicated in Exhibit III-1 is based on the most current financial data available. Recently audited financial statements were not available for any of the insurance companies, but management figures indicated that as a group they earned less than D18.0 million in gross premiums during 1989. We estimate total assets in the insurance companies to be less than D20 million and therefore equal to less than 5 percent of total assets in the banks and NBFI's. Similarly, we estimate the net worth of the insurance companies to be no more than D2 million and therefore equal to less than 10 percent of the book value of the other financial institutions.

The ten institutions comprising the formal financial sector are regulated to varying degrees by the Central Bank of The Gambia in accordance with the following laws, listed chronologically:

- Moneylenders Act of 1954;
- Savings Bank Act, 1964;
- Central Bank of The Gambia Act, 1971;
- Gambia Commercial and Development Bank Act, 1972;
- Financial Institutions Act, 1974;
- Insurance Act, 1974.

It is clear that all of these acts need to be revised to some extent to remove ambiguities and inconsistencies as well as to adapt to global developments in the regulation, supervision and specialization of financial institutions. For example, there is a need to provide for the likely emergence of additional foreign exchange bureaus in the near future as well as to anticipate possible future demand for deposit insurance, consumer and housing finance companies, leasing companies, and money and equity markets. There are no explicit restrictions against setting up such institutions under existing legislation. But there is a need to update and tighten the definitions of various types of financial organization to clarify which part of government is responsible for approving applications, establishing appropriate regulations, supervising conduct, setting disclosure requirements and, if necessary, proposing any necessary additional legislation. The urgent need to upgrade the Central Bank of The Gambia's (CBG) prudential supervision standards and capabilities is the focus of Section IV.B.1. of this report. Separately, an in-depth review of the sector's legal framework is the subject of a separate study conducted in tandem with this report.

B. BANKS

The Gambia's banking sub-sector has been analyzed in depth in previous USAID documents, so just a few important characteristics will be summarized here.

1. Unclear Commitment of GOTG to Support the Gambia Commercial and Development Bank Restructuring

At present, the Gambia Commercial and Development Bank (GCDB) remains in a state of suspended animation pending the commencement of its major restructuring program. It must be noted with regret that the newly appointed Managing Director, a highly qualified international banking executive, has already met with opposition to his professional management of the bank in the form of appointments directed through government channels against his advice. This practice must be ended abruptly, with interventions from the highest levels of GOTG and important development agencies if necessary, or else any further discussion of the growth of a healthy financial sector will become a purely academic exercise.

2. Uncertain Quality of GCDB Loan Portfolio Figures

Of the D149 million in GCDB net loans and advances presented in Exhibit III-1, at least D30 million has been identified as probably uncollectible, but a comprehensive independent examination of the portfolio has not been undertaken since the 1988 diagnostic study. Until such time as a formal external classification of the loan portfolio can be conducted, all GCDB balance sheet and income statements should be assumed to be overstated and rough estimates at best.

3. Extraordinary Profitability of the Other Two Banks

GCDB's distractions during the last two years have left Standard Charter Bank (SCB) and Bank International for Commerce and Industry (BICI) in a highly advantageous oligopolistic situation. This is reflected in the extremely high profitability they enjoy. SCB has just reported an 88.5 percent net return on equity and a return on earning assets of 11.4 percent for 1989. BICI reported a 40.4 percent return on equity and a return on earning assets of 7.33 percent for its financial year ending September 30, 1989. Despite high average net interest margins of approximately 15 percent (over their average cost of funds) which they charge their borrowers, the two banks earn more than two thirds of their income from other fees, commissions and foreign exchange operations. By any international banking standard, these are extremely high real rates of return.

Such profitability unarguably implies that there is room for additional competition in the banking sub-sector. However, to date there has been little if any interest expressed by other first class international or regional banks in applying for banking licenses in The Gambia. Apart from the continuing general contraction of such institutions away from direct investment in developing countries, the actual size of net income earned by these two banks is still quite small relative to international standards. In addition, the extremely high rates of return are fairly recent phenomena as are the current low rates of inflation and the advent of market-based interest and foreign exchange rates. The most reasonable and realistic source of additional competition would be a restructured GCDB able to focus itself exclusively on market-based commercial banking while leaving the collection of its past bad debts to a completely separate organization.

4. Lack of Interest in Offering New Financial Products

Given the rudimentary level of the sub-sector's development and its noted lack of competition, it is not surprising that none of the banks express any interest in developing equipment leasing services or forming syndicated credit facilities. There are no apparent legal or regulatory obstacles for either banks or separate companies to enter the equipment leasing business. The primary clients of the two private banks tend to concentrate on trading activities and are generally able to finance the purchase of necessary fixed assets out of internally generated funds or bank borrowing. On the other hand, GCDB expresses a lack of interest in leasing due to problems of keeping such equipment properly maintained while in the possession of customers.

Although some of the bank's customers have inquired about the possibility of opening foreign currency accounts with them, Standard Chartered Bank does not feel that it would be a profitable line of business to pursue based on its experiences in other countries because such balances tend to be low. BICI, on the other hand, would be quite willing to provide CFA-denominated accounts if the aggregated total value of such accounts were not counted against its foreign exchange working balance limit set by the CBG, a reasonable proposal in our view.

SCB did bring in a team from its London merchant bank associate to bid (unsuccessfully, as it turned out) for the privatization mandate to sell the new issue of the Gambia National Insurance Company (GNIC) shares without undertaking any underwriting risks. However, SCB sees no business potential in the foreseeable future for setting up even a merchant bank type of "window" for the buying and selling of shares in Gambian corporations given the acute thinness of this incipient market. Finally, none of the banks can see any significant bottom-line benefit to the idea of setting up offshore banking units in The Gambia despite general allusions to the notion in the last two annual Budget speeches. This view is supported by the lack of any unique feature that The Gambian banking system could provide in the foreseeable future. Furthermore, there is a lack of the kind of highly attractive neighboring market with unique restrictions that made offshore banking units viable for a while in Bahrain serving Saudi Arabian borrowers.

C. NON-BANKING FINANCIAL INSTITUTIONS

1. The Social Security and Housing Finance Corporation

The Social Security and Housing Finance Corporation (SSHFC) is by far the largest NBFI in terms of financial size (see Exhibit III-1). With a present staff strength of 40, it has developed a reputation for having a relatively competent management team, especially for a government-owned organization. The SSHFC manages and administers the Social Security and Housing Finance Funds. These funds, and the SSHFC, were created by The Social Security and Housing Finance Corporation Act of 1981.

The Social Security Fund subsumed existing pension schemes, including the Federated Pension Scheme covering parastatal organizations and schemes under which a few large private companies had been required to contribute the equivalent of 19 percent of each employee's income into a pension plan. By virtue of the Act, the Fund now serves smaller establishments in the private sector and requires firms to contribute 10 percent in addition to 5 percent withheld from each employee's income. The Social Security Fund Regulations of 1987 established a National Provident Fund, as part of the Social Security Fund, to serve as the repository of private pension contributions remitted to the Social Security Fund.

The Housing Finance Fund was intended to provide long term housing loans which the GCDB had been unable to handle effectively up to that point. This Fund was to be the repository of housing loans and grants from the government, money appropriated by Parliament for housing projects, borrowing by the SSHFC for housing purposes, transfers form the Social Security Fund for investment in housing schemes, and money received from borrowers for the repayment of loans made by the SSHFC.

The SSHFC did little on the housing finance side of its mandate, until recently. With some external impetus from the World Bank, it has now developed a pilot sites and services project to prepare and partially finance the leasing of 700 low-to-moderate income house sites.

Of SSHFC's consolidated assets of D102.9 million as of December 31, 1989, only D5.4 million was in the Housing Finance Fund while the balance was fairly evenly divided between the Federated Pension Scheme and the National Provident Fund. SSHFC's consolidated investments totalled D73.7 million of which D45.7 million (57.8%) was invested in all three types of government security (treasury bills, discount notes, and government stocks with maturities of 91 days, one year, and five years respectively). The next largest portion of its investments was D22.5 million (28.4%) in bank fixed term deposits with GCDB. (SSHFC previously had held fixed term deposits with SCB but withdrew out of displeasure with SCB's upper limit of D50,000 for such deposits from any one customer.) The balance of investments were D5.6 million (7.3%) in property and D5.0 million (6.3%) in equity holdings, primarily SCB shares. There is apparently no legal requirement that the SSHFC invest any minimum percentage of available funds in housing.

In general, SSHFC is quite aggressive in terms of requiring its pension and provident fund members to pay on time or to incur a penal rate on arrears of 5 percent per month. It also appears to be relatively aggressive in trying to maximize the returns on its investment portfolio.

2. The General Post Office Savings Bank

The General Post Office Savings Bank (GPOSB) is languishing with an apparent lack of any significant managerial capability, accounting control capacity, or GOTG budgetary priority despite its links to between 35,000 and 40,000 small savers via the 20 branches and agencies of the GPOSB throughout the country. It appears that little progress has been made since the comprehensive March 1989 study by the departing Universal Postal Union/UNDP financial consultant Patrick Wynne was submitted. He estimated that deposits totalled D4.9 million as of June 30, 1988. However, CBG published statistics report only D1.4 million in deposits as of that date, a figure which then declines each month until July 1989's level of D1.1 million. The CBG's year-end report states that GPOSB deposit figures since July 1989 were not available. However, during an interview with the UNDP's advisor and the Senior Superintendent of Posts, they indicated that the GPOSB presently had D2.0 million in deposits at GCDB equal to its own outstanding savings deposits. Despite the apparent accounting discrepancies, the UNDP advisor felt strongly that given adequate authority and funding the GPOSB could increase its mobilization of deposits tenfold to D20 million. While this figure might be somewhat optimistic, clearly there would be scope for significant expansion of such savings deposits from the non-urban areas under appropriate management, accounting capabilities and controls. In any case, Mr. Wynne's thorough report and recommendations should be taken into serious consideration by the CBG's newly constituted Committee on Domestic Resource Mobilization.

3. The Arrow Holdings Limited Bureau de Change

Arrow Holdings began operations four months ago in December 1989. It has been included here despite the incipient stage of its development because it reflects a promising entrepreneurial reaction to the recent liberalization reforms enacted as part of the Economic Recovery Program. The principals have identified a niche between the banks in the formal sector and the "parallel" foreign exchange dealers operating unofficially out of the Albert market. Arrow has opted to operate formally and to voluntarily submit records of every transaction to the skeptical Central Bank. Arrow thereby demonstrates that it is not siphoning foreign exchange out of the country illicitly, is not speculating in currency movements, and is willing to pay income tax. Furthermore, Arrow has plans to expand aggressively to stay ahead of anticipated competition. Its progress will be well worth watching as an example of private initiative broadening the financial sector without subsidy or direct official inducement.

D. INSURANCE COMPANIES

Although current balance sheet data was unavailable during our visit, the following gross premiums earned during 1989 give a reliable indication of the relative positions of the four insurance companies in The Gambia.

D10.5 million	-	Gambia National Insurance Company
2.8 million	-	Great Alliance Insurance Company
2.2 million	-	Senegambia Insurance Company
2.0 million	-	Capital Insurance Company

The Gambia National Insurance Company (GNIC) was valued at nearly D1.0 million recently in preparation for an offer of its shares to the public in the near future. There are mixed expressions of potential interest in buying its shares. The consensus, however, appears to take a somewhat pessimistic view citing the relatively low esteem in which its present management team is held. Great Alliance began operations in April 1989 and has been quite aggressive in introducing itself to the market as a modern and efficient company.

Most of the insurance policies issued in The Gambia are reinsured by major firms in Europe, which means that a large percentage of the gross premiums are in turn remitted overseas as reinsurance premiums. This tends to confirm the general impression that at present these companies have relatively few resources to invest locally apart from the reserve requirements on those portions of the policies not reinsured overseas.

GNIC is the only company that sells life insurance. The others claim that there is little public interest in such policies due to Islamic reservations about receiving funds as the result of someone's death. Otherwise, all four companies provide a full range of property and casualty insurance coverage. Motor insurance is compulsory and is the largest single category followed by fire, burglary and machinery breakdown coverage.

The general view in the industry is that there will be steady growth as the four companies compete by trying to provide better service and by selling coverage to a wider portion of the populace. There is also some indication that they are competing in terms of price, but their industry association is thinking about trying to minimize price competition.

E. POTENTIAL PARTICIPANTS

Both the Indigenous Business Advisory Service (IBAS) and the Gambia Women's Finance Company (GWFC) are worth mentioning as potentially small but important linkages between the informal sector and the commercial banks. Each organization, the former part of the Ministry of Economic Planning and Industrial Development and the latter an independent non-profit organization, have as their primary objective the preparation of small entrepreneurs for commercial viability. Currently IBAS is still in the process of recovering loans it disbursed several years ago without adequate care and controls. Once it has reached a certain recovery level, it expects to resume operations at a more cautious and conservative level. While the IBAS concept is viable and important to nourish, it is not clear that it is appropriately organized, staffed or funded at present to effectively prepare its intended small entrepreneur clientele for borrowing from market-based commercial banks. Its ability to lend out funds of its own, if and when they might become available, without submitting to political or other non-economic pressures, is doubtful as long as IBAS remains a part of a government ministry.

Wishing to learn from the misfortunes of IBAS and other development lending institutions over the past few years, GWFC is preparing itself very thoroughly before it begins operations later this year. It is quite properly resisting gentle pressure from potential borrowers and donor organizations alike to begin operations before it has all of its policies and procedures in place and before it can conduct two pilot training (and screening) programs for potential borrowers. GWFC gives a very favorable impression of being prudently and professionally managed. With appropriate funding and technical assistance, it promises to become a highly effective private voluntary organization building linkages to the formal financial sector in The Gambia.

EXHIBIT III-1

SELECTED DATA FOR BANKS AND NON-BANK FINANCIAL INSTITUTIONS
(Millions of dalasis; as of 12/31/89 unless noted)

	Banks				NBFI's			
	GCDB	SCB	BICI	Sub-Tot	SSHFC	GPOSB	Arrow	Total
Total Assets	210.9	148.3	96.8	456.0	102.9	4.9	1.0	564.8
T-bills	8.2	54.9	44.3	107.4	17.8	0.0	0.0	125.2
Loans & Advances	149.0	31.6	25.7	206.3	1.7	0.0	0.0	208.0
No. of Loans	7,889	1,026	2,418	11,333	84	0	0	11,417
Total Liabil.	227.3	136.1	83.6	447.0	93.6	4.9	0.0	545.5
Demand Deposits	27.4	55.6	37.3	120.3	0.0	0.0	0.0	120.3
No. of DD's	6,278	3,818	4,000	14,096	0	0	0	14,096
Time & Savings	119.5	57.8	37.6	214.9	0.0	4.9	0.0	219.8
No. of T&S	13,478	13,123	14,000	40,601	0	35,000	0	75,601
Net Worth	-16.4	12.2	13.2	9.0	9.3	0.0	1.0	19.3
Total staff	160	95	77	332	40	N/A	3	375

NOTES:
1. GCDB - Unaudited; excludes GOTG Managed Fund of D80.6 million.
2. SCB - Excludes contingent liabilities of D10.2 million.
3. BICI - Excludes contingent liabilities of D28.8 million.
4. GPOSB - As of 6/30/88 (last rigorous accounting available); total time and savings deposits now said to range from D1.0 to D2.0 million, depending on source.

IV. ANALYSIS

This section examines the impediments to modernization, expansion, and deepening of the financial sector in The Gambia. The section begins with a review of the competitive conditions in each of the important financial markets, and then identifies problems and required improvements in regulation and supervision of financial institutions, taxation of financial institutions and transactions, and financial accounting.

A. COMPETITIVE CONDITIONS IN THE FINANCIAL SECTOR

The level of competition in a specific market both influences, and serves as a useful gauge of efficiency in the functioning of the market. Competitive conditions in the Gambian financial sector vary widely by type of financial service. In general, the competition for savings is nearly adequate in most urban areas, but inadequate in rural areas. Competition in short-term lending and retail banking services is generally inadequate.

There is very little long-term lending or equity investment from domestic sources flowing through the formal financial sector. The reasons why these financial markets essentially do not exist in The Gambia are discussed below.

1. Commercial and Retail Banking Services

Retail banking services are furnished by the three banks, and there appears to be a moderate amount of competition for demand deposits. All three banks charge substantial service fees for checking accounts and other services, but these can occasionally be negotiated down somewhat.

Competition for government and commercial accounts was, until recently, almost non-existent, in that the three banks had effectively segmented the market. SCB largely served traders with anglophone countries; BICI focused mostly on traders with CFA zone countries; and GCDB served state-owned enterprises and civil servants. BICI, however, has in the last year aggressively pursued the commercial accounts of both of the other banks, and this has led to slightly increased levels of both price and non-price competition. At the same time, however, GCDB has suspended most of its lending activity while concentrating primarily on a major loan recovery program; and this is undoubtedly weakening its ability to compete for other retail services.

The competition in foreign exchange transactions has also stiffened somewhat. In light of the recently liberalized currency trading regulations, the Central Bank has permitted entry of a new foreign exchange bureau. This has created some pressure on the high commissions and spreads charged by the banks.

Moderate levels of competition exist among the three banks for savings accounts and time deposits in urban areas, but SCB and BICI tend to limit such accounts to only D 50,000 (above which little or no interest is paid). Although the Post Office Savings Bank tries to compete for small savings accounts through its widely distributed branch network, its accounting difficulties and slightly lower rates essentially render it a non-player wherever alternatives exist. The government sets three-month time deposit rates at 5 percent below the T-bill rate, and the banks tend to set their savings deposit rates at the same level (a holdover from when the Central Bank required them to do so). The government also creates some upward pressure on time deposit rates with its small denomination (D5,000) T-bills.

If the Central Bank were explicitly to inform the banks that there is no minimum deposit rate for savings accounts, the interest rates offered small savers might fall somewhat. No evidence exists that the government's official high interest rate policies have denied small savers access to saving facilities in urban areas by raising the price to financial institutions.

In rural areas, the higher administrative costs of servicing accounts in combination with the minimum time deposit rates may constitute a deterrent to expansion of banking services. At present, rural savers are served only by eleven Post Office Savings branches and agencies. It is noteworthy, however, that BICI is currently exploring opening a new branch in Basse, where SCB already has its only branch outside the greater Banjul area.

2. Short-Term Lending to the Private Sector

At present, only the two commercial banks are actively engaged in making short-term credit available to the private sector. GCDB has effectively stopped making new loans pending completion of the restructuring and recapitalization of the bank.

Lending by the two commercial banks consists primarily of overdraft facilities and discounting of trade bills for importers. Short-term interest rates currently vary from 22 to 27 perce . BICI's rates tend to be somewhat below those of SCB, reflecting BICI's more aggressive business development posture recently.

Most of the short-term lending is directed to importers. The high real interest rates cause importers to use supplier credit or commercial credit in the countries of origin to the extent available to them.

The administrative credit ceilings currently in place exert upward pressure on interest rates for private borrowers. Yet, the fact that CFAO, the largest retail establishment, still borrows heavily in the Gambian credit market while repatriating most of its profits, provides evidence that the short-term credit needs of traders and importers are being served through the financial system.

To the extent that lending spreads remain abnormally high despite the above pressures, new commercial banking entrants will be attracted. There are currently three applications for commercial banking licenses from foreign concerns in various stages of review at the Central Bank, and in addition, a group of Gambian businessmen is preparing to submit an application.

3. Short-term Lending to the Public Sector

The Government borrows short-term money for its own needs by selling 90-day T-bills in a biweekly auction. Lately, the Government has also used sale of T-bills to soak up excess liquidity to meet the IMF imposed end-of-quarter ceilings on net domestic assets.

The T-bill rate has varied between 15 and 20 percent during the last three years. Recently, the government has actively marketed T-bills to parastatals with excess cash in order to meet the IMF-imposed credit ceilings. Although other institutions than banks sometimes buy T-bills, and small denomination T-bills are available to individuals, the monetary policy pressures have created a buyer's market, dominated by the two commercial banks. The T-bill interest rates cannot be expected to decline substantially until reduced fiscal deficits allow the government to reduce its demand for credit and to pursue a less restrictive monetary policy.

The Central Bank will redeem T-bills early at a discount. Banks will also accept T-bills as collateral for short-term loans. Although T-bills may be sold to third parties, there is no evidence of any activity of this type.

In general, sales of T-bills successfully serve the government finance and monetary policy purposes for which they are intended, and the auctions effectively clear the market for short-term money market instruments. On the down side, however, issuance of such a high volume of high-yield, low-risk, short-term government debt instruments tends to "crowd out" lending to the private sector, by raising the real interest rates to private borrowers. Further, banks have no profit incentive to develop expertise in lending to industries that require long-term finance, considering that short-term lending to the government is so profitable.

4. Medium-Term and Long-Term Lending to the Public Sector

In addition to its short-term debt instruments, the Government also, from time to time, issues 1-year discount notes, and 5-year, fixed-rate bonds (called "Government Stocks") through the Central Bank. These securities provide only a small portion of the Government's total credit needs, and have not been used to date as a tool of monetary policy, in that no secondary market exists for these debentures.

It is unlikely that more active promotion of debt instruments with longer maturities would meet success, unless the Government takes steps to create a secondary market. The lack of interest by institutions and individuals in longer-term debt instruments is generally attributed to the historical short-term trading orientation of the Gambian economy and entrepreneurs. In the absence of a secondary market, and with no opportunity to sell long-term instruments back to the Central Bank, even a marginally higher interest rate on long-term instruments would be unlikely to overcome the built-in preference for 90-day T-bills.

A secondary market in medium-term and long-term government securities would give the government an additional monetary policy tool that would tend to encourage, rather than deter, longer term lending to the private sector.

5. Term Lending for Housing

No residential mortgage market has emerged to serve the needs of middle income households in The Gambia. Commercial banks lend occasionally to builders of upper scale housing (largely for expatriates), where high rents will support the very high interest rates charged by banks. Other than the SSHFC, however, there are no specialized institutions to channel long-term savings of individuals or business profits into residential mortgages.

The legal status of non-bank financial institutions in The Gambia remains unclear. The SSHFC applied to the CBG three years ago for a license to take in deposits, under a contractual savings scheme linked to mortgages for a sites and services project in Kanifing. The application has been held up due to the uncertain legal status of such an entity. In the meantime, the

SSHFC deferred implementing the contractual savings scheme, and financed the Kanifing project using lump-sum down payments. The CBG is currently reviewing legislative amendments required to license non-bank financial institutions to take in deposits and make loans. As discussed in more detail later, all deposit taking institutions should be required to meet capital adequacy standards and maintain acceptable levels of reserves under supervision by the CBG.

Many LDC's larger and wealthier than The Gambia have experienced disappointing results with specialized housing finance institutions. The Gambia, however, enjoys a low rate of inflation and high real interest rates for savers, relatively cheap and abundant land in urban areas, and a pent-up demand for housing from civil servants and other salaried employees. There appears to be an opportunity for a carefully designed and administered program in this area to achieve high levels of success.

6. Development Finance and Term Lending to Productive Enterprises

In the period since the GCDB suspended lending, very little new long-term credit has been made available by domestic financial institutions to non-agricultural "productive enterprises" (exclusive of construction of office buildings, hotels and housing). The SCB conducts a small lending program for small, socially oriented development projects. Some external donor assistance may be available for fishing enterprises and food processing facilities. Most external assistance, however, is currently available only for rural development and conservation projects. With the retirement of the GCDB from development lending, there is no longer an apex institution serving the needs of development finance in the manufacturing and service sectors.

In more developed economies, insurance companies typically provide investment capital for development. As discussed in the previous section, however, the Gambian insurance industry is currently in its infancy. All insurance markets other than automobile insurance, which by its nature does not require or generate high levels of reserves, are essentially undeveloped. The insurance companies plan to devote all or most of their profits for the next few years to developing other lines of property and casualty insurance, and to a lesser extent, the life and health insurance markets.

The project team looked into the question of why the two active lending institutions have not made use of existing lending and guarantee programs sponsored by external donors. (The GCDB suspended new lending before these programs were introduced). In the case of the World Bank's on-lending program, SCB and BICI both indicated that the program offers no advantage, in that the cost of funds under the program exceeds their current cost of funds through deposit-taking activities. Further, the lending institution must take the entire credit risk, and this feature is quite unattractive. In the case of the USAID loan guarantee portfolio program, SCB indicated that the 50% guarantee percentage is too small, and that 75% would be much more attractive. BICI has expressed strong interest in exploring the program further.

7. Equity Markets

Formal equity markets have yet to appear in the Gambia. Impediments to formation of equity markets include lack of legal and regulatory structure, low levels of public awareness and acceptance of trading opportunities, procedural and tax disincentives, reluctance on the part of joint stock companies to support organized trading of shares, and generally poor experience with handling of stock issues to date.

No stock trading companies or exchanges exist. Those individuals who have expressed interest in starting trading companies have not received encouragement from the government or the companies that have issued stock to the public.

Further, it appears that very few shares are informally traded between individuals, excluding transfers between family members. This fact seems somewhat startling, considering the large number of shareholders in the two companies (SCB and CFAO) that have experienced profitable operation and paid dividends since selling stock to the public. In a trading society such as The Gambia, one would expect shares of stock to be traded, whether formally or informally.

The greatest likely disincentive to the trading of existing shares is the requirement that shares be transferred through the National Investment Board. Individuals generally exhibit reluctance to interface with the Government in any sort of financial transaction. It appears that in the case of the few shares that have been transferred, the established procedures were generally bypassed, and NIB's shareholder lists are now, accordingly, out of date.

B. PRUDENTIAL SUPERVISION OF FINANCIAL INSTITUTIONS

1. Banking Regulation and Supervision

The most vitally important function in any financial system is the prudential regulation and supervision of the commercial banking system designed specifically to maximize protection of depositors' funds and to maintain general confidence in the financial system. This function is particularly important in the early stages of financial sector development where, as in The Gambia and many other countries, commercial banks control a significant majority of financial assets in the system. A modern, tough, and preferably independent banking supervision system able to withstand blatant political interference is a critical prerequisite and the primary foundation for any significant broadening or deepening of the financial sector.

In The Gambia, regulation and supervision of the banking system is the responsibility of the Central Bank of The Gambia, a role it undertakes through its Banking Supervision Department. Part VIII of the Central Bank Act of 1971 broadly defines the CBG's authority to prescribe interest rates, aggregate credit ceilings, exposure limits to borrowers, maximum loan maturities and security requirements. In addition, the act establishes CBG's general authority to set bank financial reporting, cash reserve, and liquidity ratio requirements.

The Financial Institutions Act of 1974 expands the CBG's supervisory authority by including the granting of bank licenses, by explicitly stating its right to examine banks at any time, and by requiring banks to submit externally audited financial statements annually to the CBG as well as to their own shareholders. The act also specifically limits a bank's exposure to any borrower to 25 percent of unimpaired capital and reserves, and it sets tight limitations on unsecured lending to directors and other parties with potentially conflicting interests.

Both acts, however, have become significantly out of date in two vitally important areas of banking supervision: capital adequacy and asset quality requirements. The Basle Concordat of 1988, promulgated by the international forum of bank supervisors who cooperate on prudential supervision and regulation matters, calls for the establishment of uniform criteria in these two areas. The capital adequacy criteria set minimum net worth requirements in proportion to a bank's assets weighted according to their inherent risk. They are often referred to as a risk-adjusted capital to assets ratios.

In the related area of setting asset quality standards, the Basle Concordat is moving toward the development of uniform classification systems for categorizing risk asset portfolios and making appropriate provisions out of net income to allow for anticipated losses.

The CBG's Banking Supervision Department is also understaffed with existing personnel in need of additional specialized training. Out of over 200 employees in the CBG, the department has only six people, apart from a secretary and messengers, to carry out its functions. Apart from the department's manager, there are only two examiners, an assistant examiner, one supervisor and two senior clerks. Although most have adequate basic qualifications in accounting and/or finance, none have received any formal training in banking supervision issues and techniques beyond the most rudimentary level offered jointly by the World Bank and the FDIC. The only time the department has an opportunity to review the portfolio quality of the banks is during formal examinations which take place only every two or three years for each bank due to the shortage of qualified staff. The staff shortcomings also impact the CBG's ability to carefully assess and screen applications for new banking licenses. It is especially important to be able to get an accurate reading on the integrity and intentions of applicants as well as to determine their fundamental banking capabilities.

The outdated prudential regulations and inadequate staffing of the CBG make it vulnerable to political interference, particularly while it remains part of the Ministry of Finance and Trade instead of being more autonomous as are the more effective central banks in the world. Although Central Bank officials are reluctant to say so directly, it is quite clear that its examinations of the GCDB's highly troubled loan portfolio over the past several years must have been overruled or ignored at high levels. This conclusion is warranted based on the widely held perception that the politicization of lending decisions was allowed to continue unabated until the bank became seriously insolvent about two years ago. The conclusion is also reinforced by the continued interference taking place during our visit as discussed earlier in this report.

Directly related to banking supervision is the concept of a deposit insurance system such as the Federal Deposit Insurance Corporation in the U.S. In the past in The Gambia when two banks failed (the government's Agricultural Development Bank and a short-lived private bank calling itself C.I.T. Bank unofficially), the CBG paid out all depositors once the banks' own resources had been exhausted. This approach salvages any lost confidence in the banking system but can become a drain on limited government budgetary resources. At present there is no thought being given to the creation of a deposit insurance system in The Gambia. It should be noted, however, that the best time to establish such a scheme is when the banking system itself is in relatively good health as this one should be once GCDB's restructuring is completed.

A central bank is also usually in a position to identify problems and stimulate solutions in the legal system related to the ability of banks to enforce loan agreements and associated mortgages on assets offered as collateral. In The Gambia, all of the banks are concerned about the unusually long delays in the legal system in the implementation of court judgments once they have been issued. Apparently the sheriff and bailiff system, that is supposed to promptly execute court decisions, is itself subject to extraneous influences. Since this kind of problem has a direct impact on the real quality of a bank's loan portfolio, it is clearly a prudential banking supervision issue.

2. Insurance Company Supervision

The Insurance Act of 1974 is replete with descriptions of the responsibilities and functions of an Insurance Commissioner who "may" be designated by the Minister (presumably of Finance and Trade). The managing directors of the three privately owned companies all indicated that no one had been clearly designated as the commissioner; the managing director of the government-owned GNIC indicated his view that the Ministry of Finance and Trade's Permanent Secretary acted as a commissioner. In any case, there is a strong consensus that a full-time commissioner with insurance industry experience is needed. This expressed concern reflects the recent realization that the industry has begun to get competitive with the advent of the newest entrant, Great Alliance, one year ago. The insurance companies all want to be assured that they will be playing on a level field, that no firm will be able to cut corners (e.g. by "buying" business from GOTG departments), and that irresponsible groups will be barred from entering and diminishing public confidence in the industry.

While it is encouraging to see that the industry wants to be properly regulated, in the absence of an Insurance Commissioner it clearly has not been complying strictly with regulations embodied in the Insurance Act. We heard a range of views from the managing directors as to whether or not they were any reserve requirements related to unexpired policy liabilities. Although reserve requirements are precisely specified in the Act, the managing director of at least one company was unaware of such requirements.

C. TAXATION

The Gambia has a broad range of taxes, some of which directly apply to the financial sector of the economy. Broadly, the Gambian tax system consists of:[1]

- Import duties and other taxes on international trade;

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[1] See Appendix B for a comprehensive summary of the Gambian tax laws.

- o Sales tax on certain services, manufactured goods, and imports;
- o Income taxes on companies and individuals, including a capital gains tax and development levy;
- o Other taxes on goods and services, including stamp duties.

Following is an analysis of how these taxes do (or do not) apply to the financial sector and an analysis of whether the taxes, and/or their administration, form an impediment to the broadening and deepening of the financial sector. Our overall conclusion is that the tax laws and their administration do not constitute a serious impediment. There are few onerous taxes on financial institutions or transactions, and the tax system does not strongly favor debt over equity financing. While some fine tuning of the laws might eventually help foster expansion of the financial sector, the most pressing problems appear to be with the administration of existing tax laws.

This analysis was performed without benefit of a complete and up-to-date set of tax laws. There does not exist a codified version of the income tax law that incorporates all of the many amendments to the Income Tax Act of 1949. Moreover, we found it very difficult to obtain copies of specific tax laws, such as the Capital Gains Tax Act and the Stamp Act Replacement Schedule of 1983. In general, neither the Government Printing Office nor the respective administrative departments were able to provide us with copies of specific tax laws and amendments. However, the laws of The Gambia are in the process of being codified, with an expected publication date of October 1990.

1. Import Duties

Taxes on international trade, consisting mostly of import duties, do not directly apply to the financial sector. Nor do they directly impede growth of the financial sector.

However, these taxes are an extremely important, if vulnerable, source of revenue for the GOTG. Import duties alone accounted for over half the tax revenue collected in 1988/89 (see Table below). Much of these duties were collected on goods for the re-export market. This market is thriving in response to the higher duties imposed in nearby countries, but would collapse if these countries lowered their duties. Because of this vulnerability, the GOTG should seek to broaden the tax base before implementing any tax law changes that would significantly reduce tax revenue from other sectors of the economy, including the financial sector. Nor should USAID impose any revenue reducing tax law changes as a condition for future financial assistance.

TAX REVENUE, 1988/89
(In Millions of dalasis)

Taxes on International Trade		
Import duties	207.30	52.0%
Other	8.28	2.8
Sales Tax	113.34	28.4
Income Taxes		
Company profit tax	31.45	7.9
Individual income tax	18.23	4.6
Capital Gains Tax	4.91	1.2
Development Levy	1.12	0.3
Other Taxes	13.80	3.5
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TOTAL	398.43	100.0%

2. Sales Tax

The sales tax is a uniform levy of 10% that applies to sales by Gambian manufacturers and to sales by importers. It also applies to certain services. The only part of the financial sector to which the tax directly applies is insurance premiums. Total sales tax payments on insurance premiums were only about D1 million in 1988/89, or less than 1% of total sales tax revenues. This tax, which became effective with the passage of the National Sales Tax Act of 1988, replaced a number of separate excise taxes, including an existing 10% tax on insurance premiums.

None of the insurance industry representatives we interviewed identified the sales tax as a deterrent to further growth in this sector. The tax apparently does not have a significant effect on the amount of reserves available to insurance companies for investment in the financial sector.

Because demand for compulsory motor insurance is not sensitive to price, a percentage tax on premiums by necessity increases the cost to the purchaser by an amount equal to the tax. Thus, the incidence of the tax is entirely on the insured. Accordingly, the tax is equivalent to a consumption tax on the use of motor vehicles.

Economic theory suggests that if demand for non-compulsory insurance (e.g., health, life, fire, and marine) is at all responsive to price, the sales tax will serve to reduce the amount of these types of insurance purchased from Gambian companies, and accordingly, the amount of reserves available to the financial sector. While this effect is not significant now, owing to the small size of the industry, as the industry grows the tax might result in an increasing drain on the financial sector.

3. Income Taxes

The most important taxes for the financial sector are income taxes, which consist of company and individual income taxes, the capital gains tax, and a development levy. These taxes are administered by the Central Revenue Department, within the Ministry of Finance and Trade, under the direction of the Income Tax Commissioner.

The Company Income Tax. The company income tax, which applies to all financial institutions registered with the GOTG, is assessed at a rate of 50% of net profits, or 3% of turnover (gross receipts), whichever is higher. Registration with the GOTG is important for tax collection purposes, because the Central Revenue Department has the names of all registered companies, and the companies must have a certificate of tax payment before they can renew their business licenses. Even so, evasion is reportedly widespread, especially among the trading companies that form such a large part of the economy. Only 150 companies voluntarily filed tax returns in 1988/89.

In computing net profits, companies are allowed to deduct expenses, depreciation, interest, and a portion of home office expenses, if the company is headquartered outside The Gambia. Included in income are dividend and interest income and remittances from sources outside The Gambia. (A copy of the company income tax form is provided in Appendix C).

For banks, turnover is net interest income, plus fee and commission income. Net profit is this turnover less operating expenses, bad debt deductions, and depreciation. Turnover for life insurance companies is gross investment income, and net profit is turnover, less management expenses, other operating expenses, and depreciation. For other insurance companies turnover is gross premiums, interest, and other income, less premiums returned, reinsurance premiums, and unexpired risks. Net profit is turnover less actual losses and expenses.

Although current losses may be carried forward for 6 years to offset future taxable income, or carried back 1 year, the turnover tax severely limits the tax benefit of this provision. If the losses carried over (or back) are substantial, the company would likely become subject to the turnover tax. Indeed, this feature is one of the reasons the turnover tax was instituted. The turnover tax came into being after the attempted coup in 1981. As a result of the turmoil many companies suffered substantial losses. Because the losses being carried forward were posing a severe drain on company tax collections, the turnover tax was added to the income tax law in 1983. The government justifies its continuance on the grounds that it provides a vehicle for extracting some tax from unscrupulous companies, primarily trading companies, that falsify their accounts to evade the corporate income tax. The theory is that government will find it easier to verify a company's gross receipts, especially of trading companies that have paid customs duties, than net income.

The 50% company tax rate is higher than in many developed countries, for example the U.K. and U.S. The company tax rate is also higher than in most other West African countries. Accordingly, the income tax may serve as an impediment to attracting investment capital from outside The Gambia. Similarly, the relatively high tax rate may serve to impede future expansion of foreign controlled financial institutions, especially SCB, and the growth of new financial institutions.

The turnover tax feature could push the marginal tax rates on income for some profitable companies substantially above 50%, and cause unprofitable companies to suffer additional losses. Therefore, the 3% turnover tax could become an additional impediment to growth in the financial sector. Currently, the two privately owned banks are profitable enough that the turnover tax does not apply. However, this situation could change. Similarly, new entrants might operate at a loss, or at low profitability, during the start up phase, and be subjected to the turnover tax. While there is some tax relief for start up companies that earn profits of less than D10,000, this relief only extends to manufacturers. In addition, the rationale for the turnover tax, that it provides a mechanism to limit tax evasion, does not generally apply to banks. Because their financial statements are (or should be) subjected to independent audit, banks are unlikely to falsify their books to evade the company tax.

<u>The Individual Income tax</u>. The individual income tax is assessed on all the following forms of income: employment and partnership income, rents, interest, dividends, and certain pensions and annuities. The tax rates are progressive, beginning at 10% and rising in 5% increments to a top rate of 35%. The only allowable deductions are a standard deduction of D5,000 per

taxpayer and interest paid by the Government Savings Bank, the predecessor to the Post Office Savings Bank. Mortgage interest payments are not deductible for individuals. (A copy of the individual income tax form is provided in Appendix C).

According to sources we interviewed, the individual income tax is widely evaded. Evasion is probably more rampant among individuals than companies. Overall, taxpayers are suspicious of the government in general, and tax collectors in particular, and accordingly do not willingly supply information to the tax authorities.

The authorities have a few tools to counter evasion, but none of them apply to numerous itinerant traders. Income tax certificates are required to license a car, to import goods, for a business person to open an account at a Gambian bank, to buy property, and to obtain a visa from the American embassy.

Significantly, only a few income tax evasion cases have gone to court. Because of a lack of vigorous prosecution, these cases have harmed rather than helped the enforcement effort. As a result the Income Tax Commissioner relies on various administrative sanctions to force compliance. We have encountered no evidence or accusations of serious fraud within the Central Revenue Department, but there is reportedly minor corruption.

Not surprisingly, the tax base for income taxes is effectively those 30,000 full-time employees working for large companies, tourist hotels, and government agencies that withhold taxes from their employees' paychecks. Tax revenue from individual income tax amounted to only D18.23 million in 1988/89, or an average of D600 per person in the assumed tax base.

Voluntary compliance is weak - only 5,000 individual income tax returns were voluntarily filed in 1988/89 out of a labor force of some 400,000.[2] This level of compliance is perhaps not surprising, because over 80% of the labor force is engaged in agriculture, where taxable incomes are low and difficult to trace. Wage earners who do not voluntarily file a return are assessed taxes based on employer reports of wage payments.

<u>Taxation of Dividends</u>. Although dividends received by individuals and companies are subject to the income tax, dividends are generally not double taxed. Under Gambian tax law, taxes paid by the company remitting the dividends are fully creditable to the recipient of the dividends. In practice, few

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[2] World Bank sources estimate that about 55% of the Gambian population is between the ages of 15 and 65. It is this group that comprise the labor force.

individuals file for the credit, most likely because they wish to avoid revealing any information on their income or wealth to the tax authorities, or less likely because filing a separate form is burdensome. These individuals, likely as not, do not pay taxes on the dividends received. Accordingly, the equity is effectively taxed only at the corporate level.

For those individuals who avail themselves of the credit, the law is designed as follows. Suppose a company earns 100 in taxable income, pays 50 in income taxes, and remits a dividend of 50 to an individual shareholder. For computing individual tax liability, the dividend received is grossed up to include the company taxes paid on the income from which the dividend was paid. Thus, the shareholder in The Gambia is taxed on 100, rather than on the 50. At the same time the shareholder may file for a credit for the amount of taxes paid by the company, in this example 50. In effect, the company income of 100 is taxed only once -- at the tax rate of the shareholder. If the Gambian shareholder is in the 35% tax bracket, the company income of 100 generates a total tax revenue of 35, once the income has been remitted to the shareholder. The effective rate is 50% for foreign corporate shareholders. Under this system, when a company pays income taxes, it is in effect only acting as a withholding agent.

While this system eliminates double taxation of corporate profits for Gambian shareholders, and gives a more evenhanded treatment of debt and equity financing than is the case in the U.S., to the extent that individual shareholders avail themselves of the rebate of corporate taxes withheld on the dividends, the system encourages companies to pay out all of their earnings as dividends to shareholders. We found in examining the financial statements of the two major banks that virtually 100% of their earnings were being distributed to shareholders in the form of dividends. We were informed, but unable to verify, that CFAO also remits most of its earnings as dividends.

An incentive to distribute earnings occurs because dividends on shares owned by Gambians who file for the credit of the deemed corporate withholding tax, are taxed at the lower individual rate, while retained earnings are taxed at the higher corporate rate. Because it encourages distribution of earnings, the system, in theory, may become an impediment to expansion (e.g., opening new branches) by commercial banks, and other private financial institutions.

<u>Taxation of Capital Gains</u>. Capital gains are subject to a different tax than is ordinary income. For a company the capital gains tax is 25% of the gain or 10% of the sales price, whichever is greater. For an individual the capital gains tax is 15% of the gain or 5% of the sales price, whichever is greater. Capital losses may be used to offset capital gains only during the year

in which the loss was incurred and cannot be used for other purposes.

Whether the capital gains tax applies to the sale of financial assets is an open question. The law defines capital asset as:

"(i) Any premises, building, or lands, structure or works and fixtures of a permanent nature or any right or title or interest whatsoever nature in buildings or lands; and

(ii) any plant, machinery or fixtures for use or employment in any trade, business, profession, or vacation [sic], referred to in paragraph (e) of sub-section 1 of the Principal Act."

The Income Tax Commissioner construes this language to provide an authority to assess the capital gains tax on stock or bond sales transactions. However, this theory has not been tested, as no transactions have been subject to a capital gains assessment. It would appear that such an assessment might be successfully challenged, since the law seems to apply to rights (i.e, an equity interest) to buildings or lands, and not to other tangible or intangible assets of a company.

If the capital gains tax is successfully applied to the full value of securities transactions, then the tax will have a chilling effect on the trading of financial instruments, and accordingly on the formation of securities markets and the mobilization of equity capital. The tax may contribute to the apparent rarity of buying and selling of equity shares in The Gambia. Unless a security appreciates substantially, individual and corporate sellers would be subject to a 5% or 10% tax, respectively, on the price when sold. This tax could very easily result in a loss on the sales transaction, even when the security has appreciated. For example, if an individual investor purchases stock in a company for 960 and sells later for 1000, the tax would be computed as 5% of the sales price of 1000, rather than 15% of the gain of 40. This tax of 50 would exceed the gain on the transaction.

The capital gains tax will also aggravate the potential disincentive for companies to retain earnings. As previously discussed, this disincentive is caused by the tax treatment of dividends that results in a lower tax on distributed profits. The capital gains tax provides an incentive to distribute earnings, because if earnings are retained, the value of the equity of the company increases, and accordingly the value of its shares. Because the sale of shares would be subject to the capital gains tax, the retained company profits would be taxed twice: once by the income tax and once by the capital gains tax.

Development Levy. Individuals and companies, including private financial institutions, are also subject to a development levy. This tax on income is computed slightly differently for individuals and companies. Individuals pay a 10% tax on income earned in the month of July. For a company, the tax is 10% of the company's average monthly income. Effectively, for salaried employees and for companies, the tax amounts to a 0.833% surtax on yearly income. Owing to its low rate, this tax is not an impediment to growth of the financial sector.

4. Other Taxes

Two other taxes apply to certain financial institutions and transactions: the payroll tax and the stamp duties. The payroll tax is not a significant impediment to growth of the financial sector. The payroll tax is a fixed tax of D5,000 per year levied on companies for each expatriate employee.

Stamp duties are levied on transfers of property, including equity shares, bonds, mortgages, life insurance policies, and lease agreements. The rate of tax on equity share and bond transactions is 2%. The rate is 0.2% on life insurance policies, 0.4% on lease purchase agreements, 14.25% on residential leases, and 40% on industrial and commercial leases.

The process of having a conveyance stamped is not overly burdensome. The documents must be brought to the Ministry of Finance and Trade where a clerk determines the amount of the stamp duty. The duty must then be paid to a cashier who issues a receipt. The receipt and the document are then stamped under a signature of the Accountant General or his designee. The process reportedly can be accomplished within an hour, start to finish.

The 40% duty on industrial and commercial leases is a major deterrent to the leasing of fixed assets. Because leasing is an alternative to purchasing using equity or debt financing, the duty reduces the financing options available to Gambian businesses. The businesses most likely to be adversely affected by the duty are small start-up businesses, with low capitalization, that would find debt financing difficult to obtain. Because the leasing company would pass on all or part of the stamp duty to the lessee, leasing would become a very unattractive means of financing fixed assets.

The 2% duty on securities may be a minor deterrent to the formation of a securities market. Although the rate is high enough that it could effect whether a profit is earned and thus deter some marginal transactions, it is below the commission rate often charged on securities sales by brokers in the U.S.

securities markets. However, when combined with capital gains tax, the total tax liability on share transactions is potentially onerous.

There is also a potential problem with stamp duties on mortgages. Legal mortgages, similar to conventional mortgages in the U.S. are taxed at 1% of the mortgage amount. Equitable mortgages, in which the lender holds the deed until the debt is repaid, are taxed at 0.5%. This differential creates a slight incentive to place equitable rather than legal mortgages. Legal mortgages provide a more secure means to repossess the mortgaged property than do equitable mortgages. Thus, the somewhat higher demand for the less secure equitable mortgages needlessly places lending institutions at a higher risk than would be the case if the mortgages were taxed at the same rate.

D. ACCOUNTING FRAMEWORK

The professional accounting and auditing services required by the formal financial sector are presently being provided by three resident accounting firms which are headed up by qualified Chartered Accountants. Augustus Prom is a Gambian firm while Pannell Kerr Forster and Peat Marwick Mitchell are related to international partnerships which gives them an added flexibility to bring in additional help when necessary.

As indicated in Exhibit III-1 the formal financial sector, including insurance companies, has only about 500 total managerial, clerical and support staff. The banks probably have the greatest need for staff with formal training in accounting to support their credit analysis of borrowers as well as their rigorous bookkeeping requirements which are beginning to be computerized. However, every financial institution requires a core level of accounting proficiency as do other private sector companies.

The only formal accountancy training available in The Gambia is offered by the Management Development Institute (MDI) which was initially established to serve the requirements of government ministries and parastatal organizations. It teaches the first three levels of accounting which culminate in the Association of Accounting Technicians level one diploma. Outstanding students regularly qualify for British financial aid to continue their studies in the U.K. while working towards the ultimate Chartered Accountant status (which requires several years of apprenticeship) through a series of tests administered by the various accounting associations in that country. The basic MDI course is a form of day-release program wherein employees are allowed to attend classes two days a week over a two year period. In addition, banks and other financial institutions try to upgrade their regular staff through occasional seminars at MDI and overseas training courses. Several recent studies have assessed the training needs of public and private organizations, so a reasonable body of knowledge exists in this regard. However, MDI appears to be suffering from a high turnover of staff in 1990 due in part to poor planning. Of twelve senior staff members listed in the 1989 Training Programme, eight have already left in 1990, will leave later in 1990, or are scheduled to be overseas for all of 1990 and beyond. Two are returning to The Gambia later in the year having been away for extended periods, and only two will have served MDI throughout the entire year.

More broadly, The Gambia does not have an established accounting convention, which means that firms operating in the country do not necessarily have one single standard for treating some of the gray areas in the field. In practice, however, British accounting standards are used throughout the system and by each of the professional firms. This has posed no significant problems to date and none are anticipated in the foreseeable future with the possible exception of how to rigorously classify bank loan portfolios and determine the related provisions which should be made. This issue, however, can be resolved in the process of revising the prudential supervision standards referred to previously and therefore does not require the establishment of a formal accounting convention. The establishment of a formal accounting convention might become important in the distant future, but for the time being the de facto acceptance of the British accounting conventions is quite satisfactory.

The financial system itself produces very little public financial information apart from the annual financial statements required by the supervisory authorities. This will probably change in the distant future if and when the public becomes interested in buying and selling shares of companies. In the meantime, there is little scope for the development of a financial information market in the absence of any significant investor demand for such data.

V. CONCLUSIONS

This chapter summarizes the project team's conclusions concerning impediments to financial sector growth and modernization; projects the likely growth path of the financial sector absent any further Government action other than those interventions already agreed to by the Government under current conditionality; and presents a broad outline of a recommended strategy for further Government action and technical assistance. Detailed recommendations pursuant to the general strategy are described and explained in Chapter VI.

A. SUMMARY OF MAJOR PROBLEMS IN THE FINANCIAL SECTOR

As discussed in Chapter II, the Government has already taken or agreed to take the most important steps to establish the economic stability necessary for growth of the financial sector. Further progress in deficit reduction will remove much of the upward pressure on real interest rates that is currently caused by inflationary expectations, excessive Government borrowing, and short-term monetary policy objectives.

Some of the problems in regulation and supervision of the banking system are also being addressed as part of the conditionality of the second phase of USAID's Financial and Private Sector Development Project. In addition, the Government is recapitalizing the GCDB so that it can renew lending operations strictly as a commercial bank and provide competition to the two existing commercial banks.

The following discussion provides a snapshot of the major remaining problems in the financial sector.

1. Inadequate Competition in the Banking System

Inadequate competition in the banking system, especially in lending and related retail services, is demonstrated by abnormally high profitability of the commercial banks and very high interest rate spreads. High real interest rates deprive debt financing to otherwise viable projects, and generally depress economic activity in all sectors of the economy.

2. Short-Term Lending and Investing Focus

The short-term lending and investing orientation of Gambian individuals, companies, and financial institutions generally pervades and characterizes financial intermediation in the Gambian economy. It constitutes a major impediment to development of capital-intensive industries such as certain manufacturing industries. The Government is currently reenforcing this short-term mentality by flooding the market with 90-day T-bills.

3. Lack of Non-Bank Financial Institutions

Non-bank financial institutions traditionally fill the gaps in financial intermediation by serving financial markets that are not sufficiently profitable or too risky to attract banking institutions. Other than the SSHFC and GPO Savings Bank, The Gambia has no formal deposit-taking or lending NBFI's. Consequently, small businesses and entrepreneurs who are not sufficiently collateralized must rely on equity capital or borrowing through informal loan markets (usually at very high interest rates) for working capital.

4. Inadequate Regulation and Supervision of Financial Institutions

Obsolete legislation and regulations governing banks and other financial institutions inhibit the Central Bank from processing applications for new licenses in a timely manner. In particular, capital adequacy standards have not been revised to fully compensate for the effects of monetary inflation in the time since the original standards were set. The lack of sufficient bank supervision staff to monitor the current financial institutions effectively also inhibits processing of new bank applications.

5. Unreasonable Taxes on Financial Transactions

The major inefficiencies in the tax laws standing in the way of economic growth were eliminated during the last two years. Several inefficient taxes remain, however, on financial transactions. High taxes on capital gains, transfer of shares, leasing, and insurance may inhibit the growth of financial intermediation in The Gambia, and will eventually tend to force financial activity abroad, where it will not be taxed as heavily. In addition, lack of computerization of income tax processing and other shortcomings in tax administration deprive the Treasury of needed revenues.

6. Shortage of Modern Equipment and Trained Personnel

Despite considerable progress in this area in recent years, there is still a shortage of trained accountants in the financial sector, and several financial institutions (GCDB, GPO Savings, insurance companies) do not have sufficient computer equipment for routine processing functions.

B. OUTLOOK

Some of the problems cited above will be resolved or ameliorated over time without Government intervention beyond the measures already being put in place or planned. Others will not.

1. Competition

Reentry of GCDB into the short-term credit market exclusively as a commercial bank will increase competition and place downward pressure on lending spreads and real interest rates. Some additional downward pressure will result when the fiscal deficit has narrowed further, and credit ceilings are relaxed. As the competition increases and profitability decreases in foreign exchange transactions, and as the T-bill rate falls due to lower levels of short-term government borrowing, banks will become more aggressive in lending to their current clients in order to keep overall profits high. In this scenario, the banks can also be expected to seek new commercial borrowers, who have previously been excluded by high interest rates or credit rationing.

2. Long-Term Lending and Equity Markets

In the above scenario of lower levels of borrowing by the Government and increased private sector lending competition, banks may be induced to make longer-term loans to their current clients, and may also be willing to accept lower levels of collateral. This type of evolution would have positive effects on lending for relatively low-risk projects, such as construction of commercial office buildings, or expansion of existing retail and service establishments.

Development projects, such as manufacturing for export markets, however, will remain unattractive credit risks, unless their borrowing is heavily subsidized or guaranteed. One cannot realistically expect commercial lending institutions voluntarily to write large volumes of high-risk, long-term loans, when equal or better returns can be achieved in lower-risk, shorter-term lending.

3. Growth of Specialized Non-Bank Financial Institutions

With liberalization of controls over financial activity, some growth of specialized institutions such as foreign exchange bureaus, credit unions and cooperatives, and finance companies will occur. For example, once the Central Bank permits exchange bureaus to service the hotels, additional new entrants to the foreign exchange transactions market can be expected, and fees and commissions should approach market levels in hard currency countries.

It is unlikely, however, that specialized lending institutions for residential mortgages will develop without active promotion and participation by the Government. Once legal and regulatory impediments have been removed, specialized non-bank financial institutions for housing will still have to overcome the burden of establishing credibility with savers, developing and promoting a variety of savings schemes to mobilize long-term savings, and designing and administering loan programs that will allow them to operate profitably and with adequate liquidity. Considering the small potential size of the housing market and low incomes of potential borrowers, it is unlikely that more than one such institution could survive, and it would need substantial levels of subsidy (e.g. land for housing) and technical assistance for an initial period of several years.

4. Regulation/Supervision of Financial Institutions

As mentioned earlier, some efforts are underway to revise the most glaring deficiencies in the current regulatory and supervisory structure for banking institutions. Very little, however, is being done to anticipate the growth of specialized non-bank financial institutions in terms of special legislation, regulations, or supervisory structures.

5. Tax Policy and Administration

Some progress is being made in the area of tax administration, but this appears to be an area that could benefit from additional attention in the short term.

6. Equipment and Personnel

Similarly, some progress is occurring in the modernization of equipment and strengthening of personnel capabilities in the financial sector. This area also needs additional resources in the short term.

C. GENERAL STRATEGY FOR CONTINUING FINANCIAL SECTOR REFORM

Our general strategy for reform of the financial sector is intended to broaden the range of financial services, increase the efficiency of financial intermediation, increase levels of private saving and investment, and ultimately support the economic development goals of the Government.

In recommending new initiatives by the Government, we are limited by the realities of the Economic Reform Program and the current fiscal situation in The Gambia. Any new initiatives to strengthen the financial sector must conform with existing policy constraints, and be consistent with the established general direction toward liberalization, privatization, and fiscal restraint. Specifically, highly interventionist actions such as creation of new parastatals, direct government lending, credit subsidies, or interest rate controls are ruled out.

All of our specific recommendations presented in Chapter VI relate to one or more of the following general strategy components.

1. Strengthen the Legislative, Regulatory and Administrative Framework of the Financial Sector

Growth of financial institutions should be encouraged through supportive laws, regulations, and administrative enforcement procedures that protect the rights of creditors and investors. In particular, new legislation is required to address specialized financial institutions and transactions that have not yet developed in The Gambia, such as equipment leasing, and trading of securities. Specific recommendations of this nature have been put forth in the legal report referenced earlier. In addition, all laws governing financial institutions and transactions need to be updated and fully codified, and inconsistencies eliminated.

In addition to strengthening of the legislative framework, regulatory and supervisory bodies should be established or reenforced with additional staff and authority.

2. Remove Procedural and Tax Impediments on Financial Transactions

The Government should move immediately to eliminate unnecessary bureaucratic procedures that inhibit orderly processing of financial transactions, such as any requirement that trading of shares be channelled through or registered with a government office. In particular, in view of the limitations on expansion of long-term debt finance in the current macroeconomic environment, it is vitally important to eliminate any serious inefficiencies in equity markets caused by government regulation or tax laws as soon as possible.

All taxes on financial transactions will need to be reviewed and addressed in the next general tax reform. These include stamp duties on commercial and industrial leases, the capital gains tax on financial assets, and the sales tax on insurance premiums. None of these are now impediments, in part because they are not rigorously enforced. However, as tax administration improves, enforcement of some of these taxes could seriously impede growth in the financial sector.

3. Encourage Longer Term Borrowing By Changing Government's Borrowing Policies

Within the boundaries of the non-interventionist principles described above, the Government can and should take the lead in reshaping the lending and investing attitudes of Gambian individuals and institutions by changing the way in which it borrows money for fiscal and monetary purposes. Specifically, the Government should move toward financial instruments with longer maturities, and should encourage development of a secondary market in these instruments to promote their acceptance by financial institutions and to facilitate development of a commercial bond market.

Secondly, the Government should take steps to develop long-term lending for housing, in that Gambians appear to be willing to save long-term for housing. Filling the demand for housing through a long-term saving and lending program provides an opportunity to influence public attitudes toward longer-term saving and investment behavior.

4. <u>Encourage Commercial Lending Institutions to Broaden Their Lending Programs to Include Additional Industries and to Lend Longer Term</u>

By continuing to open up the financial system to new institutions and decreasing government use of available loan funds, the government can indirectly put pressure on the financial sector to broaden its lending programs to the private sector. In addition, USAID should work with commercial banks to expand their lending activities to inherently riskier types of projects with creative use of available loan and loan guarantee facilities.

VI. RECOMMENDATIONS

This section presents the project team's recommendations for policies to induce increased levels of private foreign capital inflows and to encourage increased private domestic savings and investment in the economy. We have generally limited the scope of our recommendations to those that will improve the efficiency of the financial sector in achieving the above goals. The recommendations are grouped into the following categories: government programs and institutions, prudential supervision of financial institutions, tax policy and administration, and accounting framework. These recommendations are pursuant to the general financial sector reform strategy described in the previous chapter.

A. GOVERNMENT PROGRAMS AND INSTITUTIONS

The following recommended actions are intended to strengthen existing institutions and create new programs to broaden and deepen the financial sector. These actions will require legislative or high-level administrative action by the government.

1. Implement the Diagnostic Report Recommendations for Restructuring the GCDB

Description: In particular, the GCDB should be renamed and allowed to focus exclusively on provision of commercial banking services on a self-sustaining basis. Technical assistance should be provided to the GCDB as soon as possible in the form of an intensive audit of its entire loan portfolio.

Objective: Expedite establishment of a third commercial bank to provide increased levels of competition in lending and retail banking services.

Rationale: A fully functioning third commercial bank is greatly needed to achieve reasonable levels of competition in banking services in the Gambia, in particular, to bring down interest rates for commercial loans. Uncertainty over the future of the development unit within the GCDB could distract its management from the principal objective of reestablishing viability of the bank and resuming commercial lending operations.

An intensive audit of the entire GCDB loan portfolio will serve to establish the bank's true financial position so that the bad and doubtful debt can be identified precisely and removed to a completely separate organization through which the government will assume direct responsibility for subsequent recovery efforts. The audit will also indicate the specific amount of additional capital that the government may need to inject into the new GCDB to facilitate its restructuring and eventual privatization. While the existing bad and doubtful debt remains on GCDB's books, the related recovery efforts are a major distraction if not a total preoccupation of bank management time and energy. Thus the complete extrication of the bad and doubtful debt out of GCDB is an integral part of this recommendation.

2. Expand and Strengthen the Housing Finance Activities of the Social Security and Housing Finance Corporation

Description: The managers of the Pension and Provident Funds should be directed by law to invest a substantial proportion (e.g. 25%) of available funds at near-market rates (e.g. the minimum time deposit rate) in long-term residential mortgages or housing bonds. The housing finance functions of the SSHFC should be strengthened technically with increased training of current staff, infusion of professional lending personnel, and an expatriate advisor specializing in housing finance in developing countries.

Objective: Fulfill the housing finance mandate of the SSHFC by providing adequate levels of non-subsidized long-term investment and loan funds from the Social Security Fund.

Rationale: The Kanifing Project demonstrated that surplus demand for middle-income housing exists, and that salaried employees are willing and able to save regularly for several years in order to buy very modest housing. The recommended action will give the housing program a chance to function as originally intended. If left alone, risk-averse Social Security Fund managers will continue to resist investing substantially in housing.

3. Issue Tax-Exempt Guaranteed Housing Bonds Targeted to Small Savers

Description: The government should authorize the CBG to issue housing bonds on behalf of the SSHFC. The bonds would be guaranteed, transferable, small-denomination, long-term debt instruments carrying a variable rate of interest. Because the interest would be tax exempt, the rate should be pegged several points below the average rate on savings deposits.

The bonds would be targeted primarily for purchase by salaried employees through payroll deduction or over the counter at bank branches and other institutions (like U.S. Savings

Bonds). The bonds could be used as collateral for residential mortgages.

Objective: Increase the national saving rate and provide an additional saving mechanism to finance housing.

Rationale: Demand for housing provides an opportunity to influence public attitudes toward longer-term savings and investment behavior. Introduction of a small-denomination savings bond for housing would help build favorable attitudes toward purchase of long-term bonds. Exempting the interest from taxation would not reduce tax revenue, because the targeted savings would not otherwise exist and are not likely to be moved from other parts of the tax base.

4. Develop and Promote Flexible, Longer-Term Government Debt Instruments

Description: In addition to authorizing guaranteed housing bonds, the government should issue and promote a wider and more flexible range of debentures on its own behalf, with varied yields, maturities, and denominations. The government should establish a secondary market in its long-term bonds by buying them back in open market transactions from time to time.

Objective: Heavier use of longer-term debt instruments and correspondingly less reliance on short-term instruments will reduce crowding out of longer-term private sector borrowing. It will also help lower the costs to the government of borrowing by increasing competition for purchase of short-term instruments, and will allow the Government to fine-tune monetary policy without over issuance of short-term debt instruments.

Rationale: Within the current free market policy direction, the government's ability to influence lending and investing behavior is limited to its own financing decisions. The government is in the strongest position to sell long-term debt instruments in that its credit is generally considered good. Use of variable rate instruments and promotion of a secondary market in long-term Government bonds will improve their acceptability to investors by addressing risk aversion and liquidity concerns.

5. Develop and Promote Customized External Loan Facilities

Description: The World Bank on-lending program and the USAID loan portfolio guarantee program should be promoted actively to banks. There may be some possibility of using both programs for a given project, and possibly combining other grant or loan facilities from donors and non-grant organizations, as well as equity participation by external investors.

We recommend that a short-term consultant be brought in for a three-month period to work with the three commercial banks to set up special small business units within each bank. The unit in each bank would be headed by a loan officer whose responsibility would be to package commercial loans to small businesses, using external loan and loan guarantee facilities. We recommend that the short-term consultant be provided through the International Executive Service Corporation.

The short-term consultant would work with the banks to determine how existing programs need to be reshaped or supplemented, and to identify additional resources required, such as technical assistance for loan applicants in preparing business plans.

Objective: Establish small business units in each bank, and work with these units to develop customized loan facilities and other necessary resources, and to identify and fund commercially viable and bankable projects.

Rationale: Commercial banks currently have low-risk, highly profitable lending and investment opportunities available to them. The bank directors will not devote the intensive time required to actively seek to use creative financing for small business projects, even for those that can be shown to be within bank lending criteria if sufficiently guaranteed. A small business unit with a full-time manager in the bank is required to screen projects, help identify and package resources from outside the bank, and work closely with entrepreneurs whom the bank has funded over the course of the project. A full-time facilitator is required to work with the banks to set up small business units. It is unrealistic to expect the Central Bank, which has other pressing responsibilities, to take an active role as an apex organization for externally funded or guaranteed development lending.

B. PRUDENTIAL SUPERVISION OF FINANCIAL INSTITUTIONS

1. Modernize and Strengthen the Prudential Supervisory Capabilities and Independence of the CBG

Description: The CBG should be made independent by separating it out of the Ministry of Finance and Trade as soon as possible. Instead, it should report directly to the Office of the President. In addition, a long term technical advisor should be appointed to assist in revising the supervisory sections of all financial institution acts, to prepare prudential bank reporting forms and instruction manuals for their use, and to train Banking Supervision Department staff in modern bank examination techniques. Short term technical assistance should be devoted to assure that all examiners and supervisors receive full formal World Bank/FDIC training at each level as they progress through the ranks. The CBG should commit itself to increasing the department's staff (from supervisor on up) by 50 percent to nine active officers within the coming year and to 12 officers within the next two years. Appropriate long term training and attachment to other banking supervisory systems should be provided on a regular basis. Finally, the department's operations should be computerized, using microcomputers, as soon as possible.

Objective: To assure fair competition and the prudent use of depositor and shareholder funds in the banking sector.

Rationale: The most effective banking supervision departments have autonomy from the political pressures intrinsic to finance ministries, have modern prudential regulations clearly defined, and provide regular technical training to keep staff proficient in advanced supervisory techniques. A professionally supervised banking system not only builds investor and public confidence in the financial sector, but also provides a level playing field which encourages healthy competition.

2. Appoint an Insurance Commissioner and Create a Related Supervisory Unit Within the CBG

Description: An Insurance Commissioner with experience in the industry should be appointed as called for in the Insurance Act of 1974 but reporting to the General Manager of the CBG instead of the Ministry of Finance. Until such time as an appropriate individual can be recruited, the function should be handled by the CBG's General Manager or explicitly and publicly delegated to another CBG official. An insurance supervisory unit should be created with appropriate technical assistance at the outset to augment the Insurance Commissioner's functions. Initially, this unit could be managed by the CBG's Banking Supervision Department, but additional resources should be provided so as not to increase the burden on that department's already limited resources.

Objective and Rationale: The purpose and justification are the same as for the recommendation to strengthen the independence and supervisory capabilities of the CBG in the banking system.

3. Overhaul All Financial Institution Acts

Description: Specifically, the acts should be amended to remove inconsistencies (such as the CBG's interpretation that allowed Arrow Holdings to become a foreign exchange bureau but prevented it from dealing with the hotels), to tighten definitions and clarify ambiguities, to anticipate the potential advent of an array of specialized financial institutions and instruments (such as consumer and leasing finance companies, money markets, housing bonds, equity markets and investment companies), and to minimize impediments to their prompt formation once the demand arises.

Objective: To ease the entry of any new type of financial institution, and to provide a clear and consistent set of ground rules for all participants in the financial sector.

Rationale: The CBG has already begun to identify certain ambiguities and inconsistencies in existing legislation which have manifested themselves in the normal course of its regulatory and supervisory functions. However, additional technical assistance and other resources are needed in a major effort to undertake the kind of comprehensive review and overhaul necessary to modernize existing legislation and to minimize potential impediments to the creation of new types of financial institution in The Gambia.

4. Develop Criteria for Granting Licenses to New Financial Institutions While Maintaining Selectivity

Description: The CBG should establish and promulgate detailed criteria for the granting of new banking and other financial institution licenses. These should include, among others: an explicit requirement that proposed principals must be current in all debt obligations with which they are associated as individuals or in a corporate executive capacity, and appropriate capital contribution requirements high enough to assure investor seriousness without creating unreasonable entry hurdles.

Objective: The primary objective is to assure a high standard for the issuance of banking and other licenses despite the desire to increase competition. It serves no useful purpose to allow international entrants of uncertain reputation or resources to join a system which depends so highly on public and investor confidence. Similarly, licenses must not be made available to domestic interests, no matter how prominent or politically well connected, if such interests are not current in all of their financial obligations or if they have in any way contributed to the bad debt or collection problems of GCDB.

Rationale: Maintaining high standards is a vitally important condition for fostering the growth and development of the financial sector in any country. Specifically with respect to recent interest in banking licenses in The Gambia, the reputations of some of the international and domestic parties expressing such interest may not be of the highest order. Consequently, the CBG needs whatever support can be given to maintain its adherence to high standards. The publication of an explicit set of criteria, which also reserves some flexibility for the CBG to exercise its best professional judgment, would help reinforce the application of such standards.

5. Develop a Mechanism and Timetable for Providing Deposit Insurance

Description: Undertake a study to determine the appropriate timing and structure for the creation of a national deposit insurance fund.

Objective: To ascertain the optimal timing, coverage, and source of funds for the insured protection of small depositors' assets in the event of a bank failure. The broader objective is to maintain depositor confidence in the banking system without encouraging laxity in bank management and without necessarily relying on taxpayer funds to make all depositors whole in the event of a failure.

Rationale: The ideal time to address this question is when a banking system is relatively healthy. This will be the case in The Gambia when the government assumes GCDB's bad debts. The CBG reserve requirements provide a cushion for a bank to meet normal depositor withdrawals, including a safety margin for unusual periods, while the bank remains solvent. But if a bank becomes insolvent the question arises as to what institution, if any, will return to depositors any balances remaining on the books at the time of failure. In the past, the CBG itself has simply paid all depositors out of its own funds. The alternative of establishing a deposit insurance reserve fund out of premiums paid by banks should be addressed in anticipation of the time when the banking system will have expanded and the government might not be in a position to cover a major bank failure.

6. Reform the Process of Enforcing Court Judgments

Description: The government should commit itself to reforming the process of implementing court judgments in favor of lending institutions seeking to recover non-performing loans.

Objective: To maintain a healthy banking system by helping banks to enforce loan agreements and security arrangements signed by their borrowers.

Rationale: In addition to reinforcing other prudential efforts to keep banks sound by maintaining healthy loan portfolios, smoothing out the implementation of court judgments and other legal agreements will tend to make lending more attractive to banks. This would be an important if indirect inducement to the banks to become somewhat less conservative than they have been in The Gambia to date where they have clearly tended to invest their marginal resources in relatively risk-free Treasury bills instead of secured loans to their customers.

C. TAX POLICY AND ADMINISTRATION

1. Complete the Computerization of the Central Revenue Department

Description: Thanks to donations by USAID, the Central Revenue Department has the requisite computer hardware to computerize its records. However, additional software and training are needed before the computerization can be completed. In addition, the data base containing income tax records should be linked to other data bases that contain information relevant to the estimation of income tax liability. These include customs declarations, sales tax payments, company registrations, and vehicle licenses.

Objective: Increase compliance with the income tax laws.

Rationale: Computerization of the income tax records will improve tax administration and provide a better basis for analyzing potential tax reforms. By linking to other data bases, the computerization effort should help identify individuals and companies that have escaped the tax net. The resulting broadening of the tax base would help offset any revenue losses associated with the tax law changes recommended below.

2. Perform a Comprehensive Analysis of Tax Administration

Description: Codification of the tax laws and computerization of the Tax Department are prerequisite to improved tax administration. A thorough study is needed to identify the flaws in the current system and to recommend a strategy for improvement. Our initial assessment is that the biggest need is for training: specifically training in audit and examination skills for tax collectors and auditors, and training in management skills, tax policy, and international tax issues for top management.

Objective: Increase compliance with the income tax laws.

Rationale: A comprehensive program for improving the administration of the income tax laws would serve to increase compliance. The resulting broadening of the tax base would help offset any revenue losses associated with the tax law changes recommended below.

3. Eliminate the Capital Gains Tax on Sales of Securities

Description: Sales of financial assets should be clearly exempted from the capital gains tax. Current law is unclear as to whether the sale of financial assets, particularly appreciated equity shares, would be subject, in whole or in part, to the capital gains tax. If financial assets are covered, the structure of the tax, in particular the percentage of sales value feature, would discourage active trading in financial assets.

Objective: Eliminate tax impediments to the formation of a securities market in The Gambia.

Rationale: An exemption would eliminate the ambiguity in the current law over whether such assets are taxable, and would improve the climate for the creation of securities markets.

4. Reduce the Company Tax Rate to 35%

Description: Subject to a more comprehensive study of the tax system, consideration should be given to reducing the company tax rate to 35%.

Objective: Attract more investment capital into The Gambia.

Rationale: The 50% company income tax rate in The Gambia is higher than in many developed countries and in most other West African countries. This differential may serve to inhibit foreign direct investment in The Gambia. If the tax rate is lowered, The Gambia will become more competitive and attract more foreign investment.

5. Exempt Certain Financial Institutions from the Turnover Tax

Description: The Income Tax Act should be amended to exempt from the turnover tax all financial institutions, and other companies that are required to provide annual audited financial statements to regulatory bodies, such as the CBG.

Objective: Provide for equitable taxation of company income.

Rationale: Because the turnover tax is essentially a minimum company income tax, a company would be subject to the tax under current law only if it had an unprofitable year. Therefore, the tax imposes a higher marginal tax rate on companies that are least able to afford the additional expense. In the extreme, a company might lose money, yet be required to pay the company income tax. In that case the tax would have to be paid out of capital, thus weakening the company. While there is some justification for the turnover tax as a means of countering tax evasion, this justification does not apply to companies whose financial performance is audited by chartered accountants and scrutinized by regulatory bodies.

6. Equalize the Stamp Tax on Legal and Equitable Mortgages

Description: The stamp tax payable on legal mortgages (1.0%) and equitable mortgages (0.5%) should be equalized or eliminated altogether.

Objective: Achieve a system of taxation that has a neutral effect on the choice of financing.

Rationale: Equalizing the stamp tax rate would minimize borrower resistance to providing legal mortgages, which are by far the more effective form of collateral in The Gambia.

7. Eliminate the Tax on Leasing Transactions

Description: The 40% duty on commercial and industrial leases should be eliminated altogether, or substantially reduced (e.g to 10%) and converted to a withholding tax that would be creditable against the lessor's regular income liability.

Objective: Achieve a system of taxation that has a neutral effect on the choice of financing capital equipment.

Rationale: The current tax on leasing constitutes a virtually confiscatory tax, which, if strictly enforced, would prevent development of a leasing industry in the Gambia. The most deficient aspect of this tax is that it is effectively levied against a gross income base, rather than net income, and the 40% rate could, in some cases, actually exceed the profit from the leasing business.

8. Monitor the Effect of the Sales Tax on Insurance Premiums

Description: The sales tax on insurance discriminates against Gambian companies in favor of foreign companies in the markets for non-compulsory insurance, such as marine insurance. Eventually, the tax may reduce the amount of reserves that would be available for investment in the Gambian economy. We do not recommend exempting insurance premiums in the near term. The sales tax represents over one-quarter of total tax revenue.

Opening the Sales Tax Act for amendment might encourage others to seek exemption, and accordingly threaten this critical source of revenue. However, the tax on insurance premiums should eventually be eliminated, perhaps during the next general tax reform.

Objective: Achieve a system of taxation that promotes capital formation in The Gambia.

Rationale: The tax on insurance premiums creates an incentive for individuals and companies to purchase insurance from foreign companies, that are not subject to the tax. This will limit the growth of the Gambian insurance industry, and accordingly, the amount of capital the industry will have available to lend or invest.

D. ACCOUNTING FRAMEWORK

Strengthen the Staffing of the Management Development Institute

Description: The government should assure continuity in the quantity and quality of MDI training staff in view of the nearly complete turnover of experienced staff that is scheduled to take place during 1990.

Objective: To provide consistent, high quality training by the only local institution involved in such training which serves both the private and public sectors.

Rationale: The disruption likely to be caused by the high turnover described in Chapter VI is self-evident and should be avoided in the future through sound advance planning and coordination between MDI administrators and the various organizations that provide technical trainers from abroad.

VII. IMPLEMENTATION SCHEDULE

Following are implementation schedules for the policy initiatives recommended in Chapter VI. We have grouped recommendations by topical category. No priority is implied by the order in which topics appear. Each topic is sequenced (short, medium, long term) in the chronological order in which action should be taken.

1. <u>Gambia Commercial and Development Bank</u>

Short Term	Medium Term	Long Term
• Reconfirm all restructuring agreements with GOTG.	• Rename and revise Act so that GCDB is exclusively a commercial bank.	• Privatize by 1992.
• Audit loan portfolio.	• Implement restructuring agreements.	
• Remove all bad debt out of GCDB to a completely separately organization for assumption by government of subsequent recovery efforts.		

<u>Rationale:</u> The short term recommendations are crucial to getting the GCDB restructuring program back on track as soon as possible and to enabling GCDB to concentrate fully on establishing itself as a viable market-based commercial bank. They are also necessary preconditions for successful implementation of the medium and long term objectives which have already been agreed.

2. <u>Prudential Supervision</u>

Short Term	Medium Term	Long Term
• Develop FDIC course schedule for all CBG banking supervision officers.	• Increase banking supervision staff level to 9 officers by 1991.	• Increase banking supervision staff to 12 officers by 1992.
• Appoint long-term technical advisor (banking supervision).	• Update reporting requirements and prepare manual.	
• Appoint Insurance Commissioner within CBG.	• Prepare legislative recommendations for revising supervision of all financial institutions and for making CBG independent from MFT.	

<u>Rationale:</u> All three short term recommendations are essential to implement within a year if at all possible. The expansion of the CBG's Banking Supervision Department should also entail careful planning of training schedules for new staff officers and could actually overlap with the short term course scheduling recommendation. Clearly the long term technical advisor should be in place before the updating of reporting requirements, manual preparation, and supervision legislation revision can begin in earnest.

3. <u>Overhaul of Financial Institution Acts</u>

Short Term	Medium Term	Long Term
• Appoint short-term technical advisor (financial legislation).	• Prepare comprehensive financial institution legislation revision proposals.	• Revise financial institution acts.

<u>Rationale:</u> This is the natural sequence of steps which need to be undertaken in order to expedite the most efficient revision of the existing range of financial institution acts.

4. Licensing of Financial Institutions

Short Term	Medium Term	Long Term
• Revise and promulgate criteria under current regulations.		

Rationale: Existing criteria and standards should be reviewed, made more explicit if necessary, and made available to the public as well as any parties interested in applying for banking licenses.

5. **Deposit Insurance**

Short Term	Medium Term	Long Term
	.Undertake study to determine timing and structure.	.Act on study recommendations.

Rationale: The sequencing of these recommendations as medium and long term issues simply implies that they are not currently as urgent as the short term items in other categories. However, it should be kept in mind that the best time to develop a deposit insurance fund is well in advance of the time when it may be needed.

6. Government Debt Instruments

Short Term	Medium Term	Long Term
. Provide expatriate advisor to prepare program for introducing new instruments.	. Issue new instruments. . Create secondary market.	. Monitor and adjust maturities to longer term of warranted.

Rationale: To ensure success in selling new government debt instruments, it is essential to research the market and devise debt instruments with attractive maturities, yields, and denominations. A promotion strategy should also be designed. Introduction of the new instruments should be timed to occur in tandem with introduction of secondary market operations, so that investors will be interested.

7. Housing Finance

Short Term

- Revise SSHFC housing funding.
- Strengthen housing finance manpower.

Medium Term

- Authorize and issue tax-exempt housing bonds.
- Study advisability of privatizing housing finance component of SSHFC.

Long Term

- Privatize housing finance (if found feasible).
- Develop new housing finance programs.

Rationale: As a first step, the existing program at SSHFC should be made to work as originally intended. Once sufficient experience has been gained and the public is used to the housing finance program, housing bonds should be introduced to broaden the appeal to potential savers. By this time, and with introduction of housing bonds, the housing finance program should be profitable enough to consider privatization, and new housing finance programs can be introduced to broaden the impact of the program on saving.

8. Develop and Promote Customized External Loan Facilities

Short Term	Medium Term	Long Term
.Bring in short -term expatriate advisor to assist banks in setting up small business units.	.Work with small business units to develop project finance packaging schemes and identify outside resources.	.Provide technical assistance to entrepreneurs in preparing business plans and establishing new enterprises.

Rationale: A carefully coordinated promotion program is required to persuade banks to establish small business units. Once these units are in place, continued coordination, persuasion, and technical assistance from USAID will be needed to overcome resistance of financial institutions to undertake financial commitments in areas in which they have little experience. High levels of technical assistance to entrepreneurs will also be needed to create success stories and keep the banks involved.

9. <u>Tax Law and Administration</u>

Short Term	Medium Term	Long Term
.Complete computerization of income tax department.	.Eliminate capital gains tax on sale of securities. Reduce company tax rate to 35%.	.Monitor effect of sales tax insurance premiums.
.Perform a comprehensive analysis of tax administration.	.Exempt financial institutions from turnover tax.	
	.Equalize stamp tax on legal and equitable mortgages.	
	.Eliminate tax on commercial and industrial leases.	

<u>Rationale:</u> Tax administration should be improved before making the recommended changes to the law. Improvements in administration should result in better compliance, and accordingly, higher tax revenues. This increase in tax revenues would offset the potential revenue loss from the reduction in the company tax rate.

10. Accounting Framework

Short Term	Medium Term	Long Term
.Strengthen staffing of MDI.		

This issue needs to be addressed as soon as possible in order to rectify the related effects, which will retard the training of Gambian accountants, auditors and financial managers in the near future if not addressed effectively.

APPENDIX A

LIST OF INSTITUTIONS AND INDIVIDUALS INTERVIEWED

MINISTRY OF FINANCE AND TRADE
Brendan M. Walsh, Economist/Advisor
Paul McNamara, Economist/Advisor
Alan Goodrich, Technical Advisor to the Accountant General
Derek S. Robertson, Sales Tax Advisor
Gerry Dougherty, Customs Advisor
M. M. Jagne, Income Tax Commissioner

CENTRAL BANK OF THE GAMBIA
Edward E. Fillingham, General Manager
Clark Bajo, General Manager Designate
Haddy A. Njie, Manager, Banking Supervision Department
Ousman J. Saidykhan, Statistical Assistant
Hussain Ramamurthi, Agricultural Credit Advisor
Mahmoud Foon, Economist

STANDARD CHARTERED BANK GAMBIA LIMITED
E. G. Bell, Managing Director

BANK INTERNATIONAL OF COMMERCE AND INDUSTRY
David Able-Thomas, Manager

GAMBIA COMMERCIAL AND DEVELOPMENT BANK
David B. Thwaites, Managing Director
Benjamin Carr, Acting Deputy Managing Director

GAMBIA NATIONAL INSURANCE COMPANY LIMITED
Mr. Fatty, Managing Director

SENEGAMBIA INSURANCE COMPANY LIMITED
Babou A.M. Cisse, Managing Director
Robert K. Hinson, Deputy Managing Director
Solomon B. Jarra, Public Relations Officer

CAPITAL INSURANCE COMPANY LIMITED
Alhaji Dodou M. Taal, Managing Director
Joseph Charles Fye, Deputy Managing Director

GREAT ALLIANCE INSURANCE COMPANY LIMITED
Mataar O. Drammeh, Managing Director

INVESTMENT FINANCE COMPANY OF GAMBIA
Hon. A.B. Dandeh-Njie, Managing Director
Mr. Ousman, Secretary

ARROW HOLDINGS LIMITED - BUREAU DE CHANGE
M. M. Ngum, Managing Director
Housainou Njai, Deputy Managing Director

SOCIAL SECURITY AND HOUSING FINANCE CORPORATION
Vidal O. Ashcroft, Acting Managing Director and Director of Housing
Edward Graham, Senior Accountant

GENERAL POST OFFICE SAVINGS BANK
P. A. Qureshi, UNDP Advisor to Director of Posts
T. B. A. Awe, Senior Superintendent of Posts
John Cobal, Assistant Director of Posts

GAMBIA WOMEN'S FINANCE COMPANY
Mariatou Faal, General Manager

PANNELL KERR FORSTER CHARTERED ACCOUNTANTS
D. Simpson, Partner
Peter Smith, Partner

GAMBIA CHAMBER OF COMMERCE AND INDUSTRY
Pierre Njie, Executive Secretary
Kebba Tamsier Njai, Assistant Executive Secretary

MANAGEMENT DEVELOPMENT INSTITUTE
Ted N. Hazard, Team Leader

INDIGENOUS BUSINESS ADVISORY SERVICE
Reme Allen, Assistant Manager
Dodson Gaye, Acting Project Officer

MOUKHTARA HOLDING COMPANY LIMITED
Sayed Moukhtara, Managing Director

NATIONAL INVESTMENT BOARD
Sako M. Mboge, Senior Economist

EUROPEAN ECONOMIC COMMUNITY
Allan Waddams

APPENDIX B

SUMMARY OF GAMBIAN TAX LAWS

The Gambia: Summary of Tax System as of September 1, 1989

(All amounts in dalasis)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. Taxes on net income and profits			
1.1 Taxes on companies and corporations			
1.11 Company tax	Tax on companies having income accruing in, derived from, brought into, or received in The Gambia. "Company" is defined as any company or corporation incorporated or registered in The Gambia or elsewhere. The profit of a life assurance company is the investment income less management expenses (including commission). Where premiums are received outside The Gambia, the profit is taken to be the same proportion of the company's total investment income as The Gambia premiums bear to the total premiums, less The Gambia agency expenses and a fair proportion of the head office expenses. For other insurance companies having profits arising partly outside The Gambia, the profit for tax purposes is based on the gross premiums, interest, and other income received or receivable in The Gambia (adjusted for premiums returned, reinsurances, and unexpired risks). The actual losses, The Gambia agency expenses, and a fair proportion of head office expenses are deducted. Companies exploiting a mine, oil well, or other sources of mineral deposits of an exhaustible nature are granted a depletion allowance. Expenditure taken into account for this purpose includes expenditure on acquisition of the deposits, on exploitation, and on the construction of works which will be of little or no value when the mineral source is no longer worked; it does not include expenditure on the acquisition of any site, on machinery or plant, on works for processing the raw products, or on buildings for workers or for use	Income exempted includes the income or profits of (a) a local authority, district authority, government institution; The Gambia Produce Marketing Board or the Central Bank of The Gambia; (b) a registered cooperative society; (c) an ecclesiastical, charitable, or educational institution of a public character where such income is not derived from a trade or business; (d) a body of persons (which excludes companies and partnerships) formed for the purposes of promoting social or sporting amenities not involving gain by the body or its members; (e) a registered trade union insofar as such income is not derived from a trade or business; (f) the operation of ships or aircraft carried on by a nonresident person subject to an equivalent exemption being granted by the country of his residence to persons resident in The Gambia; and (g) the investment income of an approved pension or provident society fund. Deductions allowed include (a) the written-down value (after deductions for depreciation) of plant, machinery, or fixtures sold or discarded, less any sum realized by the sale of an asset (or its market value if greater). The excess of the sale price (or market value) over the written-down value is treated as income up to the excess of the original cost over the written-down value; (b) expenditure on repair of premises, plant, machinery, or fixtures, and for the renewal, repair, or alterations of articles used in acquiring the income; (c) deduction of allowances in respect of capital expenditure on, and depreciation by	50 percent of net profits or 3 percent of turnover, whichever is higher. However, small companies incorporated and controlled in The Gambia after 1954 may benefit from relief as follows: (a) for the year of assessment in which the company commences trading and the subsequent year at a rate equal to the full rate of tax; (b) for the next two assessment years at a rate equal to two thirds of the rate of tax; (c) for the next two assessment years at a rate equal to one third of the rate of tax. Such relief is subject to a reduction as follows: where the company's chargeable income exceeds D 5,000, the amount of chargeable income to be wholly or partly relieved from tax is restricted to any balance of such D 5,000 remaining after deducting one half of the amount by which such chargeable income exceeds D 5,000. Relief is only given if the company (a) is engaged in a manufacturing activity approved by the Minister of Finance, and (b) is not eligible for concessionary treatment under the Development Act.

Source: International Monetary Fund, "The Gambia - Statistical Annex," October 17, 1989.

The Gambia: Summary of Tax System as of September 1, 1989 (Continued)

(All amounts in dalasis)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.11 Company tax (continued)	as offices. Provision is made for an initial allowance of 20 percent of the capital expenditure on the construction of works and an annual allowance for any qualifying expenditure of 5 percent or an amount determined according to a special formula if this is greater. There is also a balancing allowance on the sale by a going concern of any assets representing qualifying expenditure equal to the excess, if any, of the residual of the expenditure on those assets over the proceeds of their sale. Conversely, a balancing charge applies on the amount by which the proceeds exceed the residual, but limited to the excess of the taxpayer's original expenditure over the residual. The full profits of a nonresident shipowner or charterer arising from the carriage of passengers, mail, livestock, or goods shipped in The Gambia are taxable there, except where the profits arise from passengers, brought in solely for transshipment, or from a casual call. Similar provisions apply to the profits of air transport and cable and wireless telegraph undertakings carried on by nonresidents.	wear and tear of plant, machinery, or fixtures arising from their use in a trade, business, profession, vocation, or employment: (i) an initial allowance of 20 percent of the total cost (after deducting any sum contributed by another person), and (ii) an annual allowance of such sum as the Commissioner considers reasonable. Where the assets and the business, etc., do not have the same ownership, the deduction may not reduce the written-down value to less than the market value of the assets at the end of the relevant period; (d) subject to certain limitations, contributions by employers to pension and provident funds, approved by the Commissioner; (e) a deduction of a reasonable amount for the depreciation by wear and tear of premises, buildings, structures, and works of a permanent nature used for commercial, industrial, or banking purposes (including property used for the occupation or welfare of employees and property owned by property-dealing companies); the amount allowable is limited to: (i) 4 percent of the capital cost, for the period in which it was incurred; (ii) for subsequent years, an annual allowance of 4 percent of the written-down value. However, for property other than mills, factories, and similar property, the erection of which commenced before January 2, 1953, the annual allowance is limited to 2 percent of the written-down value; and (f) any loss on the sale, demolition, or permanent disuse of property, etc., for which a deduction as at (e) has been given. The allowance given is equal to the written-down value (calculated by reference to such deductions) less the proceeds of sale or any recoveries under an insurance policy. The excess of any such proceeds or recoveries over the written-down value is liable to capital gains tax (see below, 1.31).	

The Gambia: Summary of Tax System as of September 1, 1989 (Continued)

(All amounts in dalasis)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.2 Taxes on individuals			
1.21 Individual income tax	Tax on income accruing in, derived from, brought into, or received in The Gambia. Temporary residents who have no intention of establishing residence, and who have not resided in The Gambia for a period equal in aggregate to six months in the year of assessment, are not taxed on income arising outside and received in The Gambia. Income, wherever received, from any employment exercised in The Gambia is treated as having been derived there. The income other than the earned income of a married woman living with her husband is deemed to be the income of her husband. The earned income of a married woman is assessed in her hands separately. Income includes (a) gains or profits from any trade, profession, or vocation; (b) gains or profits from any employment including allowances paid in money other than reimbursements for expenditure actually incurred, but excluding (i) the value of any quarters or residence if the employee earns less than D 625 a month or is employed by a government or quasi-government corporation, etc., or approved nonprofit-making institution, and (ii) the value of any passage from or to The Gambia provided by the employer and the amount of any reimbursement of expenses actually incurred; (c) dividends, interest, or discounts; the income of a shareholder in a company controlled by not more than five persons may be deemed to include undistributed income of the company; (d) pensions, charges, or annuities; (e) rents, royalties, premiums, and any other profits arising from property, but excluding the annual value of owner-occupied property; and (f) income arising outside The Gambia and brought therein, except accumulated and taxed profits abroad.	Exemptions include (a) the official salaries and emoluments of the President (and his leave emoluments) or acting President and diplomatic staff; (b) certain lump sums received by way of retirement or death gratuities arising out of compensation schemes, and any sums payable to public officers as a gratuity under any contract or service agreement; (c) lump sums withdrawn by individuals on retirement from any pension, provident, or other approved society or fund; (d) wound and disability pensions granted to members of Commonwealth forces; (e) pensions granted under certain legislation concerning widows and orphans; (f) interest paid or credited to any person by the Government Savings Bank; (g) the income of bona fide students in full-time attendance at a school, training center, etc.; (h) certain emoluments payable to noncitizens under an agreement with another government, organization, etc., for technical assistance; etc., and (i) income from employment, trade, business, or profession exercised outside The Gambia and received therein. A standard deduction of D 5,000 is allowed to every taxpayer.	Chargeable income — Percent Up to D 10,000 — 10 D 10,001 - 20,000 — 15 D 20,001 - 30,000 — 20 D 30,001 - 40,000 — 25 Over D 40,001 — 35 Reliefs: Standard allowance: D 5,000.

The Gambia: Summary of Tax System as of September 1, 1989 (Continued)

(All amounts in dalasis)

	Tax	Nature of Tax	Exemptions and Deductions	Rates
1.21	Individual income tax (continued)	"Assessable income" is income from all sources, excluding exempt income and after permitted deductions; "total income" is assessable income less any offset for losses; and "chargeable income" is total income less allowances for individuals.		
		The amount of a loss incurred by the taxpayer in the year of assessment in any trade, business, profession, or vocation is deductible from assessable income in determining total income, providing it is claimed within 12 months after the end of the year of assessment. There is provision for the carry-forward of any loss not allowed against assessable income up to a maximum of six years, but only by the person who incurred the loss, and for the same business.		
		Tax is levied for the year of assessment ending on December 31 upon the income of the same calendar year, or the accounts year ended in the preceding year. There are special provisions for allocating the income in respect of the commencement and cessation of a business, employment, etc. Partners are required to make a joint return in respect of their partnership income, but they are liable to tax only in their separate, individual capacities.		The rate of tax chargeable on the income of companies for the year of assessment within which the due date for payment of the interest falls (50 percent). The rate paid or payable by the company on the assessed income of the year of assessment within which the dividen is declared payable (50 percent).
1.22	Withholding at source	(a) Monthly deductions from public emoluments and pensions, subject to adjustment when the liability is finally determined. Any other employer is obliged to collect the tax payable by an employee in monthly installments, as prescribed by the Commissioner; (b) persons paying mortgage or debenture interest, deductible in ascertaining their income to nonresidents; (c) companies resident in The Gambia on dividends paid to shareholders (the tax so deducted can be credited against the shareholder's tax liability); (d) the Commissioner may, if necessary, appoint any person as the agent of a taxpayer for the purposes of the Act and require him to pay any tax due from any money, including remuneration or pensions, payable from him to the taxpayer.		

The Gambia: Summary of Tax System as of September 1, 1989 (Continued)

(All amounts in dalasis)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.31 Capital gains tax	Tax on net capital gains arising from transfer of capital assets (namely, premises, buildings, or land, structures or works and permanent fixtures) or on the selling price of transferred capital assets, whichever is higher. Transfers include sale, exchange, or extinction of interest or compulsory acquisition of capital assets. Gains include those arising from transfer of assets under a gift or will and distribution of assets or dissolution of business.	Capital losses can be offset against capital gains in the same year of assessment. Gains on transfer of land used for agricultural purposes and property being used for residential purposes are not chargeable if owner occupied the house/land for two years before sale and reinvested profits within three years of sale.	Gains of D 5,000 and below are exempt. Rates of tax: companies, 25 percent of net gains or 10 percent of selling price; individuals, 15 percent of net gains or 5 percent of selling price.
1.32 National development levy	One-time levy on salaries, wages, profits, and other sources of income arising in July of each year.	Farmers, diplomats, pensioners, and technical assistance personnel are exempt.	10 percent.
3. Payroll tax	Fixed annual levy on expatriates in executive, managerial, and supervisory grades in commerce and industry.	Expatriates in the public service, international organizations, and charitable institutions are exempt.	D 5,000 per person.
5. Taxes on goods and services			
5.1 Turnover tax	Tax on turnover of parastatals and other government institutions in surplus positions and which are exempted by legislation from payments of taxes on profits.		3 percent.
5.2 Sales tax	Tax imposed on the sale price of all goods manufactured or imported and on services such as: hotel accommodations, telecommunications, insurance, air services, restaurants and bars, cinematographs, night clubs and casinos, and gambling houses.	(1) Educational, technical, cultural, and religious institutions; (2) food and drinks not imported or industrially processed; (3) feeds for animals; (4) semi-finished products to produce (2) and (3); (5) medicines; and (6) production equipment excluding office equipment, motor vehicles, and electric generators.	10 percent. 6 percent for hotel pre-booked package tours. 2.5 percent on fuel oil sales to GUC.
5.3 Selective taxes on activities			
5.31 Business and professional licenses			
5.31.1 Business registration tax	Business registration fee.		Depends on whether the owner is Gambian or not (in the case of partnerships or companies, whether locally incorporated or not); minimum rates are at D 2.50 to D 25 (gradation rising with the rateable value of premises) on retail business and at D 5.00 to D 12.50 on building contractors and restaurant and bar owners; middle rates are at D 12.50 to D 37.50 on wholesalers, hotel and cinema owners; higher rates at D 25 to D 50 are on agencies, brokerage, and

The Gambia: Summary of Tax System as of September 1, 1989 (Continued)

(All amounts in dalasis)

Tax	Nature of Tax	Exemptions and Deductions	Rates
			confirming houses. Companies pay from D 37.50 to D 62.50. All rates are per annum.
5.31.2 Professional tax	Tax on professionals working in the country. This tax is tied to the issue of an annual license which is renewable and levied on doctors, lawyers, accountants, and surveyors.		D 1,000 per annum.
5.32 Motor vehicle taxes			
5.32.1 Motor vehicle licenses	License fee on the gross weight of commercial goods vehicles, the carrying capacity of commercial passenger vehicles, and the net weight of private vehicles.		Commercial goods vehicles: D 137.85 per year on trucks not exceeding 100 cwt. gross weight to D 278.58 on trucks in the 100-120 cwt. weight bracket, with D 11.98 per 5 cwt. additional on trucks over 120 cwt. and with D 25 additional on vehicles over 125 cwt.; trailers: D 19.9? per cwt.; commercial passenger vehicles: D 149.83 for three-passenger vehicles to D 433.35 for buses carrying more than 24 passengers; private vehicles: D 96.85 on cars not exceeding 20 cwt. to D 168.75 on cars in the 40-50 cwt. weight bracket; motor scooters: D 40.97; motorcycles: D 48.96. There are also corresponding half-year or December only rates.
5.32.2 Road tax	Additional to vehicle licenses.		Motorcycles, D 20; private motor vehicles, D 70; commercial taxis, D 150; commercial trucks and buses, D 1,050 per year.
5.32.3 Driving license			D 20 per year.
6. Taxes on international trade and transactions			
6.1 Import duties			
6.11 Customs duties (Customs Act and Customs Tariff Act, rev. ed. of the Laws Act 1965, Chapters 43 and 44; and The Gambia Customs Tariff)	Tax on value of imported goods to be declared on customs entries. The value is the price which the goods would fetch on sale in the open market in The Gambia, including freight, insurance, commission, and all other costs up to the port or place of importation. Normally for goods imported under a contract of sale negotiated in fully open market conditions, the value is	General exemptions include goods in transit; goods for use as aircraft's or ship's stores; advertising material having no commercial value as such; ~~mosquito-proof~~ gauze and netting; personal effects; certain goods imported by, or on behalf of, the Government, the Gambia Utilities Corporation, privileged persons (within prescribed limits) and institutions;	There is one unified tariff rate for all goods irrespective of country of origin except goods grown, manufactured, or produced in (a) Senegal, which attract the lower rate of duty hitherto enjoyed by goods originating from Commonwealth countries, and (b) ECOWAS countries, where the rate is "held" at that in force in May 1977. There is a free rate and 21 rates,

The Gambia: Summary of Tax System as of September 1, 1989 (Continued)

(All amounts in dalasis)

Tax	Nature of Tax		Exemptions and Deductions	Rates
6.11 Customs duties (continued)	represented by the price made under that contract, adjusted as necessary to a c.i.f. basis. Items are identified by the Brussels Tariff Nomenclature.		and certain goods (building materials, plant, and machinery) purchased by the holders of development certificates during their tax holiday period.	varying from 4 percent to 60 percent. Generally, luxury goods are dutied at the higher rates. Motor vehicles are dutied at rates from 45 percent to 65 percent. Secondhand vehicles are dutied at the same rate as new ones. Following the introduction of the flexible exchange rate system, in February 1986 specific rates of duty on beverages, potable spirits, oil, tobacco, sugar, and certain other products were converted to equivalent ad valorem rates. Duties on imported spirits range from 31-57 percent for wine to 115 percent for brandy. Duties on fuel oil are: premium petrol, 450 percent; gasoil, 211 percent; and kerosene 108 percent. Following the introduction of 10 percent sales tax, in July 1988, which replaces the 6 percent import tax, import duties have been lowered by an average 4 percent.
7. Other taxes				
7.2 Stamp duties (Stamp Act., rev. ed. of the Laws Act 1965, Chapter 176).	Instruments Subject to Duty	Persons Liable	General exemptions include (a) instruments effecting the payment of money to or for acknowledging any such payment to or receipt by or on behalf of the Government; (b) instruments for the conveyance of any property or any interest therein to the Government; (c) instruments whereby any contract is made by the Government or on its behalf with another person; (d) contracts or instruments made or executed by any responsible officer of the Government under the authority of any Act; (e) instruments of which the duty would be payable by any consular officer arising out of his official functions, subject to reciprocity by the government he represents; and (f) instruments for the acquisition of land by any foreign state for the purpose of a consular office, subject to reciprocity. Certain other exemptions are provided within the categories of instruments generally liable to duty.	Rates of duty are specific and vary according to the nature of the instrument, the matter to which it relates, and the value thereof.
	agreements	parties thereto		
	awards	person making or executing the award		
	bills of exchange	drawer or acceptor		
	conveyances	transferee		
	insurance policies	issuer		
	leases	lessee or tenant		
	mortgages	mortgagee		

The Gambia: Summary of Tax System, August 1, 1988 (Concluded)

(All amounts in dalasis)

Tax Incentives

Development Act, 1988	Any person engaged in a development project (in manufacturing industry; agriculture, livestock, fishing, and forestry; mining and quarrying; and tourism) may apply for a Development Certificate which specifies, inter alia, the factory construction (or alteration, extension, etc.) date, the production date, the tax credits to be granted, and their duration. The provision of tax credits is limited to companies that either export at least half their output or generate domestic value added of more than 60 percent. In accordance with the terms of the Development Certificate, a tax credit certificate is granted for a period of not more than two years for (a) the total or partial exemption of customs duties on the following items: (i) the approved capital equipment, plant, building material, machinery, and appliances to be used in establishing the project; (ii) the approved quantity of semi-finished products, spare parts, and other supplies to be used in the production operations; and (b) the total or partial exemption from payment of company tax or turnover tax. The tax credit certificate shall indicate the amount of money the Government should forego, and the holder of a Development Certificate may, at the end of the tax holiday period, set off unused tax credits against future tax or customs duty liabilities. The Development Certificate does not confer any special status with respect to the Income Tax.

APPENDIX C

INCOME TAX FORMS

THE GAMBIA

FORM FOR RETURN OF INCOME to be made on behalf of a COMPANY, BODY OF PERSONS, PARTNERSHIP, ETC., as specified by the Commissioner, under section 41 (1) of the Income Tax Act, (Cap. 86) 1948.

INCOME TAX YEAR OF ASSESSMENT 19

Your File Number

is..............................

It should be quoted
in all communications

By virtue of the provisions of the Income Tax Act, you are hereby

required to make a return showing the total income of.......... ....

....
ACCRUED in, DERIVED from or RECEIVED in the Gambia, for the year ended 31st December, 19 under the seperate headings on page 2 of this form.

After completion of page 2 of this return, complete an sign the declaration below, and deliver the form to me within ONE MONTH FROM THIS DATE.

In the case of—

(a) a company or body of persons—Section A should be completed.
(b) a partnership—Sections A and B should be completed.

If you have any difficulty in completing the form or require furthe information you are invited to write to me or to call at the address given below.

Date...
COMMISSIONER OF INCOME TAX
BANJUL, THE GAMBIA.

....
Commissioner of Income Tax

DECLARATION

I (full name) ....
hereby declare that this Return contains a full, just and true account of

the whole of the income of...
for the year ended 31st December, 19

The control and management of the company's business are exercise in (place)

To be completed in...
the case of a Company

....*Signature of Person making the Return*

.... *Designation.*

.... *Postal Address*

.... *Date*

Note:—The Return is to be completed—

(a) by the Manager or other principal Officer of a Company or a Body of Persons,

(b) by the precedent acting partner in the case of a partnership, or where no partner is resident in the Gambia, by the attorney, agent, manager or factor of the partnership resident in the Gambia.

I. T. FORM NO. 2A.

STATEMENT OF INCOME FOR THE YEAR ENDED 31ST DECEMBER, 19....................

The source of the income should be shown seperately in each space applicable, the amount of the income being shown in the right-hand coloumn.
The word "NIL" should be written in any space applicable.
NO SPACE SHOULD BE LEFT BLANK.

SECTION A—To be completed in all cases	D	b.
1. TRADE, BUSINESS, PROFESSION, OR VOCATION carried out (state address of Head Office and all branches)........... .... NET INCOME. (attach accounts)		
2. RENTS (give list and amount received from each property................		
.... 3. INTEREST AND DIVIDENDS (give list and the gross amount from each investment and attach vouchers)...........................		
4. REMITTANCES FROM SOURCES OUTSIDE THE GAMBIA		
5. INCOME FROM SOURCES NOT INCLUDED ABOVE (give details of sources)		
TOTAL......		
6. DEDUCTION CLAIMED FOR— INTEREST CHARGED ON MONEY BORROWED ON MORTGAGE, DEBENTURE OR LOAN USE IN AQUIRING THE INCOME DECLARED IN THIS RETURN AND NOT ALREADY DEDUCTED ABOVE		

Amount of debt	Rate of interest	Security	Name and address of person from whom money was borrowed	Purpose for which money was borrowed	Amount of interest paid during the year ended 31st December, 19	
					D	b.

TOTAL DEDUCTIONS ...		
NET INCOME ...		

SECTION B—To be completed in the case of a partnership

Name and address of each partner	whether "Sleeping" or "Acting" partner	PARTICULARS OF DISTRIBUTION BETWEEN PARTNERS OF THE TOTAL INCOME SHOWN ABOVE							
		Salary, if any		Interest on Capital if any		Basis of distribution of balance	Amount of partner's share of balance	
		D	b	D	b		D	b

INCOME TAX

THE GAMBIA

YEAR OF ASSESSMENT 19.........

File No......................................

TO: ....

....

....

RETURN OF INCOME IN RESPECT OF CAPITAL GAINS

I require you under section 41 (1) of the Income Tax Act (Cap. 96) to make a return in the form here provided to be delivered to me not later than ....19............................showing the whole of your income accruing in or derived from The Gambia in respect of CAPITAL GAINS during the period..19............to..19.........and to complete the declaration below and the accompanying schedule and certificate of disclosure.

COMMISSIONER OF INCOME TAX

DATE ....

INCOME TAX OFFICE
THE QUADRANGLE
BANJUL

DECLARATION

I, (Full name) ....hereby declare

(1) That my nationality is....................................
(2) That this return is made:—

(a) on my own behalf

(b) on behalf of..

at..

(3) That this return is a full, just, and true account of my/his/her income from Capital Gains/Losses accrued in or derived from The Gambia and of all facts bearing on my liability to income tax in respect of Capital Gains.

Year/Period to ....

DATE: ....

Signature ....

Postal Address ....

....

Private Address:

....

CAPITAL GAINS

1. Serial No. ....

2. Description and Location
   of Capital asset sold ....
   ....
   ....

3. Date and cost of original
   acquisition of the asset ....
   ....

4. Date and cost of subsequent
   captial improvement ....
   ....

5. Total cost of acquisition (col. 3 & col. 4) ....
   ....

6. Date of transfer, name and address
   of the person to whom transfered ....
   ....
   ....

7. Full value of consideration
   received or receiveable ....

8. Capital Gains (col. 7 — col. 5)..

I. T. FORM 2

CENTRAL REVENUE DEPARTMENT

INCOME TAX DIVISION

DATE RECEIVED .... **THE GAMBIA** **DATE OF ISSUE** ....

YEAR OF ASSESSMENT 19....

File No.............

To..........................
....
....

RETURN OF INCOME OF THE $\frac{\text{YEAR}}{\text{PERIOD}}$ ....**TO 31ST DECEMBER, 19......**

I require you under section 41(1) of the Income Tax Act, (Cap. 96) to make a return in the form here provided to be delivered to me not later than ....19....showing the whole of your income accruing in, derived from, brought into, or received in The Gambia during $\frac{\text{Year}}{\text{Period}}$ stated above and to complete the declaration below.

INCOME TAX OFFICE,
NEW QUADRANGLE EXTENSION,
BANJUL

(M. M. JAGNE)
Commissioner of Income Tax.

Date.........................

DECLARATION

1. (Full Name)..hereby declare

(1) That my nationality is.............................

(2) That this return is made:—

(a) on my own behalf

(b) on behalf of..

at...

(2) That this return is a full, just, and true account of my/his/her income from all sources accured in, derived from, brought into, or received in The Gambia and of all facts bearing on my liability to income tax in the year/period to.....................19....

Date.............. Signature ....

Private Address Postal Address..............................

....

....

PART I

Statement of Income	AMOUNT OF		INCOM	
	Self		Wife	
	D	b	D	b
(1) TRADE BUSINESS, PROFESSION, VOCATION				
(a) Address				
(b) Trade name (if different from your own)				
(c) Nature of Trade, etc				
(2) PARTNERSHIP INCOME				
(a) Partnership Trade name...........................				
(b) Partnership address............................				
(c) Name and Address of Partners.....................				
(d) Partnership Income..............................				
(3) EMPLOYMENT				
(a) Name of Employer............................				
(b) Address of Employer...........................				
(c) Remuneration-For period 1/1/—to 31/12/—				
(i) Wage or salary (including overtime) For period 1/1/— to 31/12/—Salary and Inducement Pay to be separated				
(ii) Commissions				
(iii) Bonus				
(iv) Allowances (e g., free electricity, water, servants, free car etc.)				
(vi) Value of concessional or Rent Free Accomodation				
(vii) Others (please specify)...........................				
(4) PENSION/ANNUITY received from.......................				
(5) INTEREST, DIVIDEND (Show the gross amount and give a list attaching any vouchers in your possession)				
(6) RENTS, PREMIUMS and OTHER INCOME FROM PROPERTY (Show details in part II of this form)				
(7) INCOME FROM ANY OTHER SOURCE (Give details of the source and nature of the income)				

PART II PARTICULARS OF ALL PROPERTY FROM WHICH INCOME IS RECEIVED

Description of Property (House, Shop, etc., Street name and number, etc.)	Date of Purchase or completion or of coming into Possession of Property Date of Lease and period of Lease	Amount of Annual Letting Value	Name of Tenant	Period during which let	Amount of Rent Received	Expenditure on Repairs	Expenditure on Insurance and other Expenditure including Ground Rent on Leasehold Property.	Net Income

PART III

Miscellaneous Information for the year ended 31st December, 19..................

RENT PAID

(a) Did you make any rental payment during the current year or in the six preceding years

(b) If so, give particulars in the space below or attach separate statement

TO WHOM PAYABLE		Amount Payable	Actual Amount Paid	Period Covered
NAME	ADDRESS			

PART IV

CHANGES DURING THE YEAR OF ASSESSMENT

Please give particulars of any changes in source of income during the year of Assessment and state the date on which any new source commenced or [illegible] source ceased.

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