

PN-ABN-842-
ISN 81845

USAID/BANJUL
CENTRAL BANK OF THE GAMBIA
ACTION PLAN

FINAL REPORT

January 26, 1993

Price Waterhouse



January 26, 1993

Ms. Sarah Adam
USAID/The Gambia
Kairaba Avenue
P.M.B. No. 19
Banjul, The Gambia

Re: Financial Sector Development Project
Contract No. PDC-2206-Z-00-8191-00
USAID/The Gambia
PIO/T No. 635-0234-3-10091

Dear Ms. Adam:

We are pleased to present eight copies of the Final Report, *The Central Bank of The Gambia Action Plan*, prepared by Price Waterhouse. One copy has been sent to Rebecca Maestri, A.I.D./PRE/EM.

On behalf of the FSDP, I would like to take this opportunity to thank you and your staff for the assistance you gave the project team during the assignment. We look forward to working again with you in the future.

Sincerely,

Barbara E. Friday
FSDP Deputy Director

Enclosure

TABLE OF CONTENTS

I.	EXECUTIVE SUMMARY AND RECOMMENDED ACTION PLAN	1
A.	Introduction	1
B.	Status of Conditions Precedent for Second Tranche Disbursement	2
C.	Action Plan	2
D.	IMF Technical Advisory Services	7
II.	PROJECT BACKGROUND	8
A.	Objectives and Scope	8
B.	Methodology	8
C.	History of the USAID/FSRP Project	9
III.	THE FINANCIAL SYSTEM OF THE GAMBIA	11
A.	The Central Bank of The Gambia	12
B.	Assessment of the Central Bank's Banking Supervisory Role	16
IV.	CENTRAL BANKING AND FINANCIAL INSTITUTIONS LEGISLATION	22
A.	The Financial Institutions Act, 1992	22
B.	The Central Bank of The Gambia Act, 1992	24
C.	Scope of Central Bank Supervision of the Financial Sector	24
V.	PRUDENTIAL REGULATIONS FOR BANKING SUPERVISION	26
A.	Capital Adequacy	26
B.	Asset Classification	26
C.	Provisioning	26
D.	Non-Performing Assets and the Suspension of Income	26
E.	Income Recognition and the Structure of Advances	27
F.	Loans to Insiders	27
G.	Information Reporting Requirements	27
VI.	BANKING SUPERVISION METHODOLOGIES AND PROCEDURES	30
A.	On-Site Examinations	30
B.	Exam Report Format	31
C.	Use of External and Internal Auditors	32
D.	Off-Site Supervision	32

TABLE OF CONTENTS (cont'd)

VII. ADEQUACY OF BSD STRUCTURE, MANAGEMENT, HUMAN RESOURCES AND TRAINING	34
A. Structure	34
B. Management	35
C. Human Resources	36
D. Training	37
E. Office Administration	38
VIII. ADEQUACY OF ACCOUNTING STANDARDS AND AUDITING RESOURCES	39
A. External Auditors in The Gambia	39
B. Adequacy of Accounting Standards	39
C. Adequacy of Auditing Resources	40
D. Accounting Policy Issues	40
IX. ACTION PLAN	41
A. Prioritized Action Plan: Banking Supervision Department	41
B. Suggested Future Action Plan-The Central Bank	44
C. Conclusion	45

Appendix 1: Scope of Work

Appendix 2: Bibliography

Appendix 3: List of Interviews

Appendix 4: Report of Examination Format

Organizational Chart 1: Central Bank of The Gambia

Organizational Chart 2: Banking Supervision Department

Organizational Chart 3: Banking Supervision Department/Proposed

LIST OF ABBREVIATIONS

AAT	Association of Accounting Technicians
ACCA	Association of Certified Chartered Accountants
AMRC	Assets Management Recovery Company
BICI	Banque Internationale pour le Commerce et l'Industrie
BIS	Bank for International Settlements
BSD	Banking Supervision Department
CBG	Central Bank of The Gambia
ECOWAS	Economic Community for West African States
FSRP	Financial Sector Restructuring Program
GCDB	Gambia Commercial and Development Bank
GOTG	Government of The Gambia
IMF	International Monetary Fund
MDI	Management Development Institute
MFEA	Ministry of Finance and Economic Affairs
NGO	Non-Governmental Organization
NPA	Non-Project Assistance
PEAT	KPMG Peat Marwick
PKF	Pannell Kerr Forster
PROM	Augustus Prom
SCBG	Standard Chartered Bank of The Gambia Limited
UK	United Kingdom
USAID	U.S. Agency for International Development

I. EXECUTIVE SUMMARY AND RECOMMENDATION PLAN

A. Introduction

The focus of this report is on the Central Bank of The Gambia's Banking Supervision Department. The tasks carried out in this engagement on-site in Banjul, between November 5th and 18th, 1992, are a part of the USAID/Financial Restructuring Program (FSRP) for The Gambia. In particular, they consist of technical assistance for the Central Bank of The Gambia (CBG) and build on recent activities carried out within the Banking Supervision Department (BSD).

BSD's progress in developing and implementing its restructuring plan and the activities carried out to-date were the subject of review and assessment in this engagement. Bases on discussions held with the management of CBG, the manager and staff of BSD and the IMF Technical Advisor, financial institutions and auditing firms in Banjul, a deeper understanding of the challenges and opportunities facing CBG and BSD was attained. The result of these activities concludes in an action plan outlining further steps needed to strengthen the BSD.

Banking supervision requires public trust and confidence and an understanding by public-policy makers, financial institutions, the public-at-large and the Central Bank staff of its role and objectives. To be effective, banking supervision requires the highest levels of support from government officials and senior bank management that translates into a strong and active supervisory process.

Creating effective bank supervision requires adequate legislation, the technical capability to analyze the financial climate and develop rules and guidelines that are based on an understanding and appreciation of the facts of business life and on policies determined by policy makers. A major focus of a bank supervision activity is the prudential concern for the solvency and liquidity of the financial system. On-site and off-site examination programs should be directed toward an evaluation of solvency, liquidity and compliance on the part of the institutions supervised. This supervisory activity requires a strong awareness of activities in the financial sector, and understanding of who are the directors and managers, and institutions' response to new developments, changing market conditions and competitors.

Specifically as part of this engagement, the consultants reviewed the conditions precedent for Second Tranche disbursement. They also produced an action plan for the Banking Supervision Department on staffing and training requirements, examination procedures, and regulations required as a result of the revised Financial Institutions and Central Bank Acts.

B. Status of Conditions for Second Tranche Disbursement

The USAID/FSRP requires, as part of the disbursement procedures for the Second Tranche, that the Central Bank meet certain conditions precedent and provide documentary or written evidence that activities outlined in the action plan have been met. As part of the task of preparing a revised action plan, as outlined in the following section, the consultants reviewed and assessed each of the following:

- i. Adequacy of staffing, in terms of numbers and training and the organizational structure of the BSD;
- ii. Adequacy of accounting standards and auditing resources;
- iii. Adequacy of regulatory powers granted the CBG, including the adequacy of current practices relating to on-site and off-site examinations of banks;
- iv. Adequacy of the revised legislation and the required regulations which must be issued following passage of the legislation; and
- v. Adequacy of bank examination procedures and written guidelines.

C. Action Plan

The action plan outlined hereunder prioritizes the various phases of the implementation plan to be followed by the Central Bank management to ensure that issues are addressed and to assist in accelerating the process of restructuring BSD.

The following action plan has been designed to handle issues in phases. Sequential steps have been included to facilitate assigning specific tasks and responsibilities:

PHASE I. Mission and Organizational Structure

- Define a mission statement for BSD, within the context of the revised legislation; and concurrently
- Prepare an organizational structure to be submitted to senior management for official approval and immediate implementation that takes into consideration the functional responsibilities of an examination, a compliance and a policy development unit;
- Monitor developments with respect to the approval process of The Central Bank of The Gambia and the Financial Institutions Acts, 1992; and

- Prepare a follow-up seminar to familiarize the management and staff of the Bank, and as may be required, the financial sector and/or the public-at-large, as to its provisions and revised responsibilities.

Written confirmation that these activities have been implemented should be included as part of the conditions precedent for the second tranche disbursement.

PHASE I -- RECOMMENDED TIMING

- This phase of the Action plan should be completed, including approval and implementation by senior management, by the end of February, 1993.

PHASE II. Human Resources and Training Requirements

- Upon senior management's approval of the objectives of BSD and of its organizational structure, revised position descriptions outlining delegation of authority and assignment of responsibilities are to be prepared in collaboration with the Management Services Department;
- BSD management will be required to assess the technical and professional requirements of the positions to be filled within the Department and make the necessary recommendations. This activity will require a careful assessment of qualifications and availability of competent staff to fill these positions from within or outside the Central Bank;
- Advise the Central Bank, and as required, the financial institutions as a whole, of the new BSD objectives, organizational structure and official appointments;
- BSD management will be required to assess the immediate and short-term professional training requirements of its middle-level staff to strengthen its ability to meet new responsibilities; and
- BSD management will urgently need to establish and assign individual training priorities to ensure that the Department will be able to function while other staff members are progressively trained and that the work load is evenly distributed during this critical training phase;
- BSD management should be exposed to further training that focuses on an overview of the supervisory environment, including workplace functions, leadership, goal-setting, decision-making and time management.

PHASE II -- RECOMMENDED TIMING:

This phase of the action plan can be divided into three parts, being;

- (a) the definition and formal approval of the position descriptions and the identification of staff for each of these positions should be completed no later than February 28th, 1993;
- (b) the assessment of the training courses required, the selection of staff to participate in these courses and the identification of institutions qualified to teach the courses no later than March 31st, 1993. Training should commence at the earliest possible opportunity to accommodate the Bank's projected and authorized training expenses for the fiscal year; and
- (c) the projections regarding the need to hire an additional six staff and a Principal Examiner should be carefully assessed as a considerable amount of time and on-going attention will be required from BSD management to supervise their work and on-the-job training. This exercise should be completed by the time the 1993/1994 Budget is submitted to senior management.

PHASE III. Regulatory Framework

Subject to Parliament's approval of the revised legislation, the Central Bank should draft new regulatory guidelines as follows;

- A. Capital Adequacy
- B. Asset Clarification System
- C. Provisioning
- D. Definition of Non-Performing Advances
- E. Non-Accrual and the Suspension of Income
- F. Income Recognition and the Structure of Advances
- G. Large Loan and Concentration Limitations
- H. Insider Loan Limitations
- I. Revisions to Financial Reporting

PHASE III -- RECOMMENDED TIMING:

Drafting has begun by BSD on some of these regulations, and models exist in the "Suggested Guidelines-Asset Classification, Provisioning, and Suspension of Interest," prepared by the World Bank's Financial Policy and Systems Division, August 1990. Drafting could be completed by May 31, 1993 and review, approval and implementation could be completed by July 31, 1993.

PHASE IV. On-site and Off-site Supervision Methodologies

- BSD Examination Manual: Revision of the existing manual to incorporate the new legislation has already begun. Its drafting, completion, review, approval and implementation should be expedited.
- Off-Site Examination: Based on the new regulations the existing reporting requirements should be modified, the forms should be redesigned, and new reports developed. Concurrent with this process, the local banks should be consulted about the preparation and use of the forms and BSD examination staff needs to be trained to analyze and utilize the new information inputs.
- Examination Report Format: A standardized report format should be reviewed, approved and implemented, utilizing a format based on the model included in this report.
- On-Site Supervision: A complete on-site examination utilizing the new regulations and manual procedures should be conducted with the assistance of an experienced on-site examination consultant or team with the end result being documented by a new Examination Report based on the recommended format.

PHASE IV -- RECOMMENDED TIMING:

- BSD Operations Manual should be targeted for completion, approval and implementation by no later than August 30th, 1993.
- Off-site examination process, including the redesigning of the forms as needed, training of the staff and interaction with the local banks should be completed by September 30th, 1993.
- An Examination Report Format, as per Appendix 4 in this report, should be reviewed, authorized and implemented by July 31st, 1993.

On-site supervision and the selection of an on-site examination consultant to assist in this phase should be initiated by the second half of 1993 and the on-site examination should be completed by the third quarter of 1993.

WORKPLAN SUMMARY

<u>TASK</u>	<u>DATE</u>
<u>PHASE I: Mission and Organization Structure</u>	
• Legislation Passage	Dec. 31, 1992
• Mission Statement	Jan. 15, 1993
• Organization Structure	Feb. 28, 1993
• Seminar re: New Legislation	Feb. 28, 1993
<u>PHASE II: Human Resources and Training Requirements</u>	
• Position Descriptions	Feb. 28, 1993
• Training Needs Assessment	Mar. 31, 1993
• Manpower Projection/Budget Submission	May 30, 1993
<u>PHASE III: Regulatory Framework</u>	
• Drafts of New Regulations	May 31, 1993
• Approval of New Regulations	July 31, 1993
• Implementation of New Regulations	July 31, 1993
• Financial Reports>Returns Updated	July 31, 1993

PHASE IV: On-Site/Off-Site Methodologies

- | | |
|--|----------------|
| • Draft of BSD Operations Manual | July 31, 1993 |
| • Examination Report Format Modified | July 31, 1993 |
| • BSD Operations Manual Implemented | Aug. 31, 1993 |
| • Off-site Analysis System Implemented | Sept. 30, 1993 |
| • On-site Examination/Training Project | Sept. 30, 1993 |

D. IMF Technical Advisory Services

The consultants assessed the impact the Central Bank's revised responsibilities (as outlined in the new Acts) would have on the role of the IMF Technical Adviser and assessed how to assist CBG's senior management utilize this technical expertise.

It is the consultants' recommendation that USAID approach the United Nations Department of Technical Cooperation for Development, the executing agency, and the IMF Technical Adviser to review having the position of the IMF Technical Adviser report directly to the Governor's office. This reporting relationship would provide the Governor important information pertaining to the issues of relating to the restructuring of BSD. More importantly, it would offer him a familiarity with the tasks to be concluded as part of the new legislation being presented to Parliament. These matters are the prerogative of the Governor and require a high level decision maker to be involved until such actions are implemented.

It was the observation of the consultants that the technical enhancements to bank supervision recommended by the technical adviser have been slow to be approved and implemented. If the Central Bank is to realize the opportunities for improved supervision afforded by passage of the new legislation, one of two options is required: either the technical enhancements receive senior level attention or the authority to implement them must be clearly delegated.

II. PROJECT BACKGROUND

The purpose of this section is to set out the scope and objectives of the USAID/Central Bank of The Gambia project and its context within the overall Financial Sector Restructuring Program (FSRP) for The Gambia. The overall objective of the FSRP is to improve the efficiency of financial intermediation in promoting savings and investment and in allocating savings to their most productive uses.

A. Objectives and Scope

As stated previously, the objectives of this project are 1) to develop an action plan for the Banking Supervision Department of the Central Bank of The Gambia (CBG) which builds on recent activities of the Department and 2) to make recommendations to promote and facilitate the effective supervision of the commercial banking system in The Gambia.

The scope of work is to analyze recent developments in the area of bank supervision and regulation being carried out by the Central Bank and to prepare an action plan for promoting the activities of the Banking Supervision Department.

B. Methodology

The methodology utilized to carry out this on-site assignment included:

- i. a review of the available background material as provided by USAID/Banjul,
- ii. a review of all available internal and public documents provided by the Central Bank,
- iii. interviews with the Governor, the General Manager and the Special Assistant to the Governor of the Central Bank,
- iv. interviews with the Manager, Banking Supervision Department and staff, the IMF technical advisor, and other senior executives of the Central Bank, and
- v. interviews with the senior executives of three of the four commercial banks and the three audit firms in Banjul.

C. History of the USAID/FRSP Project

The USAID/FRSP is one of many initiatives aimed at reforming the financial sector, including the improvement of banking supervision.

Specifically, the USAID program is a three-year, US\$ 6.8 million grant to "improve the efficiency of financial intermediation in promoting savings and investment and in allocating savings to their most productive uses." The Program consists of US\$ 5 million in non-project assistance with US\$ 1.8 million in project assistance, training programs, equipment procurement, banking sector legislation analyses and studies, and project evaluation and financial review. The FSRP non-project component is being disbursed over a three year period in three tranches of US\$ 2 million, US\$ 1 million and US\$ 2 million, respectively. It is subject to satisfactory completion of certain conditions precedent as outlined in the Bilateral Program Agreement dated May 13, 1991.

The first part of the project has been completed with a first tranche disbursement of US\$ 2 million being made in June 1992. The second and third tranche disbursements are targeted for release in June and December 1993 with a project assistance completion date of June 30, 1994. Following are conditions precedent relating to bank supervision for each of the three tranches:

First Tranche

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

- the Central Bank's regulation and supervision of the financial institutions:
 - ▶ adequacy of staffing, in terms of numbers and training
 - ▶ adequacy of regulatory powers granted the CBG,
 - ▶ adequacy of CBG's enforcement of regulatory powers,
 - ▶ adequacy of accounting standards used in the country,

- ▶ adequacy of reporting requirements, and
- ▶ consistency of actual financial practices to what the laws and regulations allow.

Second Tranche

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

Third Tranche

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

III. THE FINANCIAL SYSTEM OF THE GAMBIA

The Gambia's financial system is comprised of four commercial banks: Standard Chartered Bank of Gambia Limited.,(SCBG), (est. 1906), Banque Internationale Pour le Commerce et L'Industrie (BICI), (est. 1968 as a branch of Senegal's BICI), Meridien Bank Gambia Limited, (est. 1991 and started operations in June 1992 after taking over certain assets from the government owned The Gambia Commercial and Development Bank) and Continental Bank Limited (est. 1990). The non-performing assets are being liquidated through the Asset Management Recovery Company (AMRC).

Other financial institutions include The Gambian Cooperative Union; over 100 non-governmental organizations (NGO) of which approximately 14 national and international NGO's provide financial services (largely in rural areas) to farm and non-farm clientele; a parastatal finance corporation, the Social Security and Housing Finance Corporation; a Post Office Savings Bank; various rural (informal) credit associations servicing their local communities (Village Savings and Credit Associations); and four registered foreign exchange dealers.

While there are four insurance companies operating in The Gambia, they are subject to the Insurance Act and the 1974 regulations. These companies are subject to supervision by an Insurance Commissioner appointed by the Minister of Finance and Economic Affairs.

The commercial banks and other credit institutions are presently regulated to varying degrees by the Central Bank of The Gambia as per the following laws of the country, which Acts are presently under review, as listed:

- Central Bank of The Gambia Act, 1971
- Financial Institutions Act, 1974
- Insurance Act, 1974
- Savings Bank Act, 1964, and
- Moneylenders Act, 1974

As mentioned, both the Central Bank Act of The Gambia and the Financial Institutions Act have recently been revised and approved by the Cabinet and a Bill covering both acts will be presented to the Parliament in the coming month for final assent.

A. The Central Bank of The Gambia

CBG, established in 1971 to take over the functions of the former The Gambia Currency Board, is the government entity responsible for defining and implementing national monetary and credit policies and for regulating and supervising the commercial banks' and credit institutions' activities. An organizational structure of CBG, as approved by the Board in 1989, is appended at the end of this report. As at June 15, 1992, CBG reported a total of one hundred and seventy nine (179) officers and employees.

CBG's main objectives are set out in the revised Central Bank of The Gambia Bill, 1992, Part II, Section 4, Appendix 5, which is to replace that which existed since 1971, as amended in 1976, and are:

- i. to regulate the issue, supply, availability and international exchange of money;
- ii. to promote monetary stability, economic growth and development; and
- iii. to promote a sound financial structure and credit and exchange conditions conducive to the orderly and balanced economic development of the country.

Board of Directors

The Board of CBG is comprised of five directors; a Governor who presides as Chairman of the Board, appointed for a five year term by the President of The Gambia on recommendation of the Minister of Finance and Economic Affairs (MFEA); and four directors, one being the Permanent Secretary of the MFEA (or a representative) and three others appointed by the President for a period not in excess of three years, to ensure, so far as possible, that no more than one director's term of office shall expire in any one year. Each Board member is eligible for reappointment when his actual term expires.

Meetings of the Board are called as required but not less frequently than once every six month period. Board decisions are adopted by a simple majority vote of the members present. In the event of a tie vote, the Governor, as Chairman of the Board, has a second or deciding vote. A quorum of the Board consists of three directors but less than a quorum may adjourn from time to time until a quorum is attained.

The principle role and authority of the Board is to make by-laws and issue directives to regulate the conduct of the Bank's business and with approval of the Minister make regulations for the purpose of giving effect to the provisions of the CBG Act. The powers of the Board also include responsibility for the policy and general administration of the Bank.

Governor's Office

The Governor's office consists of a support staff made up of a Special Assistant to the Governor, a Legal Adviser, and an Internal Audit staff whose main activity is to audit the Bank's internal management operations and procedures to ensure uniformity of standards and quality of work within the institution.

Administrative Structure

The administrative structure and reporting relationships of the Bank are as follows:

General Manager

Reporting to the Governor is the General Manager, who may during the absence, vacancy of or disability of the Governor serve as Chief Executive Officer of the Bank.

The General Manger's role is primarily to manage the internal operations of the Bank and to comply with the directives as issued by the Governor and/or the Board. Within the General Manager's Office is the Computer Unit responsible for the information technology and computer system of the Bank, the Security Unit responsible for the safety and security of the Bank's fixed assets and internal security.

To carry out his duties, the General Manager has five managers and a director reporting directly to him. These are: a Manager, Banking Services Department; a Manager, Management Services Department; a Manager, Foreign Department; a Director, Economic Research Department and a Manager, Banking Supervision Department. CBG's management structure and departmental and position descriptions are detailed in the "Management Structure and Schemes of Service" manual dated July 1, 1989 as detailed hereunder;

1. Banking Services Department

The role and objective of the Banking Services Department is to ensure that efficient and effective service is provided according to uniform standards in all areas of Banking Services.

The Department is headed by a Manager responsible for the management of the Banking and Currency Offices and their staff, and the monitoring of both offices' functions. Reporting to the Manager is a Chief Currency Officer in charge of the Currency Office with a total staff of fourteen (14) and a Chief Banking Officer in charge of the Banking Office with a total staff of ten (10) each having the following structure:

- Currency Office
- Chief Currency Officer
- Senior Treasurer
 - ▶ Treasurer/Currency Officer
 - ▶ Chief Cashier/Assistant Currency Officer
 - ▶ Senior Cashier
 - ▶ Senior Clerk/Cashier
 - ▶ Clerk
- Banking Office
- Chief Banking Officer
- Senior Banking Officer
 - ▶ Banking Officer
 - ▶ Assistant Banking Officer
 - ▶ Supervisor
 - ▶ Senior Bank Clerk
 - ▶ Bank Clerk

2. Management Services Department

The role and objective of the Management Services Department is to ensure that an efficient and effective accounting and administrative service is provided according to uniform standards in the Bank.

The Department is headed by a Manager responsible for the accounting and administrative functions of the Bank. It has a total staff of seventy-eight (78). Reporting to the Manager is a Chief Accountant in charge of the Accounts Office with a total staff of thirteen (13) and a Chief Administrator in charge of the Administration Office with a total staff of sixty-two (62) each having the following structure:

- Accounts Office
- Chief Accountant
- Senior Accountant
 - ▶ Accountant
 - ▶ Assistant Accountant
 - ▶ Accounts Assistant

- ▶ Senior Accounts Clerk
- ▶ Accounts Clerk

- Administration Office

- Chief Administrator
 - ▶ Senior Administrative Officer
 - ▶ Administrative Officer
 - ▶ Personnel and Training Officer
 - ▶ Archives Officer
 - ▶ Assistant Administrative Officer
 - ▶ Supervisor
 - ▶ Senior Clerk
 - ▶ Administrative Clerk

3. Foreign Department

The role and objective of the Foreign Department is to ensure that an efficient and effective foreign exchange service is provided according to uniform standards in the Bank.

The Department is headed by a Manager responsible for the general supervision of the department. This Department has a staff of fourteen (14) with the following structure:

- Foreign Department

- Manager
 - ▶ Principle Foreign Department Officer
 - ▶ Senior Foreign Department Officer
 - ▶ Foreign Department Officer
 - ▶ Assistant Foreign Department Officer
 - ▶ Supervisor
 - ▶ Senior Foreign Department Clerk
 - ▶ Foreign Department Clerk

4. Economic Research Department

The role and objective of the Economic Research Department is to ensure that an efficient and effective economic analysis function is provided according to uniform standards in the Bank.

The Department is headed by a Director responsible for the overall coordination and function of the department. The Department has a staff of twenty-nine (29) with the following structure:

- Economic Research Department
- Director
 - ▶ Principle Economist/Statistician
 - ▶ Senior Economist/Statistician
 - ▶ Economist/Statistician
 - ▶ Cadet Economist/Assistant Cadet Statistician
 - ▶ Statistical Assistant
 - ▶ Senior Statistical Clerk
 - ▶ Statistical Clerk

5. Banking Supervision Department

The role and objective of the Banking Supervision Department is derived from the powers granted to the Bank and detailed in the revised Central Bank of The Gambia Bill, 1992. Its main role is to ensure that an efficient and effective supervisory service is provided according to uniform standards in the Bank.

The Department is headed by a Manager who is responsible for the overall management and supervision of the Department. The Department has a total staff of ten (10) with the following structure:

- Banking Supervision Department
- Manager
 - ▶ Principle Examiner
 - ▶ Senior Examiner
 - ▶ Examiner
 - ▶ Assistant Examiner
 - ▶ Supervisor
 - ▶ Senior Clerk

B. Assessment of the Central Bank's Banking Supervisory Role

1. Emergence of African Banking Supervision Tradition

Within the African continent, central bank supervision can generally be said to be a recent development. It is only in the early 1980's that various national governments

recognized the need to institute and develop regulations to strengthen prudential bank supervision as part of the process of economic reform taking place worldwide. In addition, until the 1980's few, if any, African countries had an adequate legal framework to regulate banks or had been granted the required powers to carry out those standard supervisory functions that are routinely practiced in the industrialized nations.

Most recent financial sector reform has been under the auspices of either the World Bank and/or IMF which has urged revisions and/or complete rewriting of bank Acts, regulations, norms and procedures aimed at modernizing bank supervisory authorities throughout the Continent. Various African countries have enacted and/or updated their financial sector legislation in recent years, Botswana in 1986, Kenya in 1988, Ghana and Malawi in 1989, Nigeria and Tanzania in 1991.

The primary emphasis of financial sector reform in Africa and elsewhere in the world has been to strengthen bank supervision, particularly as it applies to, but is not limited to, the following areas:

- i. The establishment of appropriate licensing procedures, ownership requirements, management capability, and integrity of the banking and financial institutions to be supervised.
- ii. The establishment, through revised organic laws of a regulatory bank/supervisory body either within the Central Bank or as an independent entity reporting to the Minister of Finance. In most African countries this financial supervisory authority has been assigned to a Bank Supervisory Department within the Central Bank.
- iii. The establishment of guidelines regarding minimum capital adequacy requirements based in part or in some modified form on the 1988 Basle Capital Convergence Agreement.
- iv. The establishment of a legal set of procedures and enforcement authority, should moral suasion prove to be inefficient, to facilitate the protection of customer savings and to minimize legal proceedings through the application of the Companies Acts, which within Africa are either outdated or cumbersome.

- v. The establishment and/or restructuring of bank supervisory practices in accordance with international standards to induce regulators to perform a greater role in identifying trends, issues and problems before they arise and/or resolve them through application of revised procedures and regulations. This process is fundamental to the safety and soundness of the financial sector which can best be achieved when both bank supervisory authorities and bank management, directors and auditors work actively together to address these issues before they become problems.

2. CBG's Bank Supervision Department (BSD)

The Central Bank's organizational structure is presently based on the Central Bank of The Gambia Act of 1971 with the traditional emphasis being placed on economic research and the maintenance of government internal policies rather than on prudent bank supervision.

The USAID Terms of Reference specify the task of recommending an Action Plan for the Department. The consultants carried out a series of on-site interviews between November 5th and 15th, 1992 with executives of the banking and auditing community in Banjul, The Gambia; the Governor and other senior executives of the Central Bank; and in particular, the Manager and staff of the Banking Supervision Department and the IMF Technical Adviser.

These series of interviews allowed the consultants to assess and evaluate issues pertaining to the financial sector with respect to the new emphasis being placed on bank supervision and to identify the strengths, weaknesses and requirements of BSD to carry out its enhanced functions under the revised Acts. With this methodology, the following was identified:

i. Strengths:

- The Governor and Board of Directors have recognized and have emphasized the need to strengthen the supervisory role of the Central Bank by improving the technical and professional capabilities of BSD.
- The Central Bank of The Gambia and Financial Institutions Acts, 1992, being presented to Parliament are a considerable improvement over the former legislation. The amended Acts should provide the necessary tools to allow the Central Bank, through its bank supervisory function, to monitor more effectively events and trends within the financial community and to take appropriate measures to ensure a stable financial environment.

- The proposed Acts promote a new environment whereby the emphasis is placed on promoting a closer working relationship with the financial sector, which should contribute to an improved regulatory framework and policy development.
- The formation in 1992 of a Banker's Association in The Gambia should provide greater awareness as to the role of the Central Bank's supervisory function and allow for a greater interaction on common issues between the parties concerned.
- The appointment of an IMF technical advisor to assist the Governor and management in all matters relative to banking supervision, such as procedures manuals, staffing requirements and technical training.
- There is a recognized need within the BSD for a continued commitment to training as it applies to those areas of bank supervision, computer technology, developing and drafting regulations required by the upcoming legislation.
- Given the average age of the staff of BSD (34.7 years) together with the educational and technical levels attained to-date, this should provide a strong personnel base and facilitate further targeted training and professional development.
- BSD's actual staff of eleven consists of two members pursuing studies in the United Kingdom (U.K.) one studying at the Chartered Institute of Bankers due to return in December 1993, and the other at the Association of Certified Chartered Accountants (A.C.C.A.), due to return in September 1993. Among BSD's effective staff, one Senior bank Examiner has a U.K. Master of Science in Business Studies, another Senior Bank Examiner has qualifications from A.C.C.A.; one Bank Examiner has completed a certificate in Bank Examiners at the Central Bank of Nigeria Training School and pursued other courses at the Federal Deposit Insurance Corporation; a recently appointed Bank Examiner has a B.S. in Accounting from Johnson C. Smith University, Charlotte, N.C., and a Supervisor completed his studies at The Gambia's Association of Accounting Technicians (A.A.T.) in 1991.
- USAID has provided BSD with its first computer equipment and training courses to facilitate and improve the administrative functions of the Department; and to enhance the processing of analytical information, which previously was on a manual basis and compromised by accuracy and timeliness problems.

ii. Weaknesses

- Bank regulatory supervision has been largely ineffective as a result of weak or non-existent, regulations or enforcement powers accorded the Central Bank. This, in large measure, is a result of the Bank not having developed a tradition of prudential bank supervisory practices, the lack of qualified and sufficiently trained staff, and dated regulations.
- BSD lacks an appropriate departmental structure to carry out adequately its supervisory and regulatory functions and assign specific duties and responsibilities to the staff according to their level of training and development.
- BSD does not have a clear definition or statement of its role and responsibilities to assist the staff in understanding the department's goals and objectives.
- BSD's management and staff position descriptions require updating to ensure that they reflect the department's revised duties and responsibilities in accordance with its new supervisory role.
- BSD lacks a set of standards of accountability for completing and submitting work in an effective and timely manner.
- BSD staff lack in-depth knowledge of the overall financial sector of The Gambia, its impact on economic development and the operations of the banking sector.
- BSD management is not structured/organized appropriately to support an effective on-site and off-site examination program of the financial institutions.
- BSD's on-site examinations appear to take an undue length of time to complete and as a result the final reports and information submitted to the Bank's management could hinder or render ineffective the Bank's ability to supervise and/or take corrective action.
- BSD still lacks an appropriate set of reference manuals, in particular an On-Site Examination manual and an Off-Site evaluation system. The actual Operating Manual is largely redundant and needs extensive rewriting.

- BSD is underutilizing the technical capabilities of the IMF technical adviser as the recommendations and/or advice provided in writing have not been acted upon in an effective and timely manner.
- BSD is presently underutilizing its computer equipment and training courses provided to-date as the computer equipment is not directly accessible to the staff within their immediate working environment. The Department's secretary continues to utilize a typewriter rather than a computer to handle the Department's workload.

Although the strengths and weaknesses outlined may not be uncommon for central bank systems in underdeveloped countries, they impeded the BSD from adequately protecting the financial system, or fulfilling the intended responsibilities of CBG. While the current banking system consists of only four banks, and the supervision demands may be manageable in the short term, there will be growing demands on BSD as the scope and number of banks increases and the pressure to supervise more of the financial sector mounts. Now is the optimal time to enhance the capability of BSD to prepare for future challenges. Of major importance, is the need for senior management of the Central Bank to provide the leadership and, during the early stages, to have continued, direct and active participation in effecting change.

IV. CENTRAL BANKING AND FINANCIAL INSTITUTIONS LEGISLATION

The Central Bank's supervision over the management and operation of Gambia's financial institutions historically has been inadequate, as evidenced by the failure of The Gambia Commercial Development Bank and the inability to enforce corrective measures on Continent Bank for alleged unsound banking practices. One of the major factors for the deficiencies in the supervisory process is the need for broader powers than those granted in existing central bank and financial institution legislation.

In 1991 the IMF reviewed proposed financial sector legislation and submitted comprehensive revisions which were largely adopted. The resulting Central Bank of The Gambia Act, 1992 and Financial Institutions Act, 1992 have been approved by the Cabinet and are expected to be submitted to the Parliament in December, 1992. Passage without significant revision is widely expected. This legislation was reviewed by the consultants and was generally felt to define more clearly and broadly the roles and powers of the Central Bank. These Acts provide an adequate framework for the Central Bank to carry out prudential bank supervision. These Acts do not, and should not, detail how their provisions should be implemented, which results in a need to develop a body of implementation regulations by the Central Bank. This section will discuss the general provisions of the Acts, and the following section will discuss the regulations required to implement prudential bank supervision.

A. The Financial Institutions Act, 1992

The Act gives the Central Bank the power to issue licenses to and impose restrictions on financial institutions. The Central Bank must approve branches, mergers, acquisitions and sales of assets. If a financial institution breaches any provision of the Act, the Central Bank has the power to revoke the license. The Banking Supervision Department has drafted (dated Sept., 1991) "Guidelines for Licensing a Regulated Financial Institution in The Gambia." Review, approval and implementation of these guidelines should be expedited.

The Act gives the right to set capital adequacy standards, but does not specify what the standard is, therefore, a capital adequacy regulation is necessary. The Banking Supervision Department has drafted (date Sept., 1992) a capital adequacy regulation which is consistent with the Bank for International Settlements' (BIS) paper, "International convergence of capital measurement and capital standards." Assuming passage of the Act, review, approval and implementation of this regulation should be expedited.

Similarly the Act gives the Central Bank authority to establish statutory reserve requirements. The BSD has drafted (dated Nov., 1992) a guideline for statutory reserves which needs to be reviewed and implemented.

The Act gives the Central Bank the power to define the composition and minimum level of liquid assets (as did the 1974 Act). Guidelines for the reporting of liquid assets had been drafted (dated Nov., 1991), but need to be revised to be consistent with the proposed legislation.

The Act prohibits or limits large credit exposures to single or related borrowers; loans secured by its own shares; unsecured loans to directors, officers and employees and their related interests; non-banking activities; and the acquisition of assets unrelated to banking activities. It is the opinion of the consultants that the restrictions on credit concentrations, secured loans and insider loans are too lax. Specifically, secured loans are largely excluded from concentration limitations even though the value of the collateral may be hard to assess or realize through liquidation. The Act is, however, an improvement over existing legislation. The ability of the Central Bank to monitor adherence to these provisions must be enhanced by new regulations.

The Act establishes audit and financial reporting requirements, and gives the Central Bank the power to require further information and conduct examinations. The information reporting and off-site examination functions are discussed elsewhere in this report.

The Act gives the Central Bank broad powers if a financial institution is found to be unsound, including the requirement of corrective actions, the appointment of advisors and suspension of the license (with Minister of Finance concurrence).

The Act places certain requirements and restrictions on bank directors and gives the Central Bank the power to suspend any director or officer who fails to take all reasonable steps to ensure compliance with the Act.

The Act gives the Central Bank the authority to issue orders to banks to cease or refrain from unsound banking practices and can prohibit the granting of loans or the taking of deposits when unsound practices are detected. The Central Bank can seize a financial institution with the vote of four Central Bank Board members. Compulsory liquidation of a bank can be decreed by the Supreme Court upon petition by the Central Bank.

The consultants discussed provisions of the Act with three of The Gambia's four banks, and they were found to be generally in favor of the new legislation, but expressed concern that its provisions were made retroactively effective. At the request of the

Central Bank, the consultants did not meet with the Continent Bank due to pending litigation between it and the Central Bank. Continent Bank, which is currently in dispute with the Central Bank, is reportedly (according to the other banks) concerned about the expanded powers of the Central Bank under the new legislation.

The expanded regulatory powers intended by the new legislation need to be enforceable in The Gambia's judicial system. It is noted that the Central Bank is currently under an injunction imposed by the Supreme Court from using its enforcement powers in its dispute with the Continent Bank. It cannot be determined at this time how the judicial system will interpret the new legislation, and all parties need to be mindful of the impact of court decisions on the effectiveness of future prudential bank supervision.

B. The Central Bank of The Gambia Act, 1992

The proposed act replaces the Central Bank of The Gambia Act, 1971 and establishes the legislative basis of the Central Bank. The Act defines the composition and function of the Board of Directors and states the principal objects of the Central Bank. Of particular relevance to this project is Part III of the Act, "Relations with Financial Institutions and Monetary Policy."

The Act gives the Central Bank the authority to regulate reserve requirements against deposits and other liabilities. The level of required reserves, the definition of reserve calculations and reporting requirements have to be prescribed by supplementary regulation.

The Act gives the Central Bank the authority to regulate interest rates, set credit ceilings and establish security requirements.

C. Scope of Central Bank Supervision of the Financial Sector

The Financial Institutions Act and The Central Bank of The Gambia Act give the Central Bank broad authority to regulate most, if not all, components of the financial sector. As the only functional supervisory body in the country there is growing pressure for the Central Bank to assume regulatory responsibility for offshore banks, insurance companies, securities companies, NGO's village credit and savings associations, foreign exchange dealers and other financial institutions as they emerge. While analysis of each component of the financial services sector was beyond the scope of this project, BSD does not yet have the resources to supervise adequately the banking industry. The assumption of additional supervisory responsibilities must factor in the substantial, incremental resources required.

The IMF in "The Republic of The Gambia: Financial Sector Legislation,"(pg. 19) advised "However, it (the IMF mission) expressed the preliminary view that such a facility (to offer off-shore banking) was not advisable for The Gambia at this time. There were already many such facilities available to the world banking community in locales more suited to supporting the international activities of the participants. There was also a risk of attracting an undesirable element unless the level of supervision and the expertise of the examiners was equal to the task of detecting and preventing improper practices." There was a consensus of opinion between the banks met with and the consultants that the benefits to The Gambia in offering off-shore banking would not offset the costs and risks at this time.

V. PRUDENTIAL REGULATIONS FOR BANKING SUPERVISION

With the passage of the proposed Financial Institutions Act and the Central Bank of The Gambia Act, the Central Bank will have the legislative basis for issuing prudential regulations. This section summarizes the status of regulation formulation for the main components of bank supervision which will need urgent attention.

A. Capital Adequacy

As stated above, the BSD has drafted a capital adequacy guideline which is consistent with BIS and World Bank recommendations. Implementation of this guideline needs to be expedited upon approval of the legislation.

B. Asset Classification

For any capital adequacy measurement to have validity, there must be a system of realistic asset valuation. There are four main aspects to a realistic valuation: a defined asset classification system based on collectibility, a standardized requirement for setting minimum levels of loss reserves (provisioning) based on the asset classifications, a definition of non-performing assets and accounting policies that prohibit the accrual of income on non-performing assets. These are basic issues of asset valuation that are confronted by financial institutions in developed and underdeveloped countries alike, and there is considerable experience in the treatment of these issues. CBG should consider incorporating these factors into its body of regulations.

The World Bank, in its "Suggested Guidelines; Asset Classification, Provisioning, and Suspension of Interest", has proposed asset classification definitions which allow for objective and subjective factors to be weighted into the rating process. These definitions are incorporated into the proposed Exam Report Format (Appendix 4, Section 9).

C. Provisioning

Asset classification gives bank management and the regulator key indicators to asset quality and collectibility. Based on these indicators the bank must establish reserves to provide for the likely loss to be realized on those assets. Again the World Bank has recommended minimum provisioning levels tied to asset quality ratings which have been incorporated into the Exam Report Format (Appendix 4, Section 4a).

D. Non-Performing Assets and the Suspension of Income

To avoid the systematic overstatement of income, financial institutions must have accounting policies in place which, when an asset has been determined to be non-performing, place it on non-accrual status and suspend the recognition of income on it.

The consultants recommend utilizing the World Bank's guidelines in their regulations and have incorporated them into the Exam Report Format (Appendix 4, Section 5a).

E. Income Recognition and the Structure of Advances

Proper accounting standards require that for income to be recognized it must be earned and either collected, or collectable. Accrual accounting for interest income on loans and advances is acceptable if institutions also have a systematic non-accrual policy for income not likely to be collected. Failure to establish a strict non-accrual policy results in the overstatement of interest income.

Overdrafts present a particular problem for income recognition policies, because the payment on interest can be accommodated by debits to the current account and may not reflect the borrower's ability to pay. Institutions in developing economies, in particular, tend to rely excessively on overdraft facility structures to provide unstructured working capital financing to their clients. Payment of overdraft interest by increasing the negative balance of the current account is another form of capitalizing interest, thereby overstating income and assets. Lenders and regulators must be careful to structure and monitor overdraft activity to avoid capitalization of interest even in the presence of a non-accrual policy. Non-accrual policies can be made to encompass inactive overdraft accounts even if they are technically current.

F. Loans to Insiders

A frequent cause of asset quality problems in a financial institution is the ability of management to give favorable terms and unrestricted credit to insiders and their related interests. It is important for Central Bank regulations to clearly define "insiders and their related interests", to restrict the amounts of such loans, to ensure that the terms and conditions of such loans are not more favorable than would have been given to an outside borrower, and that the existence of these loans are completely and regularly reported to the bank management and the Central Bank. Excluding borrowing relationships from such restrictions on the basis of collateral is not adequate protection for the banking system, particularly in an underdeveloped economy where asset values are hard to ascertain or realize in liquidation.

G. Information Reporting Requirements

The Acts give the Central Bank broad powers to require financial institutions to report any information that it deems necessary to fulfill its function. The Banking Supervision Department has in place various "returns" and their respective instructions to the banks. These instructions are not complete or clear, and in some cases don't exist. There was a consensus between commercial bank and Central Bank managements that

the forms need to be reviewed for effectiveness and instruction clarity, particularly in view of the prospect of the new legislation. The commercial banks did not always understand or appreciate the purpose and use of some of the returns, contributing to a lack of attention to return preparation.

Currently the Banking Supervision Department requires reports from supervised institutions as follows:

1. Cash Holdings (daily)
2. (a) Cash Deposit & Reserves (weekly)
(b) Loans & Advances to Major Economic Activities (weekly)
3. (a) Required Reserves Statement (bi-weekly)
(b) Liquid Assets Statement (bi-weekly)
4. (a) Assets & Liabilities Statements (monthly)
(b) Loans & Advances by Volume of Credit (monthly)
(c) Unsecured Advances (monthly)
(d) Loans & Advances to Major Economic Activities (monthly)
5. (a) Loans & Advances by Number & Size (bi-monthly)
(b) Loans & Advances by Securities Pledged (bi-monthly)
6. (a) Loans & Advances by Rates of Interest (quarterly)
(b) Deposits by Rates of Interest (quarterly)
7. (a) Ownership of Deposits (semi-annually)
(b) Debits to Deposits (semi-annually)
(c) Deposits by Size of Accounts (semi-annually)
8. (a) Annual Report & Accounts-Audited (annually)
(b) Statement Report and Accounts-Audited (annually)
9. (a) Structure of Interest Rates (quarterly)

Many of these reports are utilized for monitoring compliance with reserve and liquidity requirements, or are required by the Economic Research Department for their management of money supply. The reports are to varying degrees useful and clearly explained. The banks have begun a process of giving feedback to the Central Bank, and the Banking Supervision Department is in the process of reviewing the effectiveness of

each report. Completion of this process should be expedited. In line with the other recommendations of this report, however, additional reports are required to enhance off-site supervision. (see OFF-SITE SUPERVISION)

VI. BANKING SUPERVISION METHODOLOGIES AND PROCEDURES

The objectives of the Banking Supervision Department require it to be responsible for both on-site and off-site examination functions. These two activities complement each other and should not be functionally separated within a Central Bank. Off-site supervision provides an on-going view of macro and micro-economic factors impacting on the stability of the financial system and serves as an early warning system for emerging problems within a specific institution. Data derived in the off-site supervision process can help direct on-site inspection to particular areas of concern making it more effective and efficient.

Given the absence of advanced accounting standards, an established track record of effective internal controls and specific legislative powers giving the Central Bank complete access to the records of the external auditor (as exist in the U.K.), off-site surveillance cannot replace the need for in-depth on-site inspections. Underdeveloped countries in particular need to gain the insight that can be provided only by on-site examination. On-site examinations, however, provide only a "snapshot" of a bank's true condition and do not substitute for ongoing off-site review.

A. On-Site Examinations

The primary objective of bank supervision is to ensure the safety and soundness of the financial system as a whole, as opposed to that of individual banks. Its responsibility is to the depositors in the system rather than to the shareholders of specific institutions. The focus of a bank supervision department is, therefore, different from that of the internal or external auditor. The Bank Supervisor is primarily concerned with the areas of greatest risk to the financial system and, within a specific institution, with the areas of greatest risk to the soundness of the bank. The focus of on-site examination, therefore, should include management, policies and procedures as well as specific instances of problem loans and regulatory oversight. The examination should address areas of greatest and systemic risk and deemphasize the distracting detail of the external auditor. Bank examiners do not need to see everything, but do need to accurately assess if a bank is well managed or at financial risk.

Since February, 1991 the Banking Supervision Department has not completed an on-site examination. An examination team has been in BICI since July, 1992, but has not completed its review, although the exam was planned to take only five weeks. BSD is not adequately conducting an on-site examination function due to a shortage of available qualified human resources, the distractions of the disputes with Continent Bank, and the absence of examination methodologies which enable comprehensive, yet efficient, review. For example the BSD Operations Manual states that supervised institutions are examined every 2 to 3 years, and that examinations take up to 6 months.

This is too long between reviews and too long for each. In controlling a problem institution, time is of the essence. In a sound institution, six months is a needless waste of bank and regulator resources. The consultants were advised that the BSD does not have an examination schedule and that the staff is not actively involved in advance planning. Proper planning and targeted research on critical elements can promote more frequent, but more efficient examinations with the same resources.

The consultants recommend that the Central Bank prepare a project whereby an on-site examination is conducted with the assistance of an experienced on-site examiner with the end product being a comprehensive report along the lines described in Appendix 4. This project would serve to improve the quality of examination findings and provide a training vehicle for department staff. Further, the consultants recommend that training plans include components of on-site examination techniques and experiences at other Central Banks.

B. Exam Report Format

The findings of an on-site examination are documented in an examination report. The report is used by Central Bank management which may communicate its findings to the examined bank. The purpose, contents and use of the examination report are generally described in the draft of the BSD Operations Manual being prepared. The consultants recommend adoption of a standardized report format for the following reasons:

- Standardization promotes a comprehensive examination of each component of prudential supervision.
- Standardization facilitates comparison between banks.
- Standardized formats provide an excellent training tool for supervision staff and reinforce desired concepts and techniques.
- Standardized formats make the report preparation process more efficient and get time-critical findings to Central Management more quickly.

As part of this project the consultants have modified the U.S. Federal Reserve Bank Examination Report format specifically for use in The Gambia, and have included it as Appendix 4 in the report. This format is comprehensive, incorporates the World Bank's Working Paper, suggested guidelines on, "Prudential Regulation and Bank Supervision, Building and Institutional Framework for Banks", is consistent with the Basle Agreement on Capital Adequacy and the proposed Financial Institutions Act, and has been similarly modified for other Central Banks. The report format has been placed on a computer disk using WordPerfect 5.1 for ease of use, reproduction and further modification by the Banking Supervision Department.

C. Use of External and Internal Auditors

The proposed Financial Institutions Act requires banks to submit annual audited financial statements prepared by an auditor acceptable to the Central Bank. The Central Bank has the authority to appoint an external auditor. The Act does not, however, require the external auditor to discuss its findings directly with the Central Bank. In the absence of any legislative requirement, all three accounting firms in The Gambia understandably stated that to reveal any information to the Central Bank without client approval would represent a conflict of interest. This external auditor/Central Bank relationship is common to many countries.

Three of The Gambia's banks are owned by foreign banking parents which conduct their own internal audit and asset review functions. It is the consultants' experience that these internal reviews can be comprehensive and thorough. All three banks stated that they felt it would be acceptable to have the findings of those internal reviews revealed to and discussed with the Central Bank. Under the proposed Financial Institutions Act the Central Bank would have the authority to require access to internal financial reviews. The consultants recommend that the Banking Supervision Department incorporate an active relationship with the banks' internal audit function into their examination procedures in order to complement its own process.

D. Off-Site Supervision

On-site examinations cannot provide a continuous analysis of the condition of a financial institution. The in-depth view of an on-site examination must be complemented with off-site monitoring which makes use of periodic reports submitted to the Central Bank. The design of these reports is an essential factor in the effectiveness of off-site supervision.

The recent formation of a Banker's Association gives the Central Bank an excellent forum for communicating the rationale for new reporting requirements and getting timely feedback from the banks. In this regard, new returns will need to be developed to monitor the following at a minimum;

1. Data on non-performing loans credit extension based on a standardized definition mandated by the Central Bank.
2. Data on the provision for bad debts including transfers to the provision, charge-offs debited against it, and recoveries credited to it.
3. Details on all large credits and credit concentrations as defined by Central Bank regulation.

4. Details on all loans to insiders and related interests as defined by Central Bank regulation.
5. Profitability data including breakdowns of interest income, interest expense, non-interest income, non-interest expense, taxation and unusual items.
6. Details of all increases and decreases to capital accounts.
7. Verification of compliance with the capital adequacy requirements.

It is realized that some of the above financial information may not be readily available from all banks, in which case there could be unexpected delays in implementation of an effective off-site monitoring system. In order to avoid protracting the process, banks should be required to provide the necessary information on a "best efforts basis" for a limited period as each new return is implemented. Accordingly, the needed financial information for off-site analysis should soon become available, sufficient to permit early design and implementation of an off-site monitoring system.

With the addition of computer capability at BSD, all returns should be formatted to be used on available computer equipment. The three banks that the consultants met with all commented that responding to regular BSD information requests by computer disk would not be difficult. Use of the available computer equipment for this purpose improves the ability of the BSD to analyze, manipulate and compare the data provided by the banks.

Finally, with the enhancement of the data provided to the banks, it is necessary for the BSD to provide training to its personnel in the analysis of these types of financial information. It is important to move the analysis away from the current heavy focus on reserve and monetary requirements and redirect their efforts to those critical risk factors impacting on the soundness of the supervised institutions.

VII. ADEQUACY OF BSD STRUCTURE, MANAGEMENT, HUMAN RESOURCES AND TRAINING

The basic documents utilized for assessing BSD's human resource and future planning requirements are based on the reports, "Discussion Document-Budget for BSD Computerization and Training, 1991/1993" dated July 23, 1991, and "Plan for Staffing Training and Computerization" dated March 1992, on the consultants' field interviews, a review of the documentation submitted to-date to USAID/Banjul and an evaluation of BSD's noted strengths and weaknesses.

A. BSD Structure

The Central Bank's management has been appraised and has received reports in April and July, 1992 on the human resources needs of BSD and on the required restructuring of the Department to permit BSD to develop expertise in three critical areas:

- examinations,
- prudential policy development, and
- compliance

ACTION TAKEN:

- Discussions have been held and reports have been submitted to management with respect to restructuring BSD. This will necessitate a redefinition of the mission statement for the department and of position descriptions.
- Documentation reviewed to-date suggests management's attention has been directed to other issues on-hand, such as Continental Bank issues, legal proceedings, restructuring and liquidations and reviews of The Central Bank of The Gambia and the Financial Institutions Acts.

COMMENT/ACTION REQUIRED:

The division of BSD, as proposed, into three areas of responsibility is appropriate in light of upcoming changes to the Central Bank and Financial Institutions Acts. This division also defines critical functions that Central Bank will need to address and to develop expertise in order to comply with the revised legislation and the new regulatory environment.

- BSD's proposed structure also includes the position of a Principal Examiner. While this position may be required at some future date, based on the actual volume of work, the number of institutions to be supervised in The Gambia, and the belief that it represents an unnecessary increment in the layers of management, it is the consultants' recommendation that the position of Principal Examiner be deleted.

B. BSD Management

- BSD management has devoted some time and effort to address certain issues related to training and computerization of the Department's staff.

ACTION TAKEN:

- Senior management has not made a final decision on the selection and or training of qualified staff needed in the coming year or for 1994. Other pressing issues such as the Continental Bank examination in early 1991 and subsequent litigation have necessarily delayed taking any action on the above pending projects.
- Computerization of BSD has proceeded as planned and the Department is presently adequately equipped to meet present work loads. Staff access to the computers, such as the Manager's secretary and computerization of information provided by the financial institutions needs to be addressed.

COMMENT/ACTION REQUIRED:

- While BSD management has identified the need for additional staff, training courses and computerization of the activities of the Department, it is the consultants' recommendation that once the position descriptions and staff profiles have been determined and approved for BSD's revised structure, training courses should be matched to the requirements of the position(s) to complement the selected candidate's previous experience or professional expertise.

C. BSD Human Resources

- BSD has a staff of nine officers while an additional two members are pursuing three and four year courses in the U.K. For the remainder of 1992, the Department has no plans to add staff.

ACTION TAKEN

- With passage of the new legislation, it is expected that policy development and compliance related initiatives will require an increase of staff, however, this staffing will be augmented by the return of the two members studying in U.K.
- By 1994, BSD has projected an increase in its staffing requirements to a total of seventeen officers, resulting from an additional six new staff members and a Principal Examiner to oversee the operations of the Examinations and Compliance Units.

COMMENT/ACTION REQUIRED:

- For the foreseeable future, the proposed policy development and compliance units staffing requirements should not be three (3) each, as suggested in the above referenced reports of July 1991 and March 1992. These units will be engaged primarily in drafting guidelines, developing procedures and processing licensing applications, developing a reporting and an accounting manual and maintaining contact with the banking, audit and tax authorities. The selection and the number of staff needed should reflect these requirements.
- Given the activities that will result from the passage of the new legislation, it is critical that BSD management carefully implement its restructuring in a phased in manner, as much will hinge on the workload, the degree of experience and capabilities of the existing and new staff and, most importantly, the capacity of BSD to absorb and supervise the new staff and define training needs.

D. BSD Training

- Senior Bank management has begun to emphasize professional training for supervisory staff and is fully committed to continuing this process. To-date it has focused on the more senior levels of BSD. Future training requirements should take into consideration the needs of middle and junior-level staff. With specific reference to the skill levels required for on-site and off-site examinations and financial analysis, for example, in the U.S., the length of time required to properly train qualified examiners is estimated to be at least five years.

ACTION TAKEN

- Two BSD staff members are completing their advance studies in the U.K. and are expected to return to their posts in late 1993;
- Projected training expenditures are detailed in the Bank's 1992/1993 Budget projections. One of the goals of training is to minimize new employment while increasing the quality of the available staff. The Bank aims to use short-term courses rather than long-term training;
- No plans have been defined as to the type of on-site and off-site examination courses, the location of training, or the institution(s) which will provide the training. The consultants' view is that such future training should be directed to the middle and lower level staff who will be more involved in hands-on examinations of the financial sector;
- Projections for the period 1993/1994 regarding the additional six staff members and the Principal Examiner have not been drafted.

COMMENT/ACTION REQUIRED:

- As BSD will face constraints on the number of staff it can send for long-term training, there is little point in focusing in this area. Training should focus on the immediate needs of the Department, should be of a short-term nature (1 to 3 weeks), preferably courses available within the ECOWAS region and given by institutions where the Central Bank has already sent its staff (e.g.: Nigeria and Ghana) and, if possible, include credit granting courses leading towards a certificate. Selectively, and based on staff evaluation and productivity, senior management could, under a management incentive training scheme, select one candidate per year for further specialized/advance training (1 to 3 months) at the Federal Reserve System or similar central bank institution.

- As each position will require a certain level of educational background and experience, BSD staff should be encouraged to pursue correspondence courses. Completion of a course or a certificate level should be taken into consideration and factored in when considering staff for promotion.
- Actual training courses should be defined between BSD management and the IMF Technical Adviser and projected to 1994.

E. BSD Office Administration

- A good and effective supervisory role requires that internal administrative procedures, and the handling and storing of financial institutions' files (accounting information, ratios, etc.,) to be of the highest standards.

ACTION REQUIRED:

- While the consultants did not review these procedures as part of their scope of work, from observation and access to some files it was evident that there was a clear need to upgrade the filing system. BSD management should review its administrative procedures, flow of information, filing procedures and access to information so that, while maintaining confidentiality, such documents are in proper order and readily accessible to support future action based decision-making on up-to-date and effective data. Computerization of this information should be a priority.

VIII. ADEQUACY OF ACCOUNTING STANDARDS AND AUDITING RESOURCES

A. External Auditors in The Gambia

There are three certified or chartered accounting firms in The Gambia: KPMG Peat Marwick, Pannell Kerr Forster, and Augustus Prom. Pannell Kerr Forster (PKF) is the longest established (since 1965), largest (about 120 corporate clients), and most extensively staffed (37 total staff including 3 expatriate audit managers). KPMG Peat Marwick (Peat) has been in The Gambia since 1971, has the second largest client base and 15 total staff (including 2 resident audit managers, but excluding a non-resident partner). Augustus Prom (Prom) is a Gambian (U.K. Certified) accountant in business since 1984, having about 20 clients and 14 total staff (including 1 certified accountant). The firms estimate there are only about 30-35 certified accountants (Gambian and expatriate) in the country.

All three firms cited the shortage of certified accountants in the country, the difficulties in getting and retaining qualified staff and the absence of local training resources. The highest level of training available in The Gambia is the A.A.T. certificate at the Management Development Institute (MDI), which is a low level of certification. All three firms felt that the quality of the training at MDI was satisfactory. The firms reported that the largest source of local human resources was the government which often provides MDI training, but does not pay competitive salaries to retain its employees.

B. Adequacy of Accounting Standards

There is no Accounting Standards Board or government body sanctioning accounting policies in The Gambia. Both PKF and Peat are part of recognized, multinational accounting firms and report to parent organizations in the U.K. Both firms adhere to U.K. accounting standards and have chartered accountants on staff. PKF audits the statements for BICI and Standard Chartered Bank. Peat audits the statements for Meridien Bank. There is some question as to which firm will audit the statements of Continent Bank in the future. The consultants feel that both firms have the capability of providing adequate accounting standards and serving the auditing needs of the financial sector and the BSD. It should be noted, however, that Peat was the external auditor for a number of years for The Gambia Commercial and Development Bank which ultimately collapsed under the weight of problem assets. This serves to reinforce the point that no matter who the external auditor is, the Central Bank needs to supplement its supervision with its own on-site examination.

Prom has no affiliation with an accounting firm outside of The Gambia. It has served as the auditor for Continent Bank in the past, but has been advised by Continent Bank that the Central Bank wants a different firm to be used in the future. The reliability of financial information submitted by Continent Bank to the Central Bank is a major factor in the current disputes between the parties. The consultants did not assess Prom's accounting methods or procedures.

Since there are currently only four banks in The Gambia, the banking industry can be adequately served by existing accounting firms.

C. Adequacy of Auditing Resources

The Companies Act, 1955 requires all limited liability companies to have audited statements prepared annually. This Act is not actively enforced, and many hundreds of companies do not comply. If government enforcement attitudes were to change, the volume of auditing work would probably exceed the number of trained accountants in the country. Similarly if the number of banks licensed were to be greatly increased, or if offshore banking were to be encouraged, existing resources might be pressed to adequately serve the financial sector. As cited above, the supply of locally available certified accountants is severely limited, and higher level training is not available in the country. There is no government policy or regulation which would prevent additional accounting firms from forming or entering The Gambia from abroad.

D. Accounting Policy Issues

In the absence of an Accounting Standards Board or specific Central Bank regulations, the banks do not have consistent interest income recognition, non-accrual for non-performing loan, or charge-off policies. Since three of the banks are owned by foreign bank parents, their policies are generally derived from parent guidelines which are beyond BSD control. Overstatement of interest income and assets most frequently results from the lax treatment of non-performing loans, and the regularization of these key accounting policies should be the subject of Central Bank input and regulation. The assets and income of The Gambia Commercial and Development Bank were found to be significantly overstated, suggesting that bank regulation needs to concern itself with the standardization of accounting policies.

IX. ACTION PLAN

A. Prioritized Action Plan: Banking Supervision Department

The stated objective of this engagement is to develop an action plan for BSD which builds on the recent activities of the Department. Based on this premise and on the consultants' assessment of the requirements to accelerate the process of restructuring BSD and improve the effectiveness of its supervisory role of the commercial banks in The Gambia, we have prioritized the Action Plan in distinct phases for immediate action on the part of BSD as follows:

PHASE I. Mission and Organizational Structure

- Monitor developments with respect to the approval process of The Central Bank of The Gambia and Financial Institutions Act, 1992;
- Define a mission statement for BSD, within the context of the revised legislation; and concurrently
- Prepare an organizational structure that takes into consideration the functional responsibilities of an examination, compliance and policy development unit; submit plan to senior management for official approval and immediate implementation; and
- Prepare a follow-up seminar to familiarize the management and staff of the Bank, and as may be required, the financial sector and/or the public-at-large, as to its provisions and revised responsibilities.

PHASE II. Human Resources and Training Requirements

- Upon senior management's approval of the objectives of BSD and of its organizational structure, prepare revised position descriptions outlining delegation of authority and assignment of responsibilities; prepare these in collaboration with the Management Services Department;
- BSD management will need to assess the technical and professional requirements of the positions to be filled within the Department and make the necessary appointments. This activity will require a careful assessment and availability of competent staff to fill these positions from within the Central Bank;

- Advise the Bank, and as required, the financial institutions as a whole, of the new objectives, organizational structure and official appointments;
- BSD management will need to assess the immediate and short-term professional training requirements of its middle level staff to strengthen their capabilities to meet their new responsibilities; and
- BSD management will urgently need to establish and assign individual training priorities such that the department will be able to function while other staff members are progressively trained and the work load is more evenly distributed during this critical training phase.

The recommended timing for completion of the above noted tasks is projected to be as follows:

PHASE I. BSD Mission Statement and Organization Structure

This phase of the Action plan should be completed, including approval and implementation by senior management, by the end of February, 1993.

PHASE II. BSD Human Resources and Training Requirements

This phase of the action plan can be divided into three parts, including;

- the definition and formal approval of the position descriptions and identification of the staff for each should be completed by no later than February 28, 1993;
- the assessment of training needs, and the identification of courses, staff and institutions no later than March 31, 1993. Training should commence at the earliest possible opportunity to coincide with the Bank's projected and authorized training expenses for the fiscal year; and
- the projections regarding the need to hire an additional six staff and a Principal Examiner should be carefully assessed as a considerable amount of time and on-going attention will be required from BSD management to supervise their work and on-the-job training. This exercise should be

completed by the time the 1993/1994 Budget is to be submitted to senior management.

PHASE III. Regulatory Framework

Subject to Parliament's approval of the revised legislation, the Central Bank should draft new regulatory guidelines as follows (see Section V. for discussion);

- i. Capital Adequacy
- ii. Asset Classification System
- iii. Provisioning
- iv. Definition of Non-Performing Advances
- v. Non-Accrual and the Suspension of Income
- vi. Income Recognition and the Structure of Advances
- vii. Large Loan and Concentration Limitations
- viii. Insider Loan Limitations
- ix. Revisions to Financial Reporting

PHASE III--RECOMMENDED TIMING:

Drafting has begun by the BSD on some of these regulations, and models exist in the "Suggested Guidelines for Bank Supervision" prepared by the World Bank. Drafting could be completed within 4 months of passage of the new legislation, and review, approval and implementation could be completed within 3 months indicating a target date for completing Phase III of July 31, 1993.

PHASE IV. On-site and Off-site Supervision Methodologies

- Draft BSD Operations Manual: Revision of the manual has already begun. Its drafting, completion, review, approval and implementation should be expedited.
- Examination Report Format: A standardized report format should be reviewed, approved and implemented, utilizing a format based on the model included in this report (see Section VI.B).

- **Off-Site Analysis System:** New reports will be required, based on the new regulations. The local banks should be consulted about the preparation and use of the forms, with a view to obtaining prompt feed back of financial data needed for off-site analysis. Following design and implementation, BSD examination staff will need to be trained in the uses and applications of the system to ensure effective off-site monitoring takes hold. (see Section VI.D for discussion).
- **On-Site Supervision:** A complete on-site examination utilizing the new regulations and manual procedures should be conducted with the assistance of an experienced on-site examination consultant with the end result being documented by a new Examination Report based on the recommended format (see Section VI.A for discussion).

PHASE IV--RECOMMENDED TIMING:

- Draft examination manual should be targeted for completion, approval and implementation by no later than July 31, 1993.
- An Examination Report Format, as per Appendix 4 in this report, should be reviewed, authorized and implemented by July 31, 1993.
- Off-site analysis system, including new returns, as needed, training of the staff and interaction with the local banks should be completed and implemented by September 30, 1993.
- On-site supervision and the selection of an on-site examination consultant to assist in this phase should be initiated by the second half of 1993 and the on-site examination should be completed by the third quarter of 1993.

B. Suggested Future Action Plan-The Central Bank

Bank supervision can only be as effective as the quality of the management and staff engaged in these activities. On the other hand, effective management supervision requires knowing what is happening in the financial sector, who the managers and directors are and how institutions are responding to new developments and changing conditions.

During the course of this engagement, the consultants noted issues which will require the attention of senior management in the coming year and will need to be addressed to ensure that the Bank is capable of developing the required expertise and technology to analyze the local financial climate. In addition, it is necessary that Senior

Management continue to develop rules and guidelines that are based on an understanding and appreciation of the facts of business life and on policies determined by GOTG.

Major issues that should be part of a future project are:

- i. Define and obtain Board approval of a Central Bank mission statement and major goals that support this mission.
- ii. Design and obtain Board approval of a revised Central Bank organizational structure taking into consideration provisions of the Acts, opening of The Gambia's financial markets and developments around the world as well as the tendencies within other African Central Banks.
- iii. Revise all of the Central Bank's departmental roles, responsibilities, functions and position descriptions commensurate with their new responsibilities.
- iv. CBG should initiate contacts with other Economic Community of West African States (ECOWAS) central banks' supervision departments to exchange information, experiences and practices utilized in this area.
- v. For senior level executives, selective technical and management case-based seminars may be appropriate. For the Departmental heads, training should be focused on enhancing their supervisory roles, goal-setting, decision-making and time management. Particularly useful may be IMF's Monetary and Exchange Affairs Dept. seminars, another is the American Bankers Association's (ABA) computer simulation programs "BankSim", "BankExec" and/or "BankExec International". These simulation programs expose participants to analysis and planning, to policy formulation and capital management.

C. Conclusion

The Central Bank of The Gambia is presented with a window of opportunity in meeting its objective of enhancing the Banking Supervision Department to better ensure the safety and soundness of the financial sector. The likely passage of proposed legislation establishes the legal framework for prudential bank supervision. The current number of banks is limited, the accounting and technology resources are adequate, and there is wide experience to draw upon in developing appropriate policies and procedures. With economic development, however, comes rapid change in the size, scope and complexity of the financial sector, and as The Gambia's sole supervisory institution, the Central Bank will be faced with an expanding responsibility to the financial system.

The Banking Supervision Department does not today adequately control the risks inherent in a dynamic banking industry for the reasons detailed in this report. Resources alone do not create prudential supervision. Central Bank management needs a workplan to define its mission, structure its decision making, detail its policies and procedures, staff its departments, train its personnel and communicate its strategies internally and externally. The purpose of this report is to assist in the development of this workplan taking the Central Bank from the framework of the new legislation to the implementation of comprehensive supervision of the financial sector. What is most needed at this time is a commitment to the adoption of a plan, a clear assignment of responsibilities to execute it, and a persistent follow-up of results by the most senior level of Central Bank management.

Appendix 1

SCOPE OF WORK

I. BACKGROUND

A. The Financial Sector Restructuring Program (FSRP)

The FSRP is a three year \$6.8 million bilateral economic development program which combines \$5.0 million in non-project assistance with \$1.8 million in project assistance. The objective of the FSRP is to improve the efficiency of financial intermediation in promoting savings and investment and in allocating savings to their most productive uses.

Non-project assistance (NPA) under FSRP will be disbursed over the three year life of the program in three tranches upon satisfactory fulfillment of conditions precedent outlined in the bilateral program agreement. A condition precedent for the release of the first tranche requires a commitment for the comprehensive review of, and preparation of recommendations on, policies, regulations, administrative practices, laws and legislation relating to the financial system, including the Central Bank of The Gambia's (CBG's) "regulation and supervision of financial institutions: adequacy of staffing, in terms of numbers and training; adequacy of regulatory powers granted the CBG; adequacy of CBG's enforcement of regulatory powers; adequacy of accounting standards used in the country; adequacy of reporting requirements; and consistency of actual financial practices to what the laws and regulations allow." A condition precedent for the release of the second tranche requires an action plan based on the activities carried out for the release of the first tranche.

In addition to improved bank supervision, the primary outputs of the Financial Sector Restructuring Program will include the elimination of credit controls, the privatization of The Gambia Commercial and Development Bank (GCDB), and the improvement of debt collection procedures.

The NPA component is complemented by a support project to provide technical assistance, training, and other support as needed to ensure effective implementation of the proposed reform program. Under FSRP, USAID will provide assistance to the Central Bank, to GCDB, and to the Ministry of Justice.

B. Central Bank and the Banking Supervision Department

The CBG was established in 1971 to assume the functions of The Gambia Currency Board and to act as banker to the Government of The Gambia (GOTG). It is responsible for defining and implementing national monetary and credit policies and for regulating commercial banks, which currently number four. The principal objectives of the CBG are:

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

Bank supervision by the CBG historically has been inadequate. The lack of an established regulatory regime coupled with insufficiently trained examiners has resulted in minimally effective supervision of the financial sector. Perhaps the most notable case of inadequacy was the failure of the CBG to stop the GCDB from violating statutory reserve and liquidity requirements. Even with an abundance of non-performing claims outstanding, the CBG continued to make reserves available to the GCDB for liquidity support, and GCDB's nonperforming loan portfolio continued to grow.

Recognizing the need for improvement in bank supervision and regulation in The Gambia, the IMF last year reviewed financial sector legislation and submitted comprehensive revisions of the Central Bank Act and the Financial Institutions Act, which are expected to be passed by Parliament in Sept., 1992. The legislation substantially broadens the supervisory role and powers of the CBG. In addition, a technical advisor to the Banking Supervision Department (BSD) was appointed by the IMF in April, 1991 to help the CBG to implement the new legislation and carry out its supervisory responsibilities. It was on the basis of these activities that USAID in June, 1992 released the first tranche of NPA.

Under the project support component of FSRP, USAID is procuring five computers for the use by the staff of the CBG's BSD and providing computer training in basic computer literacy, word processing, spreadsheets and database management.

II. OBJECTIVE

The objective of services procured under this contract is to develop an action plan for the BSD of the CBG which builds on recent activities of the department and recommends further steps to be taken for the effective supervision of commercial banks in The Gambia.

III. SCOPE OF WORK

Two people with expertise in bank supervision and regulation will analyze recent developments in that field in The Gambia and prepare an action plan for the BSD.

IV. TASKS

1. Meet with USAID/Banjul to review available documentation in order to gain an understanding of issues to-date.
2. Meet with Governor and General Manager of the CBG.
 - Review current status of the BSD.
 - Discuss revised Central Bank Act and Financial Institutions Act as they relate to supervisory issues and prudential requirements.
 - Discuss progress to date.
3. Meet with Manager and staff of the BSD and Technical Assistant.
 - Review BSD's "Plan for Staffing, Professional Training and Computerization." Assess the adequacy of staffing in terms of numbers and training, and the organizational structure of the unit.
 - Analyze the BSD's enforcement of regulatory powers, including adequacy of current practices relating to on-site and off-site examinations of banks.
 - Review revised legislation and detail regulations which must be issued following passage of the legislation.
 - Evaluate bank examination procedures and written guidelines.

4. Meet with representatives of the four commercial banks operating in The Gambia to discuss the frequency and depth of the supervision of the banks.
5. Prepare a draft action plan for the BSD which includes recommendations on staffing and training, and prioritizes actions necessary for an effective supervisory structure.
6. Present draft of deliverable to USAID/Banjul prior to departure. Debrief appropriate USAID/Banjul and GOTG officials on findings and recommendations.
7. Prepare final action plan for the BSD incorporating USAID/Banjul and GOTG comments.

V. DELIVERABLES

The contractor will produce and submit to USAID/Banjul before leaving The Gambia a draft action plan for the BSD of the CBG which will include recommendations on staffing and training requirements, examination procedures, and regulations stemming from the revised Financial Institutions and Central Bank Acts. The draft will be discussed with USAID and GOTG officials and proposed revisions will be included in the completed report. The final action plan will be submitted to USAID/Banjul no more than 15 days after the consultants return to the head office. The action plan will be used to track the progress of the BSD and will meet the relevant condition precedent under the FSRP.

VI. PERSONNEL

This effort will require a two-member team composed of experts in bank supervision and regulation. Specialists must possess an advanced degree in economics, finance, business administration, law or other related fields. They must have several years of direct experience in bank supervision and regulation, and at least one should have experience in human resources development, preferably in a West African or Commonwealth setting. The contractor will be asked to submit Curriculum Vitae's and other supporting documents for approval by the USAID/Banjul Project Manager prior to the mobilization of the team.

VII. LEVEL OF SUPPORT

The total level of effort for this activity is 34 days. Each consultant will spend 10 working days in The Gambia, 4 days travel time, and 3 working days at the head office (amended).

Appendix 2

BIBLIOGRAPHY

1. "Assessment of the Financial Sector in The Gambia;" Deloitte & Touche; July, 1990.
2. "Assessment of the Legal and Regulatory Environment Affecting The Gambian Financial Sector;" Consult International Inc.; April, 1990.
3. "Bank Soundness and Supervision in Africa: Some Observations from Selected Countries;" Robert S. Porter; Sept., 1992.
4. "Diagnostic Study of The Gambia Commercial Development Bank;" Robert R. Nathan Associates, Inc.; June, 1988.
5. "Discussion Document-Budget for BSD Computerization and Training, 1991/1993;" Ian Ruxton, BSD; July, 1991.
6. "The Gambia: Background Notes;" U.S. Department of State, Bureau of Public Affairs; Oct., 1986.
7. "The Gambia: Economic Adjustment in a Small Open Economy, 1985/86-1991/92;" IMF, Sept., 1992.
8. "The Gambia-Economic and Financial Policy Framework for 1992/93-1994/95;" IMF and World Bank; May, 1992.
9. "Minutes of August 24, 1992 Meeting of Bankers' Association of The Gambia;" Sept., 1992.
10. "Plan for Staffing, Professional Training and Computerization;" Banking Supervision Department; March, 1992.
11. "Program Assistance Approval Document (PAAD # 635-0233, 635-T-602);" USAID, AID Representative, Banjul; April, 1990.
12. "Prudential Regulation and Banking Supervision;" World Bank; Jan., 1990.
13. "The Republic of The Gambia, Financial Sector Legislation;" IMF, Central Banking Department; May, 1991.

14. "Suggested Guidelines: Asset Classification, Provisioning, and Suspension of Interest;" World Bank; August, 1990.
15. "Tanzania: Review of Measures Needed to Strengthen Bank Supervision;" Robert S. Porter; August, 1992.

FINANCIAL REPORTS:

16. Central Bank of The Gambia, Annual Report, 1990/91.
17. Central Bank of The Gambia, Report on 1991/92 Budget Performance.
18. Banque Internationale Pour le Commerce et L'Industrie du Senegal (B.I.C.I.S.), Annual Report, 1991.
19. Meridien International Bank Limited, Annual Report, 1991.

LEGISLATION:

20. The Sheriffs Act, 1953.
21. The Moneylenders Act, 1955.
22. The Central Bank of The Gambia Act, 1971.
23. The Central Bank of The Gambia Act, 1992 (draft).
24. The Financial Institutions Act, 1992 (draft).

MANUALS:

25. Banking Supervision Department Examination Manual (draft), August, 1992.
26. Banking Supervision Department Operating Manual, April, 1990.
27. Management Structure & Schemes of Service, Central Bank of The Gambia, July, 1989.

Appendix 3

LIST OF INTERVIEWS

The Central Bank of The Gambia

Mr. Abdou A. B. N'jie, Governor
Mr. Bajo, General Manager
Mr. M. Foon, Manager, Special Assistant to the Governor
Ms. Haddy A. Njie, Manager, Banking Supervision Department
Mr. Ian Ruxton, Technical Adviser, Banking Supervision Dept.
Mr. Ousman Sowe, Senior Bank Examiner, BSD
Mr. Mr. Gaira Lamin, Manager, Management Services Dept.
Mr. A.B. Chan, Chief Accountant, Management Services Dept.
Mr. M. Mboge, Senior Administration Officer, MSD
Mr. Ansumana Mambouray, Manager, Foreign Department
Ms. B. Ceesay, Senior Foreign Department Officer
Mr. Valdemar R. Jensen, Manager, Banking Services Dept.
Mr. J. A. Bayo, Manager, Internal Audit

USAID

Mr. Fred Witthans, Program Officer, Acting USAID Rep.
Ms. Sarah Adam, Project Manager
Ms. Nancy McKay, Project Development Officer

Bank International Commerce and Industry

Mr. Anthony G. Carvalho, Administrative Manager

Meridien Bank Gambia Ltd.

Mr. A. J. Bigwood, Managing Director

Standard Chartered Bank Gambia Ltd.

Mr. Calum I. Buchanan, Managing Director
Mr. Bernard Mendy, Treasurer

*THE FINANCIAL SECTOR RESTRUCTURING PROGRAM (FSRP)
THE CENTRAL BANK OF THE GAMBIA (CBG)*

KPMG Peat Marwick

Mr. Kevin Kingsley-Williams, Audit Manager

Pannell Kerr Forster

Mr. Peter Smith, Senior Partner

Augustus Prom Certified Accountant

Mr. Augustus F. Prom, F.C.C.A., Practitioner

BRIEF INTRODUCTION TO REVISED REPORT OF EXAMINATION FORMAT FOR COMMERCIAL BANKS EXAMINED BY THE CENTRAL BANK OF THE GAMBIA (CBG)

The attached report of examination has been extensively revised as part of upgrading the on-site examination function of the CBG. The objectives for revising this report are as follows:

- 1) To provide a modernized exam format, compatible with the CAMEL rating system for banks.
- 2) To provide a computerized report format to allow for more efficient report preparation.
- 3) To provide increased standardization as to presentation and to guide examiners as to information and analysis required.

While the report has been customized for use by the CBG, much of the format is consistent with the latest format used by the U.S. Federal Reserve System in its examinations of commercial banks. It is structured to allow for emphasis on the 5 components of the CAMEL (Capital adequacy, Asset quality, Management, Earnings, and Liquidity) rating system, now in use in many countries. Each CAMEL component is analyzed with a narrative based on prescribed considerations as stated on the applicable page. All quantitative CAMEL components are also analyzed with schedules and ratios. Space is also allowed for other key findings such as violations, accuracy of reporting, and various controls/systems issues covered in a questionnaire titled "Other Supervisory Matters" which can easily be expanded.

The report is on computer disk using Word Perfect 5.1. With the format placed on hard disk for all computers used in the BSD (Banking Supervision Department), the computer user can simply enter in exam information and findings on diskette for each bank examined. Also, the computer will allow for changes to the format as need be from time to time and for differing banks.

For those not able to use computers or where a computer is not available, the hard copies sheets should be used as a "pencil copy" prior to final entry on computer. The pencil copy can be used to fill in data on the various schedules and to attach narratives, to be later entered onto computer for final processing. However, the processing of exam reports will be greatly enhanced if all BSD staff can use a computer with Word Perfect 5.1 for even initial writing, with editing to be done on computer.

**REPORT OF EXAMINATION
FOR COMMERCIAL BANKS**

Name: _____ Financial data as at: _____

Exam commenced: _____ Exam completed on-site: _____

THIS REPORT OF EXAMINATION IS STRICTLY CONFIDENTIAL

This report of examination has been conducted by the Central Bank of The Gambia (CBG) as authorized under The Central Bank of the Gambia Act, 1992. It is the property of the CBG for use in its supervisory responsibilities. This report is furnished to the examined bank for its confidential use. This report is strictly confidential, and the CBG forbids its disclosure in any matter without its prior permission. Under no circumstances should the bank or any of its board members, directors, officers, or staff disclose or make public in any manner this report or any portion thereof.

Each board member, director, and executive officer in keeping with his responsibilities should become fully informed regarding the contents of this report. In making this review, it should be kept in mind that an examination is not an audit, and this report should not be considered an audit report.

REPORT OF EXAMINATION

_____	_____
Name of Bank	Address
_____	_____
Financial data as at	On-site exam commenced
_____	_____
AMOUNTS IN THOUSANDS OF DALASIS UNLESS OTHERWISE NOTED	On-site exam completed

TABLE OF CONTENTS

	Page
SCOPE OF EXAMINATION	ii
EXAMINER'S COMMENTS AND CONCLUSIONS	1
MONTH-END STATEMENT OF ASSETS AND LIABILITIES	2
MANAGEMENT/ADMINISTRATION	3
VIOLATIONS OF THE BANKING ACT, OTHER LAWS, AND REGULATIONS	3a
CAPITAL ADEQUACY	4
CAPITAL STRUCTURE	4a
ASSET QUALITY	5
SUMMARY OF CLASSIFIED AND NON-PERFORMING ASSETS	5a
EARNINGS	6
CONSOLIDATED REPORTS OF INCOME AND EARNINGS RATIOS	6a
LIQUIDITY/FUNDS MANAGEMENT	7
LIQUIDITY RATIOS & TRENDS, COMPLIANCE TO CBG REQUIREMENTS	7a
OTHER SUPERVISORY MATTERS	8
CLASSIFICATION OF ASSETS & RELATED INFORMATION ON ASSET QUAL.	9
ASSETS/ITEMS SUBJECT TO CLASSIFICATION	9a
CREDIT EXTENDED TO INSIDERS	9b
CONCENTRATIONS	9c
ADVANCES NOT SUPPORTED BY ADEQUATE DOCUMENTATION	9d
SIGNATURE OF DIRECTORS	10

57

SCOPE OF EXAMINATION

EXAMINER'S COMMENTS AND CONCLUSIONS

EXAMINER'S COMMENTS AND CONCLUSIONS (cont'd)

Examiner-in-charge

Senior Examiner, BSD

Manager, Banking Supervision

LIABILITIES:	AMOUNT:
1. Demand Deposits	_____
2. Savings Deposits	_____
3. Time Deposits	_____
4. Balances due to other Commercial Banks	_____
5. Balances due to Banks outside The Gambia	_____
6. Administered Funds:	
(a) Local Sources	_____
(b) External Sources	_____
7. Borrowing at Central Bank of The Gambia:	
8. Bills Payable:	
(a) Dalasi	_____
(b) Others	_____
9. Net due to own offices for items in transit	_____
10. Other Liabilities	_____
11. Provisions:	
(a) Bad Debts	_____
(b) Others	_____
12. Capital:	
(a) Paid-up	_____
(b) Statutory Reserves and Other Reserves	_____
(c) Previous Years Retained Profits (Losses)	_____
(d) Revaluation Reserves	_____
(e) Year-to-date Net Revenue/Expenditure	_____
TOTAL LIABILITIES AND CAPITAL	=====

61

MONTH-END STATEMENT OF ASSETS & LIABILITIES (continued)

ASSETS:	AMOUNT:
1. Notes, coins, and other cash assets:	
(a) Gambian Currency	_____
(b) Other Currencies	_____
(c) Other Cash Assets	_____
2. Balances with CBG:	_____
3. Balances due from other Commercial Banks in The Gambia:	_____
4. Balances due from Banks outside The Gambia:	_____
5. Gambian Government Securities:	
(a) Treasury Bills	_____
(b) Government Bonds Maturing within 5 yrs.	_____
(c) Others	_____
6. Central Bank of The Gambia Schemes:	
(a) Development Finance Fund	_____
(b) Others	_____
7. Advances and Discounts:	
(a) Loans	_____
(b) Overdrafts	_____
(c) Bills Discounted and Purchased	
i) Gambian Currency	_____
ii) Other Currencies	_____
(d) Administered Loans	_____
8. Investments	_____
(a) Short Term Deposits with Affiliates	_____
(b) Stocks and Shares	_____
(c) Others	_____

ASSETS CONTINUED ON FOLLOWING PAGE

MONTH-END STATEMENT OF ASSETS & LIABILITIES (continued)

ASSETS (cont'd)	AMOUNT
9. Bank Premises and other Fixed Assets:	
(a) Bank Premises	_____
(b) Staff Houses	_____
(c) Furniture and Equipment	_____
(d) Motor Vehicle and other Fixed Assets	_____
10. Net due from own offices in The Gambia for items in transit	_____
11. Other Assets	_____
TOTAL ASSETS	=====

OFF-BALANCE SHEET ITEMS

ITEM	AMOUNT
Letters of Credit	_____
Cash Margins (against letters of credit) (_____)	
Net exposure - letters of credit	_____
Acceptances	_____
Guarantees	_____
Unused Overdrafts and Other Firm Loan Commitments	_____
Foreign Exchange Future Contracts:	
Purchases	_____
Sales	_____

List below or on a following page any errors noted or adjustments made in the course of the examination to the return and comment, if applicable, to the accuracy of its preparation.

63

MANAGEMENT/ADMINISTRATION

Management is evaluated against all factors necessary to operate a bank in a safe and sound manner and thus protect depositors' funds in accordance with acceptable practices. The evaluation includes: a) performance with regard to the key financial factors of capital adequacy, asset quality, earnings, and liquidity; b) technical competence, leadership, and administrative ability; c) compliance with law and regulations; d) ability to plan and respond to changes in economic and other circumstances; e) effectiveness of management information systems and other internal controls; f) adequacy of and compliance to internal policies; g) responsiveness to recommendations from the Central Bank of The Gambia and external auditors; h) management depth and succession; and i) demonstrated willingness to meet the banking needs of its service area and/or The Gambia in general. In addition, consideration is given to the extent that management is affected by or susceptible to dominant influence, concentration of authority, and questionable practices regarding credit extended to insiders, defined as major shareholders, directors, and executive officers.

VIOLATIONS OF THE BANKING ACT, OTHER LAWS, AND REGULATIONS

59

MANAGEMENT/ADMINISTRATION (continued)

CAPITAL ADEQUACY

Capital adequacy is evaluated in relation to: Central Bank of The Gambia guidelines for bank capital; overall financial condition of the bank; level and trend of classified and/or non-performing assets; level and quality of off-balance-sheet items; balance sheet composition; growth experience and prospects; and the quality of management. In addition, consideration is given to retention of earnings in light of capital needs; reasonableness of dividends; access to new sources of capital and other potential sources of financial assistance; and plans for maintaining or improving capital and/or the correction of any capital deficiencies.

CAPITAL STRUCTURE

Date:

<u>Tier 1 Capital (Core Capital)</u>	<u>Amount</u>
Fully Paid-up Shares	_____
Surplus on Shares Issued	_____
Statutory Reserves	_____
Retained Profits from Prior Years	_____
Year-to-date Profit/Loss (Net) *	_____
Other Core Capital Elements (describe)	_____
Total Tier 1 Capital (Core Capital)	_____

<u>Tier 2 Capital (Supplementary Capital)</u>	
Asset Revaluation Reserves	_____
Unencumbered General Provisions (excludes specific prov.)	_____
Total Tier 2 Capital (Supplementary Capital)	_____

Total of Tier 1 and Tier 2 Capital =====

Risk-weighted assets and off-balance-sheet items

ASSET/ITEM	WEIGHTING	AMOUNT
Notes, coins, and other cash assets	0%	_____
Balances with the CBG	0%	_____
Obligations of the Gov. of The Gambia	0%	_____
Balances due from other banks	20%	_____
Advances and discounts	100%	_____
Investments	100%	_____
Bank premises and other assets	100%	_____
Documentary letters of credit (commercial)	20%	_____
Other letters of credit (performance bonds)	50%	_____
Guarantees and acceptances	100%	_____
Total risk-weighted assets/items		_____

Tier 1 (Core) Capital as a % of total risk-weighted _____ %

Total Capital (Tier 1 + Tier 2) as a % of risk-weighted _____ %

69

CAPITAL STRUCTURE (continued)

Date:

Capital structure adjusted for examination findings:

Classified assets (amounts are net of specific provisions):

<u>Classification</u>	<u>Total</u>	<u>Weighting</u>	<u>Weighted total</u>
Pass	_____	1%	_____
Substandard	_____	20%	_____
Doubtful	_____	50%	_____
Loss	_____	100%	_____

Weighted Average Classification Total _____

Less: Unencumbered General Provisions, if any (_____)

Adjustment to Capital for Examination Findings _____

Tier 1 (Core Capital) as per Page 4a _____

Less: Examination findings adjustment (_____)

Adjusted Core Capital _____

Adjusted Core Capital as a % of total risk-weighted _____ %

Adjusted Core Capital plus Tier 2 (Adjusted Total) _____

Adjusted Total Capital as a % of total risk-weighted _____ %

* NOTE: Year-to-date net profits is only to be included in core capital, if, in the examiner's judgement, the bank has made all proper closing entries for the interim year-to-date period, which should include: adequate provisions for bad debts, taxation, depreciation, and dividends declared. In all other cases, core capital will only include retained profits from prior years.

69

ASSET QUALITY

Asset quality is evaluated in relation to: the level, distribution, trend, and severity of adverse classifications; the level, trend, and severity of non-performing assets as defined for purposes of this report; the adequacy of provisions (general and/or specific); and management's demonstrated ability to identify, monitor, administer, and collect problem advances and other such assets. In addition, the quality of other assets, including investments, as well as the quality of off-balance-sheet items are assessed. Also considered are any undue degree of concentration of credits, investments, and other assets, the level and quality of insider credit extended, and the effectiveness of lending policies and credit administration procedures.

ASSET QUALITY (continued)

SUMMARY OF CLASSIFIED AND NON-PERFORMING ASSETS
(includes off-balance-sheet items)

Date:

Category	Classified Assets			Total
	Substandard	Doubtful	Loss	

Advances and discounts:
(by type from bank)

Subtotal: Advances

Other classified assets

Off-balance-sheet classif.

TOTAL CLASSIFICATIONS

Classifications,
prior exam

ASSET QUALITY RATIOS AND TRENDS

Examination Dates 19__ 19__ 19__

Total classifications to
Core capital (on Page 4a)

Weighted avg. classif. to
Core capital

Total classifications to
Total capital

Weighted avg. classif. to
Total capital

Non-performing advances to
Total advances

72

SUMMARY OF CLASSIFIED AND NON-PERFORMING ASSETS (continued)

Date:

NON-PERFORMING ADVANCES (as per definition given below)

Type of advance	Total Outstanding	Non-performing *	Percent
Loans			
Overdrafts			
Bills discounted			
Other (describe)			
TOTALS			

For the purposes of this examination, non-performing advances are defined as loans where principal or interest is due and unpaid for 90 days or more, including when interest payments equal to 90 days or more of interest has been capitalized, refinanced, rolled-over, or otherwise rewritten. Overdrafts are non-performing when for 90 days or more, they have: 1) exceeded limits; or 2) expired; or 3) had interest due and unpaid; or 4) credits (deposits) to the account have not exceeded capitalized interest. All other forms of advances are considered non-performing when in arrears for 90 days or more according to original terms. Where such non-performing data do not exist, so indicate and only show applicable amounts.

* Indicate what amounts of non-performing advances management has placed on a non-accrual basis and the reasons, if any, for not placing non-performing advances on non-accrual:

Examiner comments on the level & trend of non-performing advances, as applicable, should be attached:

See page 5a-(2) for schedule on provisions for bad debts.

SUMMARY OF CLASSIFIED AND NON-PERFORMING ASSETS (continued)

SCHEDULE OF PROVISIONS FOR BAD DEBTS:

(For the past two financial year-ends and year-to date)

General provisions (as applicable)

	19__	19__	19__
Beginning balance			
Transfers to the provision			
Write-offs against provis.			
Recoveries on write-offs			
Other entries (describe)			
Ending balance			

Specific provisions (as applicable)

	19__	19__	19__
Beginning balance			
Additional provisions made in the period			
Reductions in provisions due to improved status			
Amounts written-off against previous provisions			
Other entries (describe)			
Ending balance			

Examiner comments on the adequacy of provisions in relation to overall asset quality:

EARNINGS

Quantity and quality of earnings are first examined as to integrity and potential overstatement, especially with regard to interest accrual policies and adequacy of provisioning. Evaluation is in relation to: the ability to support present and future operations; coverage of losses and build-up of adequate capital; level and trend of profits; and quality with regard to composition of core earnings and recurring nature of profits. Consideration is also given to: the adequacy of provisions and needed transfers to such provisions; reliance on unusual or extraordinary items, security transactions or tax effects; and plans to correct any earnings deficiencies.

EARNINGS (continued)

CONSOLIDATED REPORTS OF INCOME AND EARNINGS RATIOS

FOR THE PERIODS ENDED

19__ 19__ 19__

Interest income
Interest expense
Net interest income
Provision for bad debts
Non-interest income
Non-interest expense
Extraordinary credits or
charges
Taxation
Net income (loss)
Cash dividends declared

EARNINGS RATIOS AND TRENDS

19__ 19__ 19__

Net income/Avg. total assets
Net interest income/
Average earning assets
Non-interest income/
Average total assets
Non-interest expense/
Average total assets
Provision expense/
Average total assets
Dividend payout ratio

LIQUIDITY/FUNDS MANAGEMENT

Liquidity and funds management are evaluated in relation to the overall effectiveness of asset and liability management. These areas are reviewed especially with regard to: proper maintenance of credit balances in CBG clearing account; compliance with CBG cash reserve requirement; compliance with CBG liquid asset requirement; and performance with regard to borrowings or special facilities granted by the CBG. Analysis takes into consideration: structure and stability of deposits; the degree and trend of reliance on borrowed funds, including CBG facilities; management of advances portfolio with regard to maintaining adequate liquidity levels; and the ability to raise liquidity quickly through asset conversion or access to funding facilities. In addition, consideration is given to the nature, volume, and anticipated use of commitments, including unused overdraft facilities, and the adequacy of and compliance to written internal liquidity and funding policies.

LIQUIDITY/FUNDS MANAGEMENT (continued)

LIQUIDITY RATIOS AND TRENDS, COMPLIANCE TO CBG REQUIREMENTS

RATIO	AS AT DATE		
	19__	19__	19__
Cash reserve requirement ratio			
Liquid asset requirement ratio			
Advances & discounts/Total deposits			
Short-term assets/Total assets			
Short-term assets/Total deposits			
Short-term assets/Deposits & borr.			

NOTE: For the purpose of these ratios, short-term assets are defined as notes, coin & other cash assets, balances with CBG, balances due from other commercial banks in The Gambia, and Gambian Government securities.

For the prior 12 month period or since the previous examination, comment on: proper maintenance of CBG clearing account; compliance with CBG cash reserve account; compliance with CBG liquidity requirements and performance with regard to any borrowings and/or special facilities from the CBG. Analysis should include: quantitative review as to number of periods of non-compliance with CBG requirements and/or overdrafts in clearing account; trend of such balances and compliance; and steps taken by bank management to improve liquidity position if needed.

OTHER SUPERVISORY MATTERS

Refer to the end of this set of questions for examiner comments on those with a negative response.

1. Is internal audit coverage afforded by the bank adequate in terms of scope, frequency, and independence? _____
2. Is external audit satisfactory with regard to thoroughness, independence, and timeliness? _____
3. Are weekly, monthly, and quarterly returns submitted to the CBG submitted in a timely and accurate manner? _____
4. Are adequate and written policies approved by the Board of Directors in place in key areas such as credit, investment, and liquidity (funds management)? _____
5. Is compliance with such internal policies considered satisfactory? _____
6. Does the Board of Director meet on a regular basis (at least bi-monthly) and are such meetings well attended? _____
7. Are internal controls relating to the bank's accounting methods and operating systems adequate? _____
8. Are all accounting practices acceptable, especially with regard to interest accrual and provisioning? _____
9. Is the bank's holdings of bank premises and other fixed assets considered reasonable in light of size, nature, of business, and overall financial condition? _____
10. Are non-interest expenses considered reasonable, esp. in the areas of executive salaries, directors' fees, premises and misc. costs? _____
11. Does the bank have an adequate policy regarding fraud and other criminal behavior and has it been communicated to all bank staff? _____
12. Has the bank properly reported all frauds and thefts to the proper authorities? _____
13. If the bank has any affiliate relationships, are such relationships free of adverse effects to the bank's overall financial condition? _____

OTHER SUPERVISORY MATTERS (continued)

Explanation and examiner comments on questions answered with a negative response:

CLASSIFICATION OF ASSETS & RELATED INFORMATION ON ASSET QUALITY

Assets and off-balance-sheet items adversely classified on the following pages are done in accordance with the following definitions adopted by the Central Bank of The Gambia in its supervisory role.

Substandard. Substandard assets display well-defined credit weaknesses that jeopardize the liquidation of the debt. With such assets, the primary source of repayment is insufficient to service the debt, and the bank must look to secondary sources (such as collateral, the sale of a fixed asset, refinancing, or fresh capital) for repayment. Substandard assets are not protected by the current sound worth and paying capacity of the obligor. They also represent assets which carry more than a normal degree of risk due to the absence of current and satisfactory financial information or inadequate collateral documentation.

Non-performing assets which are at least 180 days in arrears may also be classified substandard.

Substandard assets are normally accorded a provision of 20% of the total balance outstanding.

Doubtful. Doubtful assets exhibit all the weaknesses inherent in assets classified substandard with the added characteristic that the assets are not well secured. These weaknesses make collection in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined.

Non-performing assets which are at least 1 year in arrears may also be classified doubtful.

Doubtful assets are normally accorded a provision of 50% of the total balance outstanding.

Loss. Assets classified as loss are considered uncollectible and of such little value that their continuation as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but banks should not retain such assets on their books while attempting such recovery.

Non-performing assets which are at least 2 years in arrears may also be classified loss.

Loss assets are normally accorded a 100% provision with subsequent removal (charge-off) from the balance sheet with crediting the asset and debiting provision for bad debts; accrued but uncollected interest on assets classified as loss is to be reversed from the income statement. Assets other than advances classified as loss should be written off by charging (debiting) other operating expense and crediting the asset balance.

ASSETS/ITEMS SUBJECT TO CLASSIFICATION

Name of borrower	Amount Outstanding	Substandard	Doubtful	Loss
-------------------------	-------------------------------	--------------------	-----------------	-------------

ASSETS/ITEMS SUBJECT TO CLASSIFICATION (continued)

Name of borrower	Amount Outstanding	Substandard	Doubtful	Loss
------------------	-----------------------	-------------	----------	------

6

CREDIT EXTENDED TO INSIDERS

Listed below are extensions of credit to insiders, defined as major shareholders (5% or more of voting shares), directors, executive officers, and the interests of each. Comments are to include any security, performance (satisfactory or in arrears), and classification if applicable.

Name of insider or interest	Type of Facility	Amount Outstand.	Comments
--------------------------------	---------------------	---------------------	----------

96

CREDIT EXTENDED TO INSIDERS (continued)

Name of insider or interest	Type of Facility	Amount Outstand.	Comments
--	-----------------------------	-----------------------------	-----------------

Comment on the appropriateness or reasonableness of credit extended to insiders taking into consideration: any violations of law or regulations; volume and trend of such credit in relation to size of bank and total advances portfolio; performance of such credit with regard to payment record and time periods out of debt; adequacy of security; credit granting procedures ensuring that credit standards are not lowered for insiders; and the existence, if any, of preferential terms with regard to interest rates and/or repayment schedules.

CONCENTRATIONS

Shown below are obligations, direct or indirect, of the same group, entity, or affiliated interests which represent 25 percent or more of a bank's core capital or, in the examiner's judgement, are felt to be concentrations. This listing includes all loans, overdrafts, other types of advances, leases, investments, securities, cash items, accounts receivable, due from accounts, letters of credit, acceptances, and guarantees. Indirect obligations include all co-signed notes, endorsements, and guarantees provided. Where appropriate, concentrations of industry, product line, and type of collateral are also shown.

Description and comments	Type of Facility	Amount Outstanding	% of Core Cap
--------------------------	------------------	--------------------	---------------



CONCENTRATIONS (continued)

Description and comments	Type of Facility	Amount Outstanding	% of Core Cap
---------------------------------	-------------------------	---------------------------	----------------------

59

ADVANCES NOT SUPPORTED BY ADEQUATE DOCUMENTATION

State below the general quality and adequacy of bank documentation, recordkeeping, and Management Information Systems (MIS) with regard to the advances portfolio. Comments may include observations on the adequacy of appraisals, borrowing authorizations, insurance, assignment of security, and recent financial statements as noted in review of bank files. As appropriate, specific credits may be listed to support adverse observations. Also comment on the effectiveness of records with regard to advances, especially with regard to accuracy of information, ease of use, and the ability to determine aggregate credit exposure of a single borrower or related group of borrowers. In addition, comment on the bank's MIS system with particular regard to management reports on large and/or problem credits, and make recommendations for improvement as applicable.

SIGNATURE OF DIRECTORS

We the undersigned directors, or duly authorized officers have personally reviewed the contents of this report of examination.

Name of bank

Date of examination

Signature of directors

Date

NOTE: This original form should remain attached to the report of examination and be retained in bank files for review during subsequent examinations. A copy of this form should be made after all directors have signed and be returned to the Manager of Banking Supervision, The Central Bank of The Gambia.

41

Organizational Chart 1.

Central Bank Of The Gambia Present Corporate Structure

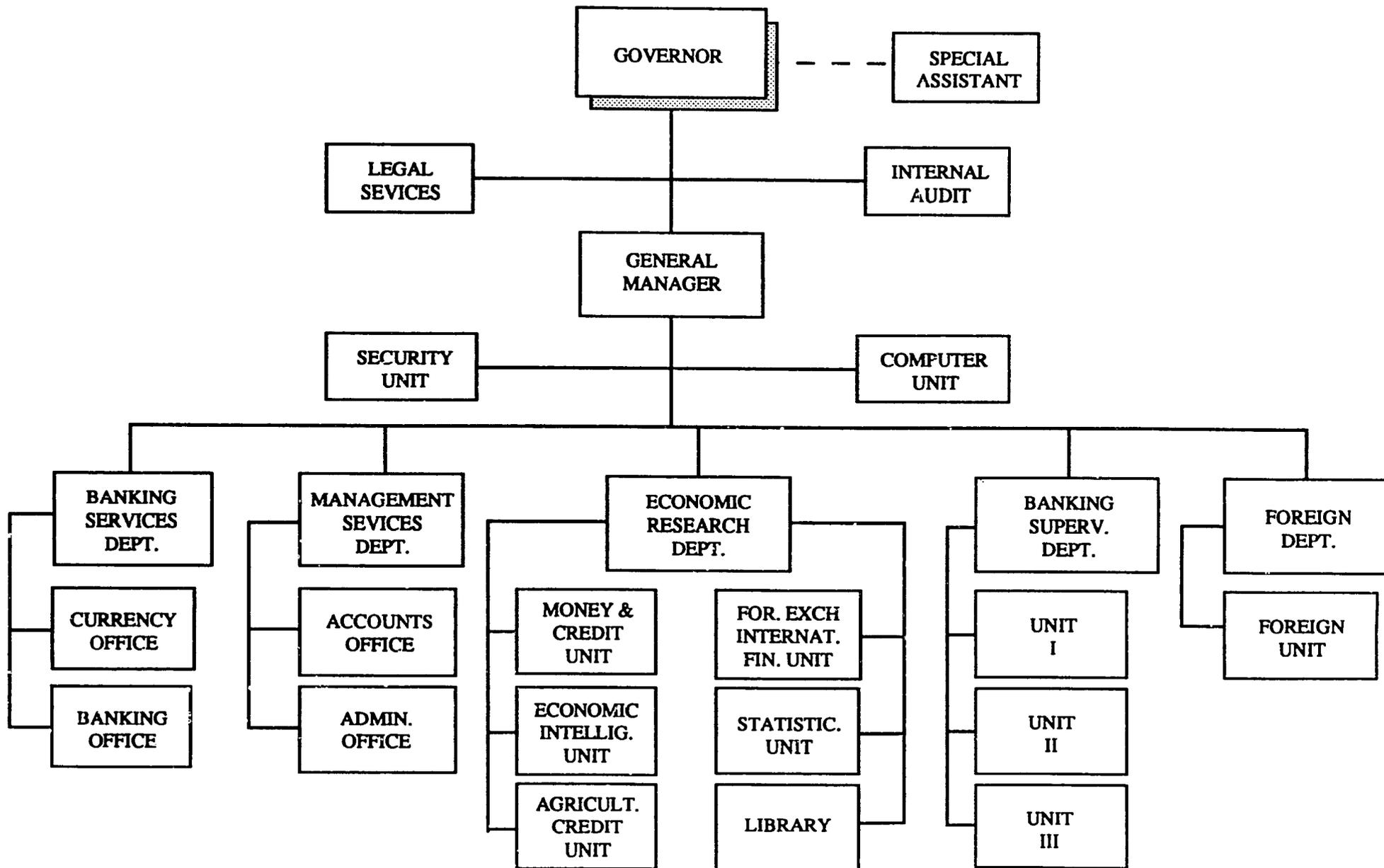
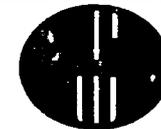
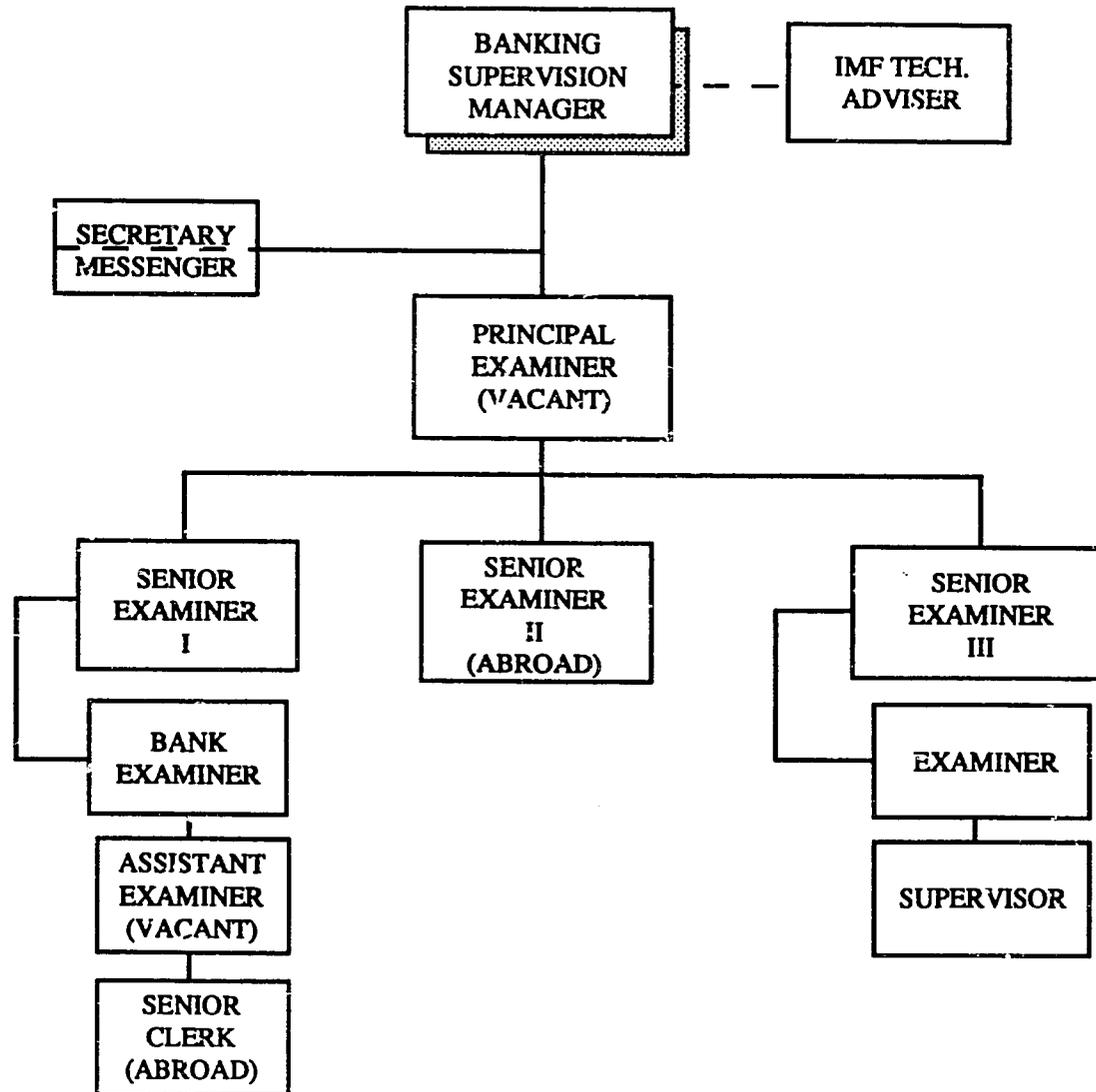
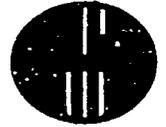


CHART I

Organizational Chart 2.

Central Bank Of The Gambia
Banking Supervision Department
Organizational Structure



Organizational Chart 3.

Central Bank Of The Gambia
Banking Supervision Department
Proposed Structure

