XD-ABC-124-A

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: 1

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: The Gambia

3. PROJECT NUMBER: 635-0231

4. BUREAU/OFFICE: AFR — 06

5. PROJECT TITLE (maximum 40 characters): Economic Policy Reform Support

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

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

A. Initial FY 87 — B. Quarter 4 — C. Final FY 90

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

A. FUNDING SOURCE	FIRST FY 87: B. FX	C. L/C	D. Total	LIFE OF PROJECT: E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(276)	( )	(276)	(1,850)	( )	(1,850)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS	276		276	1,850		1,850

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) SDP	910	930		636				850	-
(2) DFA	910	930				1,000		1,000	
(3)									
(4)									
TOTALS				636		1,000		1,850	

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

11. SECONDARY PURPOSE CODE

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

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To provide technical assistance complementary to The Gambia's economic policy reform efforts in the financial sector, contributing to the overall purpose of creating a financial and institutional environment which promotes greater market access for private entrepreneurs.

14. SCHEDULED EVALUATIONS

Interim MM YY 07 89 | MM YY | Final MM YY 03 92

15. SOURCE/ORIGIN OF GOODS AND SERVICES

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

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

17. APPROVED BY

Signature: [signature]

Title: J. M. Stone, AID Representative

Date Signed: MM DD YY 08 18 89

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

AID 1330-4 (8-79)

8

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

PROJECT AUTHORIZATION AMENDMENT

Name of Country:	The Gambia
Name of Project:	Economic Policy Reform Support
Number of Project:	635-0231

1. Pursuant to Section 121 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Economic Policy Reform Support Project for The Gambia ("Cooperating Country"), involving planned obligations of not to exceed one million United States dollars (US $1,000,000) in grant funds ("Grant"), subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange costs of goods and services required for the project. This will bring the total life of project funding level up to $1,850,000 and the Project Assistance Completion Date to December 31, 1992.

2. The project ("Project") consists of technical assistance activities required to implement and support the African Economic Policy Reform Program (AEPRP) for The Gambia. It, therefore, contributes to the overall purpose of creating a financial and institutional environment which encourages and promotes greater and more equitable access to markets for private entrepreneurs.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

9'

a. <u>Source and Origin of Commodities, Nationality of Services</u>

Commodities financed by A.I.D. under the Grant shall have their source and origin in the Cooperating Country or in countries which are included in A.I.D. Geographic Code 935, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the Cooperating Country and countries which are included in A.I.D. Geographic Code 935 as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall be financed only on flag vessels of the United States, except as A.I.D. may otherwise agree in writing.

Walter Bollinger
Acting Assistant Administrator
Bureau for Africa

Date

Clearances:
As shown on Action Memorandum

ABBREVIATIONS

AEPRP	African Economic Policy Reform Program
ADB	African Development Bank
AID	Agency for International Development
BICI	International Bank for Commerce and Industry
BOP	Balance of Payments
CBG	Central Bank of The Gambia
DFA	Development Fund for Africa
EEC	European Economic Community
EPRS	Economic Policy Reform Support Project
ERP	Economic Recovery Program
ESF	Economic Support Fund
GCDB	Gambia Commercial and Development Bank
GCU	Gambia Cooperative Union
GDP	Gross Domestic Product
GNP	Gross National Product
GOTG	Government of The Gambia
GPMB	Gambia Produce Marketing Board
IBRD	International Bank for Reconstruction and Development (World Bank)
IMF	International Monetary Fund
MOFT	Ministry of Finance and Trade
PACD	Project Assistance Completion Date
USAID/Banjul	U.S. Agency for International Development/Banjul
ODA	Overseas Development Administration (UK)
SCB	Standard Chartered Bank Ltd. of The Gambia
SOE(s)	State-Owned Enterprise(s)

11

TABLE OF CONTENTS

ii

EXCHANGE RATES

(AUGUST, 1989)

$1.00 = 7.50 Dalasis

$1.25 = 1.00 SDR (Special Drawing Rights)

GOTG FISCAL YEAR

July 1 - June 30

I. EXECUTIVE SUMMARY

A. The Request

The Government of The Gambia (GOTG) has requested that AID increase its assistance to the financial sector which is being provided under The Gambia's African Economic Policy Reform Program (AEPRP) (635-0228), and The Gambia's Economic Policy Reform Support (EPRS) project (635-0231). This increase in assistance is needed to help the GOTG create a more stable and efficient financial system. USAID/Banjul is proposing a two-year extension of the AEPRP, from a PACD of December 31, 1990, to December 31, 1992, with an increase in funding of $6.0 million. Five million dollars in Development Fund for Africa (DFA) monies will be in the form of a program grant to assist GOTG efforts to strengthen the financial sector, making it more stable, efficient and competitive. The remaining one million dollars will help fund a two-year extension of the complementary EPRS project to ensure that the technical assistance component of this program achieves its objectives.

B. Goal and Purpose

The goal of the AEPRP for The Gambia remains the same: to help create a more stable and efficient financial system. The purpose of the AEPRP also remains unchanged: to support GOTG efforts to create a financial policy and institutional environment which encourages and promotes greater and more equitable access to markets for private entrepreneurs. The strategy to achieve this goal involves strengthening the management and the financial situation of the Gambia Commercial and Development Bank (GCDB) in order to reorganize, restructure and recapitalize it so that it may become a viable private bank.

C. The Problem

The GOTG has just completed the fourth year of its comprehensive and successful Economic Recovery Program (ERP). This program has had the support of the IMF, the IBRD, other multilateral donors (e.g. the EEC and the ADB), and some bilateral donors, especially the UK and AID. One of the primary objectives of the ERP has been to reduce the unproductive absorption of resources by state-owned enterprises (SOEs) while simultaneously increasing the range of productive activities which the private sector can undertake. During the second year of the ERP, it became evident that constraints in the financial sector, particularly unsound financial policies and practices as well as financial mismanagement at the Gambia Commercial and Development Bank (GCDB) and the Gambia Cooperatives Union (GCU), were inhibiting the success of other sectoral initiatives. Therefore, acting on a request from the GOTG, USAID/Banjul designed an AEPRP to support financial sector reform. After

14

two disbursements under the AEPRP, the GOTG has requested an extension of the program in order to effect additional reforms at the institutional level. That is, the GOTG is seeking to restructure and privatize the GCDB. Because of its size and the prominent position which the GCDB occupies in the financial sector, strengthening the GCDB will ultimately strengthen the whole financial sector, make it more competitive and efficient, and increase opportunities for private investment.

The justification for an amendment to the current AEPRP rather than a new program is that the proposed activity represents a continuation of ongoing activities. The AEPRP strategy was to influence lending policies in the entire financial sector while the amendment is directed at strengthening the GCDB with the ultimate objective of privatizing it. A major obstacle to the efficient functioning of the financial sector has been the poor performance of the GCDB, the most important financial institution from the standpoint of deposits and loans outstanding. The original AEPRP conditionality was directed at financial sector policies and practices which discriminated against private entrepreneurs and which led to mismanagement and waste of scarce resources at the GCDB through its public sector clientele, especially the GCU. The proposed amendment takes this process one step further by making changes in the management, operations and capital structure of the GCDB in order to strengthen it financially and managerially and to prepare it for privatization. Privatizing the GCDB will increase competition in the financial sector and lead to greater efficiency and lower costs for private entrepreneurs utilizing financial services in the formal sector.

D. Policy Reforms

The AEPRP extension will consist of a $5.0 million program grant to be disbursed as a cash transfer in two tranches to the GOTG. The cash transfer will be released in two $2.5 million tranches as the GOTG implements several measure to strengthen the financial situation of the GCDB and prepare it for privatization. This includes:

(1) continuing action to recover the non-performing loans at the GCDB;

(2) continuing action to strengthen the GCDB's management and operations, including recapitalization of the bank; and,

(3) implementing a plan and schedule for the privatization of the GCDB.

The five million US Dollars which will be disbursed as a cash transfer to the GOTG will be deposited in the GOTG AEPRP account at the Federal Reserve Bank of New York. The funds will help The Gambia build up its foreign exchange reserves. The release of the US Dollars will be matched by GOTG contributions of local currency (Dalasis) which will be

15

utilized to recapitalize the GCDB, cover its operating costs and prepare it for privatization.

The remaining one million dollars will be managed by USAID/Banjul and disbursed through PIO/Ts, PIO/Ps and PIO/Cs for technical assistance, training and equipment (e.g. computers) needed to strengthen the management of the GCDB and to prepare it for privatization. To date, the Mission has utilized $850,000 under the EPRS project to contract for three long-term banking experts to provide technical assistance to the GCDB for two years. However, even that is an insufficient amount to fully fund the three banking experts for two years. Hence, an additional $1 million is needed to: (1) fully fund the three long-term banking experts; (2) fund approximately 50 months of short-term technical assistance; (3) fund both in country and short-term training in the US for the GCDB staff; and (4) provide computers and additional commodities to facilitate the bank's reorganization and restructuring.

E. Impact

Over the long term, the continued implementation of the AEPRP will sustain and strengthen stability, equitable practices, efficiency and competition in the financial sector. The reorganization, restructuring and recapitalization of the GCDB will be done in order to make possible its privatization, which should increase competition in the financial sector. This will be done by closing off public sector access to easy, subsidized credit and lowering the costs of funds by eliminating the de facto rationing of credit in favor of public sector institutions. These measures should broaden the access of the private sector to financial resources and reduce their cost. Moreover, the recapitalization of the GCDB and improvements in its policies and practices which will take place under this program and after its privatization, will ensure the funds which many Gambians have on deposit at the GCDB remain secure. This will maintain depositers' confidence in the GCDB and support the GOTG objective of mobilizing more financial resources domestically. Indeed, the bulk of the GCDB's business is with depositers and borrowers who are not served by the other private banks. The majority of these Gambians have modest savings and modest loan demands. Hence, by strengthening and privatizing the GCDB, the AEPRP amendment will help ensure that a broader spectrum of Gambians will have access to formal sector financial services at more reasonable cost.

F. Recommendation

USAID/Banjul recommends that the Assistant Administrator for Africa approve this request for an extension of AEPRP assistance to The Gambia and an increase in the life of program funding of $6.0 million.

II. BACKGROUND

The Republic of The Gambia, a small country situated on the coast of West Africa, has one of the highest population densities in Africa. Its area of 11,295 square kilometers, inhabited by some 800,000 people (1988), forms an enclave within Senegal stretching about 350 kilometers up both sides of The Gambia River. The width of the country varies from 26 to 48 kilometers, making the river the principal geographic feature. With a Gross National Product (GNP) per capita of $240 (1988), The Gambia is also one of the poorest countries in the world.

The economy of The Gambia has undergone significant changes during the past four years as the result of the implementation of an Economic Recovery Program (ERP). While the vast majority of the workforce (70 percent) is still employed in agriculture, the agricultural sector share of the Gross Domestic Product (GDP) has declined from 40 percent (1985) to only 28 percent (1988), whereas the services sector share of GDP, driven by the rapid rise in commerce, has increased dramatically. Agricultural sector activities include groundnut farming (8 percent of GDP), cereal, fruit and vegetable farming (9 percent of GDP), livestock (8 percent of GDP) and fishing (2 percent of GDP). Local production provides only about 70 percent of the population's food requirements with about 50,000 tons of commercial food imports required annually. Industrial activity is also limited with 9 percent of the labor force producing about 10 percent of the GDP in that sector.

The Gambia depends heavily upon trade and has an active commercial sector. All fuel and capital goods, most manufactured items and a significant amount of food must be imported. Because of its location astride the Gambia River, its open borders and low tariff structure, The Gambia has become an active entrepot for trade with the rest of the region and the re-export trade has grown into a major economic activity. Indeed, wholesale and retail trade contributes fully 26 percent of GDP and its expansion has contributed to the growth of the whole services sector. With only 21 percent of the workforce, the services sector currently contributes 62 percent of GDP.

Since the start of the ERP in 1985, the re-export trade has become one of the most dynamic economic activities, expanding to meet the strong regional demand for goods. The importance of the re-export trade to the economy is illustrated by examining the BOP for FY 1988. In that year, total domestically produced exports had a value of 12.1 million SDRs, with groundnuts comprising 81 percent at 9.8 million SDRs. However, total exports (including re-exports) were 57.4 million SDRs, with re-exports having a value of 45.3 million SDRs, fully 79 percent of the value of all exports. Moreover, when imported these commodities were worth about 25.9 million SDRs. Thus, approximately 19.4 million SDRs, or 43 percent of their re-export value, represents value added by GOTG duty, local handling and storage costs and profits.

17

With no known important mineral or natural resources, except its river and tourist beaches, The Gambia is heavily dependent on the foreign exchange earned from agricultural exports and the re-export trade for the importation of essential goods and services. From its independence in 1965 through the mid-1970s, The Gambia maintained a broad BOP equilibrium and achieved impressive rates of real economic growth. However, the economy deteriorated in the late 1970s and by the early 1980s The Gambia faced a severe BOP crisis caused by both internal and external factors. By January 1985, foreign exchange reserves were exhausted and the GOTG had accumulated an enormous external debt and budget deficit which undermined its development efforts. To address this crisis, the GOTG launched a comprehensive structural adjustment effort known as the Economic Recovery Program (ERP).

A. The Gambia's Economic Recovery Program (ERP)

Through its ERP, which began in June, 1985, the GOTG has halted the deterioration of the economy and begun the process of economic recovery. The implementation of a series of mutually reinforcing and complementary policy reforms, combined with favorable weather and heavy donor support, has led to three consecutive years of economic growth. Among the most effective policy reforms of the ERP has been the flexible exchange rate system. It closed the gap between the official bank rate and the parallel market rate for foreign exchange and, combined with a liberal interest rate policy, restored private business confidence in the banking system and led to a flow of hard currency into the banks. The GOTG also expanded its liberal trade policies by ending SOE monopolies over the rice and fertilizer trades, and by ending subsidies and retail price controls. These policies restored competition in the economy and encouraged the private sector to expand its activities. Moreover, the GOTG embarked on a comprehensive public sector reform program designed to reduce the role of government in the economy and give impetus to private enterprise. The Civil Service was dramatically reduced and has been reorganized; SOEs are being put under performance contracts based on commercial standards of operation; and the assets and operations of some SOEs are being divested and privatized. Indeed, the GOTG recently gave its commitment to privatize the Gambia Produce Marketing Board (GPMB), the largest SOE in the nation and, as a result of the AEPRP, the GOTG has committed itself to the privatization of the commercial operations of the GCDB.

These successful policies helped The Gambia achieve a real GDP growth rate of 5.5 percent per annum from FY 1986 through FY 1988. For 1988, The Gambia's GDP reached 1257.8 million Dalasis (about $182.5 million) in nominal terms, which is about $150 per capita. During 1988 agricultural production increased for the third consecutive year, tourism continued to grow, construction activity expanded, the range of financial services broadened, and wholesale and retail trading activity rose, all of which increased incomes. As a result, there was a 2 percent increase in GDP per capita, the third consecutive year of real growth in per capita incomes. According to GOTG statistics, the sharpest increase in incomes occurred in rural areas where, after years of poor harvests, low producer prices and neglect of agriculture in the national development effort, incomes rose by a total of 15 percent per worker during the FY 1986-88 period.

By redirecting growth in incomes to the poor, rural members of Gambian society, the ERP has been one of the most potent forces for development in the nation since Independence. Prudent monetary and fiscal policies have also brought inflation down. By June, 1989, inflation was running at an annual rate of 7.7 percent, well on track to the 1990 target of 5.0 percent per annum. In addition, the GOTG continues to reduce its budget deficit (excluding grants), lowering it from 21.9 percent of GDP in FY 1986 to a projected 6.0 percent in FY 1989. These statistics indicate that a strong foundation for economic growth has been put in place. However, part of that foundation still rests heavily on official development assistance. Therefore, it is important that the GOTG continue to take appropriate steps to strengthen its own revenue base so that its dependence on foreign assistance can be reduced to more normal levels. One obvious way this can be achieved is to ensure that unpaid customs duties are collected.

A sine qua non for the continuation of the ERP is that The Gambia's external arrears be retired as soon as possible. By FY 1991 that task, involving total repayments of about $114 million, is scheduled to be complete. The debt management program implicit in Annex B is predicated upon strong growth in the volume of Gambian exports and slow growth in import prices. That is, with a rise in exports, there will be strong growth in GOTG revenues. This will have a favorable impact on the volume of official foreign exchange reserves which will enable the nation to repay its external arrears. However, this assumes that all revenue from import duties is collected. Recent investigations by the MOFT of the Customs Department indicate that customs revenue, while up in FY 1988 over FY 1985 levels, is below what it actually should be. The results of two separate investigations have revealed a minimum of 70 million Dalasis (about $9.3 million) in unpaid duties, which the GOTG is now collecting by taking action against the guilty importers.

The Gambia's most severe macroeconomic constraints are the large current account deficit, an enormous external public debt and debt service requirements, and chronic budget deficits (excluding grants). The Gambia's current account deficit in June, 1988, was estimated at $41.5 million, or about 24 percent of GDP (see Annex B). The total external public debt stands at about $355.6 million and, while not large when compared to other LDC national debts, as a proportion of GDP it is an enormous 185 percent. Moreover, debt servicing requires about 128 percent of domestic merchandise export earnings, or 49 percent of total export earnings. Total external arrears, while falling as a result of intensive GOTG repayment efforts, still stand at $32.5 million, and they will not be completely eliminated until FY 1991 and then only if The Gambia meets all the IMF performance criteria and receives all of the aid for which it is programmed. Similarly, while the GOTG has made commendable efforts to reduce its budget deficit (excluding grants) to only 6.0 percent of GDP for FY 1989, the gap is still significant, being 82 million Dalasis (about $10.9 million).

One important institutional constraint on the economy is that inefficient public enterprises still dominate certain areas and activities of the formal sector. The financial sector, in particular, has been weakened by the past poor performance of the GCDB in loan recovery and the accumulation of debts by the GCU at the GCDB. While reforms are underway at the SOEs, it will be some time before competent management and sound business practices become the norm.

Both the two private banks and the GCDB have been very conservative in promoting and funding productive investment during the past two years. The prevailing high interest rates (24-28 percent) militate against term lending by reducing private sector demand for term loans. The residual demand is met for the most part from overseas sources where interest rates are lower while Gambian banks have been lending for secure, short-term commercial purposes. Excess bank reserves are used to purchase high-yielding Treasury bills. Overall net domestic savings have increased, which is primarily reflected in the declining GOTG budget deficit. The challenge facing The Gambia is to devise policies and to support institutions which will diversify the financial markets and encourage long-term private investment, thus increasing opportunities for both savers and borrowers.

B. History of The Gambia's AEPRP

While the economy responded well to the initial GOTG ERP policy changes, by late 1986 it was apparent that additional measures and resources were needed to promote full recovery and return the economy to a sustainable growth path. In particular, despite the implementation of an interbank market and floating exchange rate, there was a shortage of foreign exchange which limited the importation of inputs needed to increase production; high real interest rates which were necessary to prevent capital outflows also discouraged entrepreneurs from making the investments necessary to diversify the productive base of the economy; and the CBG lacked the foreign exchange reserves to counteract those diverse trends. Moreover, the dissipation of scarce government financial resources caused by inequitable and inefficient practices at public financial institutions undermined the stability of the financial system. These abuses were most apparent at the GCU and at the GCDB.

Consequently, in early 1987, the Minister of Finance and Trade requested that AID assist the GOTG in its efforts to end the dissipation of scarce financial resources through the GCU and the GCDB, to support changes in financial practices and policies, and to help move the financial sector towards a situation of market-determined resource allocation. Acting on this request from the Minister of Finance and Trade, USAID/Banjul and the GOTG designed a $6.0 million ESF-funded African Economic Policy Reform Program (AEPRP) for The Gambia in 1987. This program was approved in June, 1987. Simultaneously, a complementary technical assistance project, the Economic Policy Reform Support (EPRS) project, was approved, with funding to come from both the Sahel Development Fund and the DFA for a total amount of $850,000. A Program Grant Agreement for the AEPRP and a Complementary Program Agreement for the EPRS were signed in September, 1987.

The goal of The Gambia's AEPRP is to help create a more stable and efficient financial system to which access is more equitable. The AEPRP purpose is to support GOTG efforts to create a financial policy and institutional environment which encourages and promotes greater and more equitable access to markets for private entrepreneurs. To accomplish this objective, the GOTG is committed to the implementation of policy reforms which remove the inequities and constraints identified in the original PAAD analysis of the financial sector. As the policy reforms are executed and the conditions precedent for each respective tranche are met, AID has been providing $2.0 million in three tranches for BOP support to pay specific external debts. No local currency or counterpart funds have been generated by the AEPRP grant or the EPRS project. However, the net effect of providing foreign exchange to help pay The Gambia's external debts was expected to be an increase in the CBG's foreign exchange reserves. This would help strengthen confidence in the floating Dalasi, maintain stability in the exchange rate and moderate inflation which would, in turn, reinforce the effects of the policy reforms being undertaken in the financial sector.

The AEPRP was designed to bring stability and efficiency to the financial system by ensuring that the GCDB and the GCU operated by the same rules as other institutions. However, it was recognized that these reforms alone might not be enough to improve the operations of the GCDB. Indeed, it was not the strategy of the AEPRP to rehabilitate or to strengthen the GCDB; rather, the program approach was to eliminate subsidies and other distortions and to expose these institutions to competitive market forces. This was in line with AID policy regarding privatization: "AID assistance to or through a parastatal (corporation) should be given in the context of exposing the parastatal to market forces and scheduled divestiture of the government interest. . . .AID projects designed to improve parastatal performance must have identifiable benchmarks upon which substantive progress towards divestiture can be measured." (ref: AID Policy Determination #14: Implementing AID Privatization Objectives, June 16, 1986.)

The EPRS project was designed to provide complementary technical assistance to assist USAID/Banjul manage the AEPRP and to assist the GOTG in the development of appropriate policies for agricultural credit, term lending and development lending, and to assist the GOTG to develop work plans for implementing the recommended policies.

The GOTG met the conditions precedent for the first disbursement of funds under the AEPRP on March 3, 1988. Consequently, AID disbursed $2.0 million into the GOTG account at the Federal Reserve Bank of New York which is held in the name of the CBG. All of the AEPRP funds were used to meet The Gambia's obligations with the IMF which fell due between April 29, 1988 and May 29, 1988, in conformity with the list of eligible debts stipulated in the Program Grant Agreement. Hence, the cash grant was instrumental in providing the GOTG with the foreign exchange it needed to discharge its external debt on time.

The conditions precedent which the GOTG met to secure the release of the first tranche involved implementing policies to create equitable access to agricultural credit and marketing for both private traders and parastatal entities. Specifically, the GOTG agreed that:

(1) No public or private enterprise or individual would be permitted to borrow from official sources at less than market-determined interest rates;

(2) The GCDB and any other public sector financial institution would not be requested, instructed nor permitted to grant preferential access to credit;

(3) In the matter of agricultural marketing, in particular for produce buying, it shall ensure that the same levels of remuneration are provided to all public and private buyers;

(4) It would identify and define all capital guarantees or operating subsidies being provided to public enterprises by Government, determine their magnitude, and identify those which are in the national interest;

(5) It would develop in consultation with AID, its policy options for (a) term lending at market interest rates; (b) agricultural credit; and (c) development lending; and,

(6) It would provide AID with a comprehensive list of eligible debts for which payment would be made from the proceeds of the first tranche.

The implementation of these policy measures had beneficial effects on agricultural marketing and the financial institutions associated with agricultural credit. As a result of the first two policy measures noted above, the GCU no longer had preferential access to credit at the GCDB at a rate lower than that paid by private buyers of groundnuts. In addition, as a result of the third policy reform noted above, both private traders and the GCU were paid the same buying allowance by the

22

GPMB. This effectively brought more equitable terms of competition to agricultural marketing. At the same time, the GOTG defined the magnitude of the losses being incurred at the GCDB because of GCU loan repayment delinquency.

On January 31, 1989, the GOTG met the conditions precedent for the disbursement of the second tranche of $2.0 million under the AEPRP. These conditions were that the GOTG:

(1) Decide upon its proposed policies for (a) term lending at market interest rates; (b) agricultural credit; and (c) development lending, and compose semi-annual work plans indicating the steps involved in implementing these policies;

(2) Agree that any type of capital guarantee or operating subsidy being provided to SOEs in the national interest be fully calculated and the costs thereof provided for in a timely fashion through budgetary allocations; and,

(3) Provide a comprehensive list of eligible debts for which payment would be made from the proceeds of the second tranche.

The GOTG has been adhering to a policy of making term lending available through the GCDB only at market-determined rates; agricultural credit is available only at market-determined rates; and development loans are also being made at market-determined interest rates. Under the various performance contracts which the GOTG has signed with SOEs, any operating subsidies for those SOEs which are in the national interest are explicitly incorporated into the Government budget. Similarly, any capital guarantees made by the GOTG are covered under an agreement with the IBRD. In view of the continuity of the GOTG's policies and its adherence to free market oriented policies under its ERP, there was no need for semi-annual work plans. Consequently, USAID/Banjul authorized, and REDSO/WCA concurred in, the disbursement of the second tranche of $2.0 million in BOP support. The funds have been transferred to the GOTG account at the Federal Reserve Bank of New York, from where they will be disbursed to discharge The Gambia's external debt obligations.

The EPRS project was to provide technical assistance to help USAID/Banjul with the management of the AEPRP and to assist the GOTG develop the options for its credit policies. However, the technical assistance was delayed because during the protracted contracting process, AID/W discovered some financial and administrative problems with the 8a firm selected to provide the assistance. As a result, both USAID/Banjul and the GOTG had to make alternate arrangements. The Mission utilized the Program Officer and a PSC Program Analyst to manage the AEPRP while the GOTG relied on other AID-funded technicians to provide policy advice on matters pertaining to the AEPRP conditions precedent.

23

Ultimately, events in the financial sector overtook the pace of reform which was originally envisioned under the AEPRP. During early 1988, the Minister of Finance and Trade initiated an investigation of the management practices and policies at the GCDB. The diagnostic study of the GCDB was conducted by Robert R. Nathan Associates in collaboration with Citibank and funded by the World Bank. The report, issued in June, 1988, recommended sweeping changes in the organization, administration and management of the GCDB. Based on the findings and recommendations of that report, in October, 1988, the top four managers at the GCDB were relieved of their duties and an Acting Managing Director was appointed. Subsequently, in November, 1988, the Minister of Finance and Trade approached the donors for assistance to implement all the recommendations of the GCDB report (see Annex C). Specifically, the British, through the Overseas Development Administration (ODA), were asked to provide and fund a long-term Managing Director to oversee the reorganization and restructuring of the GCDB, and AID was requested to provide and fund several long-term banking experts to assist with the operation and reorganization of the specific departments within the GCDB. The objective of the reorganization and restructuring of the GCDB is to prepare it for privatization.

In December, 1988, USAID/Banjul received approval from REDSO/WCA and AID/W to make the necessary changes in the EPRS project Complementary Program Agreement to fund three banking experts. This technical assistance is to help prepare the GCDB for privatization. It is expected that a minimum of two years of technical assistance will be needed to reorganize the GCDB, make improvements in its policies and practices, and train Gambian counterparts to take over new management responsibilities. Recruitment of these banking experts is underway. Therefore, an extension of the EPRS project from its current PACD of December 31, 1990 to December 31, 1992 is needed. Moreover, additional funding of $1,000,000 is requested to fully fund the cost of the training and technical assistance to facilitate the privatization of the GCDB.

C. <u>Results of the Mid-Term Evaluation</u>

The mid-term evaluation was conducted by a REDSO/WCA economist approximately six weeks after the second disbursement had been made or twenty months after the program began. The evaluation's purpose was to examine the performance of the GOTG in complying with the conditions precedent, to assess the role of the technical assistance, to gauge the progress made towards achieving the program goal and purpose and to analyze the economic impact of the program.

The GOTG has complied successfully with all the terms and conditions of the program up to the present. The only possible shortcomings which were considered were in the GOTG designing new policies for agricultural credit, term lending and development lending, and in the identification of and the calculation of the magnitude of all capital guarantees and

24

operating subsidies being provided by the GOTG. In its letter requesting disbursement of the first tranche of the cash grant, the GOTG showed that as part of its ERP, market-determined interest rate policies for agricultural credit, term lending and development lending had been implemented and were in operation since 1986, with refinements and adjustments made in certain practices during 1987 and 1988. These policies have been successful in stopping the granting of loans at below market rates of interest in all sectors. In addition, there has been virtually no term or development lending at the GCDB or at the two private banks for the past three years.

The GOTG was approximately five months late in providing the information on subsidies and capital guarantees to the Mission. Otherwise all reporting requirements have been met in a timely manner. The fact that USAID did not provide the GOTG with technical assistance under the EPRS project does not seem to have had an adverse impact on the implementation of the AEPRP because the Mission has utilized its own staff and the technicians from the Economic and Financial Policy Analyses (EFPA) project to assist the GOTG. Some short-term technical assistance was utilized at the commencement of the program in order to develop the base-line data which has been used to monitor the program's impact. The fact that the GOTG had already decided upon its lending policies by the time the AEPRP was in place ameliorated the need for the long-term technical assistance originally envisaged under the EPRS project.

The implementation of the policy reforms agreed upon under the AEPRP has succeeded in eliminating preferential access to credit, particularly by the GCU, opening up groundnut marketing to the private sector, and preventing the acceptance of some agricultural development elements that would have involved subsidized credit schemes. In the case of the last, the credit components of those projects have been altered so that credit is available only at market-determined rates. These policy reforms have also influenced the design of the new IBRD project for The Gambia, the Enterprise Development project which will be administered through the GCDB and private banks.

The cash transfer of $4 million to date has been a significant factor in increasing the nation's foreign exchange reserves and, inter alia, in stabilizing the Dalasi and the financial sector. The $4 million cash grant equals 20 percent of the current foreign exchange reserves of the CBG and is equivalent to about 20 percent of the IMF and IBRD cash disbursements made during the same period (1987-89). Thus, the macroeconomic situation has improved and this, too, has had obvious beneficial effects on the financial sector. Real interest rates for lending are still relatively high, however, given a current inflation rate of about 8 percent per annum. Interest rates are still at about 25 percent per annum, in part because the GOTG continues to issue Treasury Bills with three month maturity at a rate of about 19 percent in order to soak up the excess liquidity in the system and thereby protect its foreign exchange reserves and the value of the Dalasi.

No major changes are required for the remainder of the program period. However, an extension of the PACD and an increase in funding will enable the GOTG to effect a major change in its financial sector which will have long-term beneficial effects. Certain areas also may need further analysis as they bear on the vitality of the financial sector, such as the judicial process and its ability to facilitate bad debt recovery. Other issues, such as the excess liquidity problem and the T-bill interest rate, relate directly to macroeconomic management and might be better left to IMF, IBRD and GOTG negotiations. Still, the Mission may want to consider utilizing some of its additional technical assistance under the extended EPRS project to analyze some of the other constraints to the increased efficiency of the financial sector.

III. PROPOSED PROGRAM AMENDMENT

A. Goal and Purpose

The goal for the AEPRP extension remains the same as originally stated in the AEPRP project paper: to help create a more stable and efficient financial system. The purpose of the AEPRP extension also remains unchanged: to support GOTG efforts to create a financial policy and institutional environment which encourages and promotes greater and more equitable access to markets for private entrepreneurs. USAID/Banjul's strategy to achieve this goal is to provide foreign exchange so that The Gambia can continue to build up its reserves while supporting GOTG policy reforms in the financial sector. With this proposed amendment, however, that strategy will be enhanced and extended because of recent developments in the Gambian economy, especially the financial sector. Specifically, that strategy now also involves improving the management and operations of the GCDB and strengthening its financial position so that it can compete more effectively in the banking sector and be better prepared for privatization.

B. Amended Program Description

The AEPRP was originally designed to work at the sectoral level to support sectoral policy reforms without involvement in any specific financial sector institution. The AEPRP extension represents a modification in that strategy which reflects and builds on the pace of change in the financial sector. Indeed, the EPRS project has already been modified to accomodate this change from a sectoral to an institutionally based reform strategy. In effect, the proposed amendment will assure the early achievement of the original objectives of the AEPRP and take advantage of the resulting opportunity to institutionalize the policy reforms by strengthening and privatizing The Gambia's major financial institution, the GCDB.

Under the AEPRP extension, more intensive efforts will be made by the GOTG to reform the financial sector. These efforts will involve specific reforms which will focus on the GCDB. The reforms will be based on the recommendations of the diagnostic study of the GCDB which was funded by the IBRD and executed by Citibank and Robert R. Nathan Associates. These reforms will involve the reorganization and restructuring of the GCDB so that it operates on a commercially viable basis according to normal business practices and thereby is prepared for privatization. The specific policy reforms are discussed in section C, below.

An extension of the AEPRP will enable AID to provide essential assistance to the GOTG to ensure the continued success of its ERP, particularly in the financial sector. During the past year (FY 1989), The Gambia successfully met all of its external debt obligations on time and it discharged some of its accumulated debt arrears. However, there is still a need for additional foreign exchange in The Gambia, because the very success of the ERP has generated an accelerating demand for hard currency. Consequently, the GOTG faces the delicate task of trying to build up its foreign exchange reserves so that:

(1) it can meet its current external debt obligations on time;

(2) it can meet its future debt repayments as they fall due;

(3) it can meet the rising demand of the private sector for hard currency as the economy continues to expand; and,

(4) it can maintain confidence in the floating exchange rate system.

Without adequate foreign exchange to maintain this delicate balance, The Gambia will begin to lose the momentum gained under the ERP. That is, in order to service its external debts while maintaining an essential level of imports, the GOTG would be forced to draw down the foreign exchange reserves it has slowly accumulated. (In June, 1989, the CBG held official foreign exchange reserves of $23.4 million, enough to cover about 2.4 months of imports.) This would undermine confidence in the floating exchange rate system as the Dalasi would depreciate commensurate with a decline in reserves. It would also drive up interest rates as the GOTG acted to dampen demand for imports and foreign exchange. This would slow down the pace of growth in the whole economy.

The GOTG also needs to increase its revenue in order to reduce the budget deficit while simultaneously generating the funds needed to restore the GCDB to sound financial health. That is, it has become apparent that the implementation of financial sector policy reforms and changes in some institutional practices are not sufficient in and of themselves to create a stable and efficient financial system in The Gambia. More intensive efforts are required, especially at the institutional level, to rehabilitate, restructure and, ultimately, privatize the GCDB so that it can compete effectively with the two existing private banks.

Therefore, USAID/Banjul proposes an increase in funding of $6.0 million under an amended AEPRP. Five million dollars will be disbursed under the AEPRP in two tranches of $2.5 million as the GOTG meets the conditions precedent associated with each disbursement. This will assist The Gambia to build up its foreign exchange reserves and to strengthen the financial position of the GCDB. The GOTG will match these disbursements of foreign exchange with an equivalent amount of local currency from the GOTG budget which will be used for the program purposes described below. An additional one million dollars will be used under the complementary EPRS project to fund the technical assistance, training and commodities (e.g. computers) needed to ensure that all bank operations and staff are fully prepared for the changes which will be necessary to privatize the GCDB. This will involve an extension of the PACD for both the AEPRP and the EPRS from December 31, 1990 to December 31, 1992.

As AID disburses the US dollars under the AEPRP, the GOTG will provide counterpart funds in local currency (Dalasis) to the GCDB to fund its recapitalization. The GCDB, itself, will be required to assist in its own recapitalization by adhering to a plan and schedule for the recovery of outstanding non-performing loans. The GOTG will be able to cover its contribution to the recapitalization of the GCDB without making onerous demands on its recurrent budget by continuing action to recover unpaid customs duties.

The Gambia Commercial & Development Bank (GCDB)

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

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

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

According to the figures available, the level of paid-up share capital in the GCDB in June, 1989 was only 13.6 million Dalasis (about $1.8 million) as against the authorized share capital of 50 million Dalasis. The total equity base (i.e. share capital plus reserves) of the GCDB is only about 27.5 million Dalasis (about $3.7 million). This equity base has been completely eroded by GCDB's accumulated losses of 45.6 million Dalasis (about $6.1 million). Thus, GCDB's total capital is actually a negative 18 million Dalasis (about $2.4 million) and it has no equity base to sustain effectively its operations. (See the table on the following page.) Indeed, since early January, 1988, the GCDB has halted completely all term and development lending operations and severely cut back on any other kinds of loans (e.g. new construction, agricultural diversification, manufacturing); instead, the GCDB has concentrated its lending on fully-secured short-term commercial credit for wholesale traders and foreign exchange trading.

Without sufficient liquidity, the services offered by the GCDB have diminished. In addition, and of more concern, the bank's liquid assets as of June 30, 1989, were only 9.0 million Dalasis (about $1.2 million), as against a minimum of 53.6 million Dalasis (about $7.1 million) as required under Section 15 of The Gambia Financial Institution Act of 1974. Moreover, as noted above, the aggregate of the bank's capital and reserve accounts was a 18.0 million Dalasis (about $2.4 million) deficit as of June 30, 1989. According to Section 17 of the Financial Institutions Act of 1974, the GCDB should not be making any loans because the total value of such advances exceeds 25 percent of the unimpaired capital and unimpaired balances of the reserve accounts. Indeed, as of June 30, 1989, the GCDB had a total of 128.0 million Dalasis (about $17.0 million) on deposit by some 7600 customers, but had 243.0 million Dalasis (about $31.8 million) in loans and advances outstanding.

Another problem with the current status of the GCDB is that all the paid-up share capital is owned by Government and public sector entities, and it is their representatives who dominate the Board of Directors. GCDB's paid-up share capital is owned by the GOTG (51 percent, with a value of 8.67 million Dalasis), the parastatal Gambia Produce Marketing Board (GPMB), (18 percent, with a value of 3.06 million Dalasis), and the Gambia Cooperative Union (GCU), (11 percent, with a value of 1.87 million Dalasis). In FY 1987, the GCDB tried to diversify the paid-up share capital owned by the GOTG, the GPMB and the GCU by offering the remaining

GAMBIA COMMERCIAL & DEVELOPMENT BANK
Balance Sheet as of June 30, 1989
(Millions of Dalasis)

ASSETS		LIABILITIES	
Cash and Deposits:	9.0	Deposits:	128.0
		Other Current Liabilities:	28.0
		Current Total:	156.0
Loans:	238.0		
(Less Provisions):	(49.0)	Central Bank of The Gambia:	71.0
Net Loans:	189.0		
		Development Funds:	16.0
		Total Liabilities:	243.0
Other Assets:	8.0		
Net Fixed Assets:	19.0	EQUITY	
		Share Capital:	13.6
		Reserves:	13.9
		Accumulated Losses:	(45.6)
		Total Equity:	(18.0)
Total Assets:	225.0	Total Liabilities & Equity:	225.0

GAMBIA COMMERCIAL & DEVELOPMENT BANK

(Restructured) Balance Sheet, June 30, 1989
(Millions of Dalasis)

ASSETS		LIABILITIES	
Cash and Deposits:	9.0	Deposits:	128.0
	+12.0	Other Current Liabilities:	28.0
	+28.0	Current Total:	156.0
Total:	49.0		
Loans:	238.0		
(Less Provisions):	(49.0)	Central Bank of The Gambia:	71.0
(Less GCU):	(50.0)	(Less GCU Purchases):	(38.0)
(Other Bad Debt):	(28.0)	(Less Recapitalization):	(20.0)
Net Loans:	111.0	Net CBG:	13.0
		Development Funds:	16.0
		Total Liabilities:	185.0
Other Assets:	8.0		
Net Fixed Assets:	19.0	EQUITY	
		Share Capital:	13.6
		Reserves:	13.9
		Accumulated Losses:	(45.5)
		Recapitalization (GOTG):	20.0
		Total Equity:	2.0
Total Assets:	187.0	Total Liabilities & Equity:	187.0

20 percent (with a value of 3.4 million Dalasis) to the National Trading Company and the Social Security Housing and Finance Corporation, but they refused to take any shares in the bank because of its poor financial condition. Instead, the GPMB and the GCU bought up the excess share capital. The consequence of this situation is that the General Managers of the GPMB and the GCU sit virtually unopposed on the GCDB Board of Directors. Yet, it is precisely those two entities which have been responsible for the major losses incurred by GCDB's lending operations, primarily through agricultural credit and marketing loans made available to the GCU for its groundnut buying operations on behalf of the GPMB. Without a change in the paid-up share capital of the GCDB which would be reflected in a change in the composition of its Board of Directors, there can be little hope that a recapitalized GCDB would sustain sound banking practices, policies and operations. Hence, it is essential that once the GCDB is recapitalized, it be privatized by offering shares to domestic and foreign investors.

While the goal of this project is to privatize the GCDB, and both USAID/Banjul and the GOTG will exert every effort to effect the successful privatization of the bank, neither USAID/Banjul nor the GOTG can force a private entity to buy the GCDB. At best, based on recent experience in the financial sector, what this project should accomplish is to reorganize, restructure and recapitalize the GCDB, reduce GOTG and public sector influence at the bank, and increase private sector participation in its management by offering GPMB and GCU shares of the bank to private investors and thereby increase private sector representation on the GCDB Board of Directors. The Gambia already has had successful experience in selling government shares in a bank, and it should be able to improve on that experience when it sells its shares in the GCDB. Between 1986 and 1988 the National Investment Board, acting on behalf of the GOTG, sold 84,000 government shares in the Standard Chartered Bank (SCB) Ltd. of The Gambia. These shares, which comprised 16 percent of the government's holding at the time, were purchased by individuals and their total value was 505,000 Dalasis (about $67,000 at the prevailing exchange rate). Given the healthy profits which the SCB has been generating (in 1987 and 1988, SCB profit before taxes was 10 percent of total assets or 13.6 million and 16.9 million Dalasis respectively) and the returns which its shareholders are reaping in the form of dividends, a well managed, recapitalized GCDB should attract similar interest from private investors.

While the costs of recapitalization and privatization will be high to the Government, those costs will be significantly lower than the costs associated with liquidating the GCDB. According to the GCDB diagnostic study and the unaudited GCDB accounts as of June 30, 1989, the economic costs of recapitalization would include the following: (1) rebuilding the capital base to cover the accumulated losses; (2) making provision for the outstanding past and current bad debts of the GCU; and (3) making provision for the additional bad debts (including Development Banking

Unit and Commercial Lending Unit loans, Negotiations Under Credit, and Suspense Receivables). The total amounts represented are shown below.

RECAPITALIZATION:	(Millions of Dalasis)
1. Cost of rebuilding the capital base (to cover the retained earnings deficit):	45.6
2. Commercial bad debts which should be transferred out of GCDB's books to the CBG "Managed Fund" (GCU debts):	50.2
3. Additional provision for specific bad debts (from the Development Banking Unit, Commercial loans, other receivables):	27.6
TOTAL:	123.4

LIQUIDATION:	(Millions of Dalasis)
1. Cost of reimbursing depositers:	127.6
2. Cost of reimbursing other banks:	5.7
3. Other liabilities (interest due depositers and foreign exchange suspense liability account):	21.8
4. Development Funds:	16.4
SUBTOTAL:	171.5
Less cash at the GCDB:	8.7
TOTAL:	162.8

The costs of recapitalization will be borne by the GOTG. The GCDB diagnostic study also estimates that in order for the bank to be effective, once it is recapitalized, the staff will need extensive training both in-country and overseas, and technical advisers will have to be placed in key management positions within the bank during its reorganization and privatization. The estimated cost of the training and technical assistance being proposed for funding by USAID is 13.5 million Dalasis (about $1.8 million). Thus, the total economic cost, to both the GOTG and USAID, of recapitalization will be about 136.9 million Dalasis.

The alternative to recapitalization is liquidation of the GCDB. However, it is highly unlikely that the GOTG would allow the GCDB to cease operations. First, the GCDB is the largest bank in The Gambia and the principal source of credit and savings for small businesses and individuals. It has about 7000 demand deposits, 12,000 savings deposits, and 300 time deposits, whose owners would have to be protected and compensated in the short run. The GOTG would be unwilling to break its implicit agreement with its citizens to safeguard their money. Indeed, the economic and social costs of liquidating the GCDB are so high that it is not a viable alternative. In order to protect the interests of the public who have their funds on deposit at the GCDB, and to protect The Gambia's international reputation, additional short-term liquidity would have to be provided to settle the above creditors which existed as of June 30, 1989.

In addition to the above costs, the GOTG would have to give severance pay to the staff of the GCDB. An estimate of this cost is difficult to make, but it could run as high as 2.1 million Dalasis (i.e. 210 employees at an average of 10,000 Dalasis each). Thus, the total cost of liquidation would be about 165 million Dalasis, fully 28.1 million Dalasis ($3.7 million) more than the total cost of recapitalization (including the costs of training, technical assistance and new equipment).

Although a portion of this initial outflow of cash required for liquidation of the GCDB would be offset subsequently from future loan recoveries, to what extent and over what time frame any loans would be recovered is difficult to ascertain. If the GCDB is liquidated and no longer a going concern, it would be more difficult to recover non-performing and outstanding loans than if the bank were still doing business. Indeed, experience indicates that because of the liquidation process, a substantial portion of the loan portfolio would never be recovered. The social and development costs to The Gambia of not having a truly local bank would also have to be taken into consideration. The diagnostic study concluded that there is a role and a need for a properly functioning GCDB and it should be allowed to play that role.

Based upon the results of the GCDB diagnostic study report, the bank has drawn up a provisional action plan and supporting schedule to effect its own restructuring and rehabilitation (see Annex D). This plan anticipates the need for comprehensive technical assistance from the donors, to which both AID and the UK ODA agreed. However, because of the apparent inability of the ODA salary scales to accomodate a highly paid Managing Director for the GCDB, the IBRD will finance this aspect of the technical assistance.

The GOTG is beginning to take the steps necessary to effect the rehabilitation, restructuring and privatization of the GCDB. In his annual budget speech to Parliament on June 23, 1989, the Minister of Finance and Trade indicated that in FY 1990 the GOTG will make an exceptional budget transfer of 126 million Dalasis (about $16.3 million)

37

in order to settle the historic debts of the SOEs and the GCU. This includes a total transfer of 70.2 million Dalasis (about $9.3 million) to the GCDB alone. This represents: (a) 50.2 million Dalasis (about $6.7 million) in current and past liabilities of the GCU; and (b) an additional 20 million Dalasis (about $2.6 million) in paid-up share capital for the GCDB. While this will relieve the GCDB of some of its bad debts and help strengthen its capital base, additional funds will be needed. Based on the figures given above, a total of 123.4 million Dalasis would be needed to recapitalize the GCDB. The GOTG will pay 70.2 million Dalasis of those costs from its FY 1990 budget. Thus, the remaining cost of recapitalization is estimated to be about 53.2 million Dalasis.

Perhaps the most important actions involving the financial restructuring of the bank concern the GCDB's debt portfolio. According to the bank's unaudited balance sheet as of June 30, 1989, the total loan portfolio of the GCDB stood at 238.6 million Dalasis in outstanding loans, with the number of loans being about 5700. The GCDB expects to be able to recover some 56.4 percent of these loans (134.66 million Dalasis) through regular repayments. (This includes three loans to the GCU which the GOTG has committed itself to pay, as noted above.) However, the remaining 45.6 percent of the loans will be much more difficult to collect, requiring court action and even foreclosure on property and other collateral taken for the loans, with some loans being classified as completely non-recoverable.

Several actions related to the GCDB's debt portfolio will have to be taken before it becomes financially sound. This involves the transfer to the GOTG of some 72.6 million Dalasis (about $9.7 million) in non-performing Government-guaranteed loans, which was effected in January, 1987. These loans comprise the "Managed Fund" at the CBG and the GOTG is attempting to recover as many of these funds as possible. It also involves the transfer from the GCDB to the GOTG of some 50.2 million Dalasis (about $6.7 million) in current and past liabilities incurred by the GCU. This transfer is to be made some time in early FY 1990. An additional 27.6 million Dalasis (about $3.7 million) in other non-performing loans are to be put in the recovery structure.

The GCDB will need to take concrete action to recover as much as possible of its non-performing debts. As noted above, the GCDB estimates that fully 56.4 percent of its current loan portfolio will be recovered through regular repayment by its customers and through GOTG assumption of the GCU's bad debts. However, the remaining 43.6 percent, or 104.0 million Dalasis, of GCDB's debts will only be recovered by extraordinary bank action. The GCDB estimates that 19.4 percent (about 46.2 million Dalasis) of its loan portfolio is "recoverable with hostility," i.e. through action in the courts. An additional 12 percent (about 28.6 million Dalasis) is classified as "partially recoverable with hostility," because these loans have inadequate or no collateral. Finally, the remaining 12.1 percent (about 28.9 million Dalasis) are classified as "non-recoverable," because they are non-performing and without security.

34

There is an urgent need for the GCDB to take extraordinary steps to recover the revenue lost through delinquency and default on its loans. Bank officials at both the GCDB and the two private banks lament that their primary constraint to loan recovery is the inordinate amount of time it takes for the legal process to work in The Gambia. Ultimately, the banks usually win their cases against loan defaulters, but the overall costs involved to the banks, i.e. loss in accrued interest payments and the costs of long drawn-out litigation, reduce the benefits realized from such suits. Hence, given the magnitude of the loans currently in default at the GCDB, the time it would normally take to collect them or close them out through court settlement, and the urgency of recapitalization in order to ensure successful privatization, the GOTG should establish a special loan collection tribunal to deal exclusively with the settling of all GCDB claims against its delinquent loan customers. There is a legal precedent for such a temporary court to be established in The Gambia. After the attempted coup of 1981, the Government set up a special tribunal to ensure the speedy trial of all suspected rebels. Much as the rebels represented a threat to the political stability of The Gambia, so does the existence of an enormous amount of delinquent debts at the GCDB mitigate against its financial viability and thereby threaten the financial stability of the whole banking system.

Getting action on the non-performing debts of the GCDB's customers through a special tribunal will indicate to the Gambian people that the GOTG is serious about financial sector reform. It will signal that there will be financial discipline at the GCDB and that loans, henceforth, will not be made without sound justification and adequate collateral or other forms of security. This will increase the confidence of the GCDB's depositors and ensure the safety of their deposits. It will also increase competition in the financial sector, as a fully capitalized, efficient GCDB enters the financial markets.

Technical Assistance Requirements for the GCDB

The GCDB diagnostic study recommended that technical assistance be provided to the GCDB during its reorganization and privatization. As noted above, USAID/Banjul has responded to a request from the Minister of Finance & Trade to provide three banking experts for two years to assist in the GCDB's reorganization. Acting on behalf of USAID, Labat-Anderson Inc. has received applications from several qualified banking experts. It is anticipated that, with Mission and GOTG concurrence, a team will be selected and put in place at the GCDB no later than the end of 1989. These USAID-funded banking experts will be: (1) an Advisor to the Deputy General Manager; (2) an Advisor to the Chief Inspector; and (3) an Advisor to the Development Banking Unit. (The terms of reference for these positions can be found in Annex E.) In addition, the IBRD is funding an expatriate General Manager for a minimum of two years.

The Mission has earmarked the remaining $800,000 in funds from the EPRS project to fund the three long-term banking experts. However, it is estimated that an additional $100,000 will be needed to fully fund the two year contracts of the three banking experts. In addition, both the GCDB diagnostic study and the terms of reference prepared by a USAID-funded banking expert (see Annex E) for the technical assistance to the GCDB anticipate the need for no more than an additional 50 person months of short-term technical assistance to the bank. The areas in which such assistance will be required are: (1) computerization of bank operations and management information systems; (2) loan recovery; (3) training; (4) strategic corporate planning; (5) branch banking; (6) the foreign exchange department; and (7) asset and liability management. The short-term technical assistance would be provided throughout the period of time that the long-term advisory team is present at the GCDB. Thus, the long-term technical assistance team will be in place at the bank before the expiration of the current AEPRP and during the period of the AEPRP amendment being proposed herein. The presence of this team of banking experts will facilitate the implementation of the AEPRP at the GCDB.

C. Program Conditionality for the AEPRP Amendment

USAID/Banjul will disburse its cash grant as the GCDB meets the following targets, in addition to the policy reforms articulated below. In order to qualify for the first disbursement of $2.5 million, the GOTG will provide about 33 percent of the recapitalization costs needed for privatization of the GCDB. As noted above, about 53.2 million Dalasis will still be needed after the GOTG budget transfers of FY 1990. Hence, the GOTG will provide from its budget resources the Dalasis equivalent of $2.5 million (about 18.75 million Dalasis at current exchange rates) to the GCDB before the first tranche of aid is disbursed. In addition, the GCDB will continue its actions to recover that 56.4 percent of its loans which are classified as "recoverable," or provide evidence that the loans are being serviced on schedule. (That is, some loans may still be outstanding but the borrower may be repaying on time, while other loans may have to be renegotiated with the terms of repayment extended beyond FY 1992 or FY 1993.) This represents the potential recovery of about 134.6 million Dalasis (about $17.9 million).

In order to qualify for the second disbursement of $2.5 million, the GOTG will make a second payment of the Dalasis equivalent of $2.5 million (about 18.75 million Dalasis) from its budget resources to the GCDB. In addition, the GCDB will continue actions to recover those remaining debts which are classified as "recoverable with hostility," or "partially recoverable with hostility ." This represents 20.0 percent of the total outstanding non-performing loans, and the potential recovery of some 46.2 million Dalasis (about $6.1 million).

36

One important purpose of the recapitalization will be to fund an increase in bank staff salaries. Bank salaries have not been adjusted in more than three years and the bank is currently losing qualified staff to other institutions because of the disparity in salaries paid by the GCDB compared to private banks, other SOEs and private business.

While the GOTG and the GCDB are acting to recover the funds needed to rehabilitate and recapitalize the GCDB, USAID/Banjul will provide technical assistance to the GCDB to enable it to make the operational and managerial changes needed to ensure that GCDB operates according to normal commercial banking practices and policies and is thereby made ready for privatization.

The $5.0 million grant for the AEPRP extension will be disbursed as a cash transfer to the GOTG in two $2.5 million tranches. The foreign exchange will be released in the following sequence:

Conditions Precedent for the First Disbursement of Funds:

(1) The GOTG will provide written evidence that it has implemented a plan and schedule for the collection of the non-performing loans of the GCDB, and that it will have recovered or made arrangements for the ultimate recovery of a significant proportion of those loans which are classified as "recoverable;"

(2) The GOTG will provide written evidence that it has executed a legal review of the GCDB Act and determined the steps needed to effect the corporate restructuring of the GCDB;

(3) Based on the review of the GCDB Act, the MOFT will be required to show evidence that it has submitted legislation to the Parliament to amend the GCDB Act in order to allow for the eventual privatization of the GCDB;

(4) The GOTG will provide written evidence that it has removed the GPMB and the GCU from ownership in the GCDB and that these entities have surrendered their seats on the GCDB Board of Directors; and

(5) The GOTG will provide written evidence that it has transferred from its budget resources to the GCDB the equivalent of US $2.5 million in Dalasis (at the prevailing exchange rate), and agrees that these funds will be used to pay for the costs associated with the restructuring and recapitalization of the GCDB.

Conditions Precedent for the Second Disbursement of Funds:

(1) The GOTG will provide written evidence that the GCDB is continuing its efforts to collect the non-performing loans owed to the GCDB, and that it will have recovered or made arrangements for the ultimate recovery of an additional 20 percent of those loans;

(2) The GOTG will provide written evidence that Parliament has passed and the President has signed legislation which authorizes the privatization of the GCDB; and,

(3) The GOTG will provide written evidence that it has transferred from its budget resources to the GCDB the equivalent of US $2.5 million in Dalasis and it agrees that these funds will be used to pay for the costs associated with the restructuring and recapitalization of the GCDB.

Covenants:

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

(2) The GOTG agrees to continue its policy encouraging the private marketing of fertilizer, and that the terms of credit for fertilizer purchases and the terms of sale of fertilizer will not benefit any group or individual nor discriminate against private traders;

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

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

(5) The GOTG agrees that it will review the legal process whereby recovery of non-performing loans is effected by the banks through the courts and recommend methods to improve the efficiency of the legal process, particularly with respect to rapid enforcement of security agreements.

D. Impact of the AEPRP Amendment

As a result of the continued implementation of the AEPRP, the long-term benefits to The Gambia should include enhanced stability, equitable practices, efficiency and competition in the financial sector. The restructuring and recapitalization of the GCDB will improve the efficiency of the GCDB's services. As the largest and most prominent bank in The Gambia, its strengthening should have a beneficial impact on the rest of the financial sector. At this time there is relatively little overlap in depositors and borrowers between the private banks and the GCDB. After GCDB's restructuring and privatization, however, there should be more competition among the banks, as the GCDB builds upon its existing strong niche in the market among the more modest depositors and borrowers. Improved efficiency at the GCDB will foster an increase in competition among the banks for the larger accounts, both borrowers and savers, which should help lower the costs of the financial services available in the banking sector. Thus, the privatization of the GCDB will ensure greater efficiency in financial sector services services for all Gambians.

While increased competition in the banking sector is likely to lower costs, there are other factors which influence costs in the financial sector which are beyond the ability of this program to influence. For example, macroeconomic conditions have a great impact on interest rates. At this time, the GOTG's policy is to absorb excess liquidity in the economy through the issuance of Government Treasury Bills (T-bills). The interest rate which the GOTG is willing to offer banks on these T-bills has a much greater effect on the interest rate which the banks charge their customers for loans than other factors, such as the inflation rate, a borrower's credit-worthiness, or the viability of a project for which lending is sought. The high interest rate which the CBG offers on T-bills is keeping lending rates high. Thus, although increased competition should bring interest rates down, all other things being equal, the result may not be so immediate nor so dramatic if the T-bill interest rate remains high.

However, improving the financial conditions of the GCDB through restructuring, recapitalization and privatization may permit it to lower its interest rates and its fees. Currently, the GCDB pays 21 percent interest for marginal funds from the CBG; this is comprised of a 16 percent rediscount rate and a 5 percent penalty levied against the GCDB for not meeting its reserve requirements. After the GCDB receives the Dalasis equivalent of US $5 million in cash (liquidity) from the GOTG, the GCDB will be able to meet the CBG reserve requirements and will not have to pay that extra 5 percent. Thus, the GCDB should be able to charge somewhat lower interest rates and thereby expand the number of fully justified loans which it makes.

Finally, privatization of the GCDB may be an important step in the expansion of the financial sector towards offshore banking operations. That is, the policy implications of privatization, especially the need to attract more investors in a private GCDB, may attract other (overseas) banks to locate in The Gambia because of the favorable policy environment.

E. Donor Coordination

The extended AEPRP will complement IBRD efforts to support financial sector reform, particularly as it pertains to the GCDB. The IBRD funded the diagnostic study which was completed by Citibank and Robert R. Nathan Associates. And it was the IBRD which made the release of its Structural Adjustment Loan II (SAL II) contingent upon administrative reforms at the GCDB which involved the removal of the top four managers, as recommended by the diagnostic study.

The IBRD is concerned about improving the management of the GCDB because of the adverse impact which the accumulation of non-performing loans and the continuation of unsound banking practices has had on the financial system and the economy as a whole. In particular, the IBRD is concerned that sound management be restored to the GCDB so that the World Bank's $13.6 million Private Enterprise Development project be properly implemented. This project involves a line of credit through the formal banking system for financing small and medium-sized enterprises, including women's investments in the private sector. The project also entails human resource development for entrepreneurs, enterprise support agencies, and the GCDB in order to assist the bank with its financial and organizational restructuring. The IBRD also anticipates having to provide banking consultant services to the GCDB to assist with project implementation.

IV. REVISED FINANCIAL PLAN

A. Summary Cost Estimates and Funding Sources:

AEPRP FUNDS
(000 Dollars: FX; 000 Dalasis: LC)

BUDGET CATEGORY	AID FX	AID LC	GOTG FX	GOTG LC	TOTAL FX	TOTAL LC
1. Budget Support for building up CBG reserves:	5,000	0	0	0	5,000	0
2. Technical Assistance and Training for GCDB:	1,000	0	0	0	1,000	0
3. Contribution to Restructuring the GCDB:						
(a) GOTG Cash Contribution:	0	0	0	37,500	0	37,500
(b) GCDB Recovery of Non-performing loans:	0	0	0	180,800	0	180,800
TOTALS:	6,000	0	0	218,300	6,000	218,300

B. Financial Management

Projections of Expenditure by Fiscal Year
(000 Dollars and Dalasis)

FY	AID (Dollars)	GOTG (Dalasis)	TOTAL (Dollars)	TOTAL (Dalasis)
1991	3,500	153,350	3,500	153,350
1992	2,500	64,950	2,500	64,950
TOTALS	6,000	218,300	6,000	218,300

(NOTE: Although the AID dollars are projected to [illegible] pent in FY 1991 and FY 1992, if the AID-funded banking experts being [illegible] ded to the GCDB can work with officials in the MOFT to help meet the CPs at an earlier date, USAID/Banjul will disburse the grant funds accordingly.)

C. Source and Application of AID Funds

Implementation Activity	Implementation Method	Method of Financing	Cost ($000)
1. Non-project cash transfer for BOP support through build-up in CBG reserves:	Cash transfer	Direct Payment	5,000
2. Training and Technical Asst. for GCDB staff:	AID Contract	Direct Payment	1,000
TOTAL:			6,000

D. Recurrent Cost Implications

There will be no direct recurrent costs incurred by the GOTG as a result of the extension of the AEPRP and EPRS project. There will be minor indirect or overhead staff costs associated with the implementation of the policy measures agreed to under the Program Amendment.

The extension of this Program should result in net financial benefits to The Gambia. Intrinsic to the design of the Program extension is the assumption that financial benefits to the GOTG of systemic refinement of the financial system, especially the rehabilitation, reorganization and privatization of the GCDB, will lead to more efficient use of scarce resources for commerce and investment. That is, the reduced financial losses to the GOTG (for example, non-recoverable guaranteed debts) and to the GCDB, and an improvement in the GCDB's capital base and reserves, will result in a decline in transaction costs for investors and traders which will provide a net economic benefit to The Gambia.

The rehabilitation, reorganization and privatization of the GCDB, coupled with the recovery of non-performing loans, will increase investor confidence in the Gambian economy and in the banking system in particular. In the absence of exogenous shocks (e.g. large fluctuations in world commodity prices or unfavorable weather), the increased confidence should lead to continually higher net capital inflows.

V. REVISED MONITORING AND IMPLEMENTATION PLAN

A. Evaluation and Progress Reports

Monitoring falls into two areas: (1) ensuring that the cash grant is transferred to the appropriate GOTG account at the Federal Reserve Bank and used to maintain CBG reserves; and (2) implementation of the policy reforms. Progress reports will focus on the short to medium-term effects of the policy measures on the financial sector.

The purpose of the monitoring and evaluation plan will be verify benchmarks which indicate that the implementation of the policy measures (the conditions precedent) has been effective, and that the verifiable indicators of AEPRP progress are assessed quarterly and reported on semi-annually as part of the routine USAID/Banjul PIR reporting process. USAID/Banjul and the GOTG will monitor the effectiveness of the reforms in achieving the program purpose and goals through these semi-annual reviews and an end-of-program evaluation.

The benchmarks which indicate the achievement of the terms of the conditionality are implicit and self-evident in the conditions themselves. Verifiable indicators of the achievement of the AEPRP extension purposes and goals were developed during the baseline data survey at the commencement of the program in September, 1987. These include the following:

1. Interest rates on savings and time deposits, including the Treasury Bill rate;

2. Commercial banks lending rates for: (a) agriculture; (b) manufacturing; (c) building; (d) trading; and (e) other sectors;

3. The Central Bank rediscount rate;

4. Bank reserve requirements;

5. The Central Bank credit ceiling;

6. Inflation rate;

7. Exchange rate;

8. Commercial banks' loans and advances by major sector: (a) agriculture; (b) fishing; (c) mining and quarrying;(d) building and construction; (e) distributive trades;(f) transportation; (g) tourism; (h) financial institutions;(i) personal loans; and (j) others; with a breakdown indicating the amounts and proportion of loans which are in the public and the private sector;

9. Bank deposits: (a) demand deposits; (b) savings deposits; and (c) time deposits; with a breakdown indicating the amounts in private and public sector accounts, and the ratio between loans and deposits;

10. Outstanding Treasury Bills;

11. Treasury Bill volume;

12. Money supply, both narrow and quasi money; and,

13. Foreign Exchange reserves and the foreign exchange rate.

A final evaluation of the AEPRP will be conducted by USAID/Banjul, with assistance from the GOTG and REDSO/WCA. It will evaluate the impact of the program on the financial sector and its effectiveness in achieving program purposes and goals.

B. Implementation Plan

The Ministry of Finance & Trade (MOFT) is responsible for developing and implementing economic and financial policy reforms, including those negotiated with the IBRD and IMF under their structural adjustment programs, as well as the conditions precedent for the AEPRP and its extension. The CBG is the primary financial sector institution involved in cooperating with the MOFT to ensure that financial policies and rules are met by the banks. The GCDB is a public enterprise ultimately responsible to the Minister of Finance & Trade. The MOFT will play the key role in the implementation of the AEPRP extension with minor roles played by the CBG and the GCDB. Under the current AEPRP, the MOFT and the CBG have proven their effectiveness in meeting the conditions precedent, covenants and reporting requirements.

USAID/Banjul staff have been involved in monitoring all activities to date under the AEPRP. The Program Office has the responsibility for ensuring that all conditions precedent are met and that the AID funds are disbursed in a timely manner and used for program purposes. The Program Officer is assisted in this activity by a PSC Program Analyst. The recent addition of a Program Economist to USAID/Banjul's staff will greatly increase the ability of the Mission to monitor the AEPRP extension effectively.

The technical assistance component of the AEPRP, supplied to the GCDB under the EPRS project, will continue for the extended life of the program. The $1.0 million of EPRS monies will provide additional funds needed for both long-term and short-term technical assistance, training and equipment (e.g. computers) needed by the GCDB during its reorganization and in preparation for its privatization. The technical

44

assistance and training which will be needed at the GCDB is described in preliminary detail in the GCDB diagnostic study and in Annex E. These funds will be programmed and obligated and the technical assistance and training will be undertaken using standard development assistance project authorization and implementation procedures and regulations.

ANNEX A

GOTG REQUEST FOR ADDITIONAL ASSISTANCE

ANNEX B

Key External Financial Indicators, FY 1988 - 1993
(Millions of Dollars; Percent)

FISCAL YEARS	88 Est.	89	90 Projected	91	92	93
BALANCE OF PAYMENTS		* *	HIGH SCENARIO	* *		
Current Account (-)	41.5	41.1	40.6	41.2	40.9	40.9
Percent of GDP	24.0%	22.4%	21.1%	19.5%	18.1%	17.2%
Capital Account	57.6	68.9	65.5	56.9	50.0	48.0
Overall Balance	16.1	27.8	24.9	15.7	9.1	7.1
Change in Reserves	12.7	16.3	15.0	18.6	5.0	4.9
Reserves (months of imports)	2.5	3.8	4.8	6.0	6.0	6.0
BALANCE OF PAYMENTS		* *	LOW SCENARIO	* *		
Current Account (-)	41.5	44.5	47.6	52.5	57.4	62.8
Percent of GDP	24.0%	23.8%	23.7%	23.5%	23.5%	24.1%
Capital Account	57.6	68.9	65.5	56.9	50.0	48.0
Overall Balance	16.1	24.2	17.9	4.4	-7.4	-14.8
Change in Reserves	12.7	12.7	8.1	7.1	-11.5	-16.8
Reserves (months of imports)	2.5	3.4	3.8	4.1	3.0	1.7
EXTERNAL DEBT SERVICE (on debt outstanding as of October, 1988) (1)						
Payments	38.2	45.2	43.7	25.9	29.5	28.1
(Percent to Multilaterals)	68.8%	37.7%	34.0%	62.1%	49.8%	44.7%
Debt Service Ratio (2)	49.2%	54.9%	49.7%	27.3%	29.0%	25.7%
As Percent of GDP (3)	22.7%	24.9%	22.5%	12.4%	13.2%	11.8%
Arrears Payments	16.4	13.1	20.6	0	0	0
OFFICIAL FINANCE	60.5	71.4	69.3	59.7	44.7	41.9
Normal	54.8	66.0	62.5	53.4	46.3	44.1
Grants	46.1	44.0	41.7	44.2	43.8	43.0
Loans (net)	8.7	22.1	20.8	9.2	2.5	1.2
Exceptional	5.7	5.4	6.8	6.3	-1.6	-2.2
IMF	4.0	4.7	4.8	2.8	-4.1	-2.2
USAID	2.1	2.1	2.1	3.5	2.5	0
Debt Relief	2.0	0	0	0	0	0
Other	-2.4	-1.4	0	0	0	0
PRIVATE CAPITAL	3.3	2.9	3.1	3.4	3.7	3.9

Notes:
(1) Including IMF charges and repurchases, and cash payments for arrears reductions.
(2) As a percent of domestic exports, plus value added on re-exports, and travel income.
(3) Based on the "High Scenario."

DIFFERENCES BETWEEN HIGH AND LOW SCENARIOS

	FY 1989 High	FY 1989 Low	FY 1990 - FY 1993 High	FY 1990 - FY 1993 Low
	(Annual Change in Percent)			
Volume of Groundnut Exports	11.4%	6.9%	2.5%	0
Volume of Other Domestically Produced Exports	15.5%	4.4%	6.8%	0
Import Prices	3.4%	5.4%	3.0%	5.0

SOURCE: IMF and GOTG, Ministry of Finance & Trade

47

ANNEX C

SUMMARY OF THE DIAGNOSTIC STUDY OF THE GCDB
(June, 1988)

EXECUTIVE SUMMARY

DIAGNOSIS

GENERAL MANAGEMENT

There are three key components to successful management. The first is the effective delegation of responsibility and authority within an organization. Effective delegation frees senior management to focus on long-term, important issues, leaving middle management to focus on the day to day business. At the Gambia Commercial Development Bank (GCDB) the managing director intervenes directly in the decision-making process at every level within the organization. This impairs line management's ability to motivate and manage their staff and weakens morale.

A second key component of sound management is the avoidance of repetitive decision making and unnecessary divergence in the answers to similar problems. Formal written policies and procedures represent a coherent, concise codification of existing practices. the lack of such formal policies and procedures is the second most important deficiency in the GCDB and an underlying cause of the bank's substandard performance.

A third key component is the ability of an institution to respond rapidly to internal opportunities for improvement. Many of the serious deficiencies have been highlighted repeatedly in numerous studies, yet management responded to these issues only when they became so blatant that no other option existed. This has resulted in a crisis management environment. Only within the last few years have some areas of management begun to preempt avoidable problems and introduce more systematic management techniques.

The typical business is founded by an entrepreneur who takes full responsibility for the entire operation and builds a viable organization from essentially nothing. The early stage of business development requires considerable trial and error and a high degree of concentration in the decision making process. Eventually, the organization matures to the point where a different, more impersonal management style is required. Many organizations have difficulty passing through this stage of their development, and often retain the top entrepreneurial management too long, thus weakening the organization. GCDB seems to be no exception; however, an effort to develop the key staff necessary for this transformation is clearly evident. Capable and professional managers have been developed who could successfully assume full management responsibility, supported only by limited technical assistance from outside banking professionals.

LENDING PRACTICES

GCDB's lending practices have resulted in a total loss of about 158.0 million Dalasis. These are: (1) non-performing loans transferred to government via the "Managed Fund," (72.8 m Dalasis); (2) a June 30, 1987 provision for doubtful debts that represented over 20 percent of the remaining loan portfolio (35.3 m Dalasis); and (3) a current need for an additional doubtful debt provision and/or transfer to government (49.9 m Dalasis). The salient causes of this unsatisfactory lending record can be categorized into external and internal factors. Historical external factors include government pressure to grant substandard loans, announcements to farmers of loan forgiveness programs, drought, political instability, illiteracy, lack of adequate support from the judicial system and the effects of the extended family. Internal problems include too much lending to a concentrated few borrowers, 100 percent financing, and inadequate loan appraisal procedures, documentation forms, loan monitoring, and collection efforts. (As of March 31, 1988, 12 separate borrowers - including 53.3 m Dalasis due from the Gambia Cooperative Union (GCU) - owed 103.7 m Dalasis. This represents 48 percent of GCDB's entire loan portfolio.

LACK OF PROFITABILITY

The June 30, 1987 accumulated losses of 48.7 m Dalasis will probably increase substantially. In addition to poor lending practices, some of the other important contributing factors are also related to loans. Interest is usually not compounded and the majority of borrowers enjoy interest rates that are below what management has identified as its marginal cost of funds. Interest rates range from a high of 29 percent per year to a low of 0 percent. Other factors contributing to the losses are lack of profit center accounting, inadequate data processing equipment, inadequate management information systems, inadequate control of foreign exchange transactions, substantial quantities of small unprofitable savings and current account customers, and the lack of formal operating procedures.

THE GAMBIA COOPERATIVE UNION (GCU)

GCU's main source of credit is the GCDB. In addition to 32.6 m Dalasis of non-performing GCU indebtedness that was transferred to the "Managed Fund," as of March 31, 1988 an additional 53.3 m Dalasis was owed. Of this, 34.3 m Dalasis is acknowledged as "uncollectible." These loans make the GCU the bank's largest borrower and its debt represents 24.7 percent of the entire portfolio as of March 31, 1988.

The fortunes of the GCDB and the GCU are closely related. Any attempts to solve the problems of one entity without solving the problems of the other will fail. Shifting the loans over to the government every few years will periodically clean up the GCDB's balance sheet, but the problem will arise again.

We suggest that the following alternatives be explored:

1. Restructure the GCU and/or allow it to operate on a more profitable basis. This would most likely include the following:
   (a) injection of fresh cash in quantities sufficient to enable the GCU to pay off all of its creditors. The cash would flow through the GCDB to the Central Bank of The Gambia (CBG). GCU would still have its banking services supplied by the GCDB, but it would be a net depositor, not a borrower;
   (b) higher allowances and purchase prices paid to the GCU for the handling of groundnuts; and
   (c) elimination of the more unprofitable GCU Cooperative Produce Marketing Societies and the amalgamation of the smaller societies.

2. Consolidate the GCU with the Gambia Produce Marketing Board (GPMB).

3. Have the government indemnify the GCDB against all losses, including principal and interest, incurred on GCU's debts.

ORGANIZATIONAL SEPARATION

The bank is organized along functional product lines; the branch managers are responsible for both business development and the related operational transactions. This concentration of line management control at the branch level is not desirable and should be replaced with the following complementary and .utually balancing reporting lines:

1. The decision making line: responsible for business development and account management functions, including the management of credit risk, etc.; and
2. The executing line: responsible for the routine operating contacts with the clients within clearly established guidelines, including transaction processing and other related operations.

The absence of a clear organizational separation between the two major functions is one of the core weaknesses to which the GCDB's internal problems can be traced, and it represents the greatest need for remedial action. It is particularly critical that the separation between the initiator and the executor be included as part of the restructuring.

STRATEGIC RECOMMENDATIONS

As the sole domestic banking institution, the GCDB has the potential to play a critical role in the continued development of the Gambian economy. It has experienced a long institutional learning process at a considerable cost to the government, and thus to the people of The Gambia. Government and management have now fully recognized the cost of this learning process and wish to rethink the role and functioning of the bank. It is time for government to demonstrate that it has the political will needed to implement the necessary changes recommended in this study.

The GCDB appears to be faced with two fundamental and mutually exclusive goals:

1. To be loved as a magnanimous source of government funds through the liberal granting of financing and leniency in loan recovery efforts; and

2. To be respected as a professional institution that protects depositors' funds by investing them wisely in the economy where they can act as catalyst to create additional national wealth while providing the source of repayment of depositor funds.

The GCDB has been functioning in the former role. Although it has earned the thanks of the recipients of its largess, it has earned the disrespect of the public, the authorities, and the international financial community. The direct cost is clearly visible in the equity injections that have been required over time, the "Managed Fund," and the accumulated losses. The indirect cost is less quantifiable, but includes the impairment of the reputation of The Gambia in informed international circles with retardation of domestic economic development compared with the level that could have been achieved had the GCDB been playing a more professional, constructive role.

This role has been condoned by the government, both through encouragement to the GCDB to engage in lending activities that are rationalized or perceived national priority rather than justified pragmatically, and through its failure to implement banking laws to protect the economy from unsound bank management.

The Gambia cannot afford the continued high cost of this policy. Even the sagest internal structural and functional improvements within the GCDB will have little lasting remedial impact, unless its fundamental role is changed. This fact is clearly demonstrated by the stream of external consultants who have had little real impact and the repetitive cleanups that have taken place over the years. Remedial actions, to date, have failed to achieve their intended objectives, because they attempted to treat the symptoms of the disease, rather than the disease itself. Therefore we urge the government to:

1. Exercise its legal authority as conveyed in the relevant Acts that establish the legal framework for CBG supervision of the GCDB to require a change in the GCDB's leadership;

2. Accept the cost of cleaning up the GCDB's portfolio and balance sheet one last time, but henceforth to require the GCDB to function as a politically independent and financially self-sufficient banking institution though it is owned by the government;

3. Appoint a Board of Directors that will represent effectively its interest as shareholders concerned primarily with the long-term return on the capital invested;

4. Through the CBG, remove minimum interest rates on deposits;

5. Review key aspects of the legal support system operating in The Gambia, particularly with respect to rapid enforcement of security agreements; and

6. Continue their short-term liquidity support during the transition period.

We urge the reconstituted Board of Directors to:

1. Appoint an experienced banker as the managing Director, and give him the mandate to manage the bank as a commercial enterprise dependent on its internally generated profitability for its survival and to set mutually agreed upon targets for financial performance;

2. Require that the Internal Chief Auditor of the bank report directly to the Board of Directors rather than to the Managing Director, and that this Chief Auditor establish sound audit policies and procedures for credit and operations management drawing on internationally or domestically available expertise as necessary. These audit policies and procedures should set standards of excellence no lower than those acceptable to the Managing Director;

3. Rethink the role which the GCDB should play in The Gambian economy and develop a clear set of strategic business principles to guide the decision making on tactical accomplishments of those principles, drawing on international expertise as necessary; and

4. Create a steering committee that will guide and monitor the implementation of the new institutional development plan.

We urge the new Managing Director to separate the bank into two mutually balancing and controlling halves through the appointment of:

1. A Chief Banking Officer (deputy managing director) responsible for the management of all domestic and international business, including asset management of the credit portfolio and liability management of the deposits; and

2. A Chief Operations Officer responsible for all operating and accounting functions throughout the bank, including cost-effective operating support within the branches and communication of related management information to the Board, the Managing Director, the Chief banking Officer and the support staff.

The GCDB appears to have a nucleus of well-trained and capable managers who could assume the roles and responsibilities that will be required in the support staff. However, there are too few capable managers to shoulder the entire management burden immediately, particularly during the metamorphosis of the institution. A strong Managing Director who will be immune to the pressures of the transition is the key to a successful turnaround; therefore, we recommend that an experienced expatriate international banker who has a demonstrated record of successfully managing commercial banking activities in Africa be appointed as managing Director to guide GCDB through its development stage.

The Managing Director will be supported by a team of four long-term advisers. It is essential that these international experts support the bank's management. Their breadth of experience is the missing ingredient necessary for the successful implementation of the institutional development plan. They should not insert themselves into decision making other than in a strictly advisory capacity nor should they allow themselves to be drawn into the day-to-day management of the institution. It is essential that in the long-term the sole Gambian commercial bank be managed by Gambians; any direct substitution of international staff for Gambians in middle management will impede the development of these key domestic staff.

CORPORATE RESTRUCTURING

A development bank is usually a lender of funds to targetted groups at subcommercial interest rates. It will frequently have access to concessional finance and, quite often, external assistance from donor agencies. because of the bank's objectives as a development entity, it is reasonable to anticipate that it will not be a profit generating enterprise. There is a strong likelihood that the bank will continue to operate at a deficit. At best, its objective would be to become self-sustaining, i.e. reach the break-even point.

The Government of The Gambia (GOTG) has targetted the following three sectors for development lending: farmers, artisanal fishermen, and new and small businesses. If public policy is to support these sectors, then the institution doing the lending should be isolated. Costs related to development banking must be accounted for separately so that they do not affect the profitable commercial banking.

Accordingly, and in order to create a corporate environment that will eventually allow the GCDB to divest itself of all or part of its commercial banking operations, we recommend the creation of two wholly-owned subsidiaries, one to handle development banking and the other to handle commercial banking. GCDB would retain the non-performing assets and the existing liabilities to the CBG. It would continue to operate only as a holding company and as a collecting entity for the old non-performing assets. After a few years of favorable operations, the public should be receptive to purchasing shares int the commercial banking subsidiary. International development entities could be approached regarding equity participation in the development banking subsidiary only.

ECONOMIC COSTS

Regardless of which corporate vehicle the new Gambian management team decides to use to effect the cleanup, the cost to the shareholders will be substantially the same. The total cost will be approximately 132.9 m Dalasis. This includes the following items:

(1) cost of rebuilding the capital base (to cover the retained earnings deficit) at 48.7 m Dalasis;

(2) commercial bad debts that should be transferred out of the GCDB's books and in to the "Managed Fund,: at 35.4 m Dalasis;

(3) anticipated cost of expatriate advisers and overseas staff training at 25.0 m Dalasis;

(4) additional specific bad debt provision needed at 14.5 m Dalasis;

(5) understatement of foreign exchange liability at 9.3 m Dalasis; and

(6) anticipated cost of a new computer system and other fixed assets at 6.3 m Dalasis.

Despite the high cost in the long run, the alternatives would be even more costly. Of the 139.2 m Dalasis, 59.2 m Dalasis has already been incurred; the cost has not yet been acknowledged on the GCDB books. If a decision is made to liquidate the GCDB, as much as 188 m Dalasis of new short-term liquidity may be required to pay off depositors and other creditors. The social cost to the country of not having a truly local bank is impossible to quantify monetarily. There is a role and a need for a properly functioning GCDB, and it should be allowed to play that role.

ANNEX D

GCDB REHABILITATION ACTION PLAN AND SCHEDULE

CORPORATE STRATEGY	PROVISIONAL ACTION PROGRAM	START DATE	FINISH DATE	DESCRIPTION
1. Request TA from donors for the GCDB.	Request US & UK provide expatriate Managing Director and 3 long-term banking advisors	Oct 88	June 89	UK ODA agrees to provide a Managing Director; candidates identified.
		Oct 88	Oct 89	USAID agrees to provide 3 long-term banking advisors
	USAID banking expert refines TA requirements	Feb 89	Mar 89	USAID banking expert refines scopes of work for: (a) Advisor to the Managing Director; (b) Advisor to the Chief Inspector; and (c) Advisor to the Development Bank unit.
	Request short-term banking experts as needed	June 89	June 90	Short-term consultants will provide assistance not requested of long-term experts, in:
		Oct 89	Jan 90	(a) loan recovery;
		Nov 89	Feb 90	(b) asset and liability management;
		Dec 89	Mar 90	(c) branch banking;
		Jan 90	Apr 90	(d) foreign dept.;
		Feb 90	May 90	(e) strategic corporate planning; and
		Mar 90	June 90	(f) computerization.
2. Create two wholly-owned subsidiaries, one for commercial and one for development banking.	Legal review of the GCDB ACT and steps needed to effect corporate restructuring.	June 89	Sept 89	Attorney General's (AG) Chambers acts with GCDB solicitor to draft the relevant Memos and Articles of Association for submission to AG.
	Submit draft legislation for restructuring GCDB.	Oct 89	Oct 89	Ministry of Finance & Trade (MOFT) action
	Submit legislation to Parliament.	Dec 89	Dec 89	MOFT action.

CORPORATE STRATEGY	PROVISIONAL ACTION PROGRAM	START DATE	FINISH DATE	DESCRIPTION
	Capitalize new banking companies.	Jan 90	Mar 90	GOTG action.
GCDB becomes a holding company which retains the non-performing assets and the liabilities to the CBG to the date of the restructuring. It acts as a collection agent for non-performing assets.	Appraise loan portfolio and isolate non-performing loans.	Jan 89	Apr 89	Non-performing GOTG guaranteed loans worth 72.6 million Dalasis were transferred to the GOTG Managed Fund in January, 1987.
	Negotiate with GOTG for the transfer of GCU current and past liabilities to GCDB.	Apr 89	June 89	GCU current and past liabilities of 50.2 million Dalasis will be transferred to the GOTG after IMF agreement in June, 1989.
	Make full provision in the GCDB Accounts for all non-performing loans.	Apr 89	June 89	Non-performing loans worth 27.58 million Dalasis will be provided for in full in GCDB's Accounts for the year ending June 30, 1989. These and other accumulated losses will be retained by the holding company.
	Prepare debt recovery program	Apr 89	May 89	A schedule of GCDB's loan portfolio as of March 31, 1989 is prepared.

3. New objectives of the Commercial Banking subsidiary:

(a) profitability:	set and closely monitor performance indicators;	Jan 89	Mar 89	Ongoing.
	institute and closely monitor cost center accounting;	Jan 89	Mar 89	Ongoing.

CORPORATE STRATEGY	PROVISIONAL ACTION PROGRAM	START DATE	FINISH DATE	DESCRIPTION
	improve operational procedures;	Jan 89	Ongoing	Manuals are being written for Commercial Loans and Foreign Ex. depts; a new audit program is compiled. Other dept. manuals will be prepared beginning in June 89. Manual information and reporting systems have been improved and work on computerized information systems will begin in June 89.
	ensure interest rates are competitive, products innovative, and of high quality with good service.	Oct 88	Ongoing	Technical assistance will enhance this activity.
	implement strict lending policies and collection procedures.	Jan 89	June 89	Lending policies and collection procedures established.
	undertake promotional activities to increase public confidence in the performance and management of the bank, and to attract deposits.	Oct 88	Ongoing	These activities will become more effective once the corporate restructuring has been implemented.
(b) liquidity:	match loan and deposit portfolios.	Jan 90	June 90	This can only be effectively achieved after the restructuring has been completed, although efforts are being made to reduce the loan portfolio and to increase the deposit base.
	introduce adequate loan administration procedures.	Jan 89	Ongoing	A Credit Committee reviews and implements loan administration procedures.

CORPORATE STRATEGY	PROVISIONAL ACTION PROGRAM	START DATE	FINISH DATE	DESCRIPTION
	avoid concentration of exposure for both loans and deposit portfolios.	Jan 89	Ongoing	With the exception of GCU and crop finance, no further lending is made to borrowers whose loans exceed 1% of the portfolio, and efforts are continuing to reduce further the level of these borrowings. Lending policies and procedures for crop finance have been reviewed and revised
	implement effective Treasury Management procedures.	Jan 89	Ongoing	Treasury Committee policy guidelines and procedures are adopted.
(c) controlled growth:	maintain adequate profit margins and support facilities to sustain the level of service and management information requirements.	Jan 90	Ongoing	Although measures have been taken to maintain adequate profit margins and improve and sustain the level of service and management information, it is not expected that any material growth will be achieved until the corporate restructuring has been completed.
(d) improved productivity and quality of management:	institute formalized staff development and management training programs linked to priority areas of business where short-term consultants will provide assistance with training and human resource development	June 89	Sept 89	Work has started on proposals for staff development and management training programs. They will include the use of both short and long-term consultants with special knowledge in the key areas identified above, to train staff and assist with human resource development

CORPORATE STRATEGY	PROVISIONAL ACTION PROGRAM	START DATE	FINISH DATE	DESCRIPTION
(e) formalization of goals, policies and procedures, and decentralization of authority:	state goals	Mar 89	June 89	Goals have been set to: (1) improve profitability and build up reserves; (2) increase capitalization; (3) improve quality of management; (4) reduce loan portfolio to match the deposit base and build up liquidity.
	introduce formal policies and procedures to ensure loans are granted based only on the credit-worthiness of the borrower and are on commercial terms.	Oct 88	Jan 89	Formal policies and procedures have been introduced for: (1) credit policies; (2) lending procedures.
	decentralize authority, by introducing formal reporting and decision-making procedures with built-in controls to ensure that policy guidelines are followed. Set up a Senior Management Committee and appoint sub-committees for various other areas of work.	Oct 88	Jan 89	A senior management committee has been set up, as have the following subcommittees: (1) Loans review committee; (2) Foreign Exchange committee; (3) Treasury committee. The committees are made up of senior management and meet twice weekly. Committee guidelines are established.
		Oct 88	June 89	Strengthen other committees (i.e. Credit, Computer information and reporting, and the inspectorate) by introducing new policy guidelines and procedures; appoint a new Human Resources committee.

CORPORATE STRATEGY	PROVISIONAL ACTION PROGRAM	START DATE	FINISH DATE	DESCRIPTION
(f) capital adequacy:	negotiate with GOTG to increase the capital base.	Mar 89	Ongoing	as a first step, the GOTG, in consultation with the IMF, has agreed to subscribe 20.0 million Dalasis of share capital in July, 1989, from the FY 1990 budget.
	GOTG will ask the donors for grant funds to strengthen GCDB's capital base.	July 89	Mar 90	Once the expatriate banking experts are in place at the GCDB, the GOTG will approach the donors for aid.
			June 92	GOTG divests itself of the Commercial Banking subsidiary.
4. Project Financing and term lending by the Develop. Banking subsidiary will only be undertaken once the businesses have been professionally evaluated and found to be viable.	suspend new development lending pending the completion of the corporate restructuring.		Aug 88	Working capital loans are made to existing development projects which are performing by way of overdraft/line of credit facilities.
Development Banking subsidiary will cease granting loans from its own funds on concessional terms for social or other reasons.	prepare proposals for policies and procedures for new development lending.	June 89	Dec 89	These proposals have been deferred until the expatriate technical assistance is in place. however, work has begun on formulating proposals for their review and eventual implementation.

61

CORPORATE STRATEGY	PROVISIONAL ACTION PROGRAM	START DATE	FINISH DATE	DESCRIPTION
Terms for loans granted by the subsidiary on an agency basis will be by negotiation with the principals concerned.	implement and supervise.	Mar 90	Ongoing	Objective: to ensure that the bank is adequately remunerated for the work it performs in this capacity.
5. Seek funds for capital projects to improve the operational and delivery systems and management information for monitoring performance against strategic plan and objectives.	present computerization program will cost about 3.5 million Dalasis, based on an ODA-funded consultancy. Submit to donors for review and potential funding.	June 89	Dec 89	Once the expatriate technical assistance is in place, the bank will seek funds for capital projects.
	ask donors who are supplying technical assistance for supportive tools of the trade to improve the bank's operational, delivery, and management information systems.	June 89	Sept 89	UK ODA and USAID have indicated that they will be "sympathetic" to requests from their bank technicians for tools of the trade to improve the bank's operation, delivery, and management information systems.

ANNEX E

ILLUSTRATIVE BUDGET FOR THE EPRS TECHNICAL ASSISTANCE PROJECT

1. Three long-term banking experts (cost per annum):	
(A) Advisor to the Deputy General Manager:	$ 150,000
(B) Advisor to the Chief Inspector:	$ 150,000
(C) Advisor to the Development Banking Unit:	$ 150,000
Subtotal:	$ 450,000
Subtotal for twc years:	$ 900,000
2. Short-term technical assistance (total costs):	
(A) Computerization Expert:	$ 100,000
(B) Loan Recovery Expert:	$ 100,000
(C) Strategic Corporate Planner:	$ 100,000
(D) Branch Banking Expert:	$ 75,000
(E) Foreign Exchange Banking Expert:	$ 75,000
(F) Asset and Liability Management Expert:	$ 50,000
Subtotal:	$ 500,000
3. Training for GCDB staff:	$ 150,000
4. Computers for GCDB:	$ 150,000
5. Contingency:	$ 150,000
GRAND TOTAL:	$1,850,000

ANNEX E

Job Descriptions and Requisite Qualifications

for

Three Long-Term Technical Advisors

to

The Gambia Commercial & Development Bank

by

Charles Moizeau
Banjul, The Gambia
10 February 1989

Contract # 0438-C-00-8059-00

LABAT-ANDERSON Incorporated
2200 North Clarendon Boulevard
Suite 900
Arlington, Virginia 22201

64

A. Background

(1) The Gambia Commercial and Development Bank (GCDB) was established in 1972. It is entirely government owned, and, except for an expatriate who has served as chief accountant since 1984, has been indigenously managed throughout its life.

(2) GCDB has been bankrupt for several years and presented a large negative net worth as of June 30, 1988. That figure (about $3 million) is most likely conservative given the liberal definition of "performing" applied to the bank's loan portfolio.

(3) GCDB has managed to function over recent years only because of two revaluations of depreciated fixed assets to their replacement value, assumption by the government of sizable unpaid loans, and sustained support by the Central Bank of The Gambia (CBG) to offset GCDB's chronic illiquidity.

(4) During 1989, GCDB's financial situation is likely to deteriorate further because the revenues of the bank's largest debtor, a major agricultural credit institution, will be 65 percent below the break-even point as a result of a very poor groundnut harvest.

(5) With about 50 percent of total commercial bank deposits, GCDB is the largest of the country's three commercial banks. The other two banks are predominantly foreign-owned and benefit from offshore management and, if needed, financial support. Offering higher quality service, they have practiced more lending selectivity, with the result that GCDB has encountered a higher risk clientele.

(6) GCDB's lax lending policies have been, together with government-directed refinancing of much of the agricultural sector, the chief contributors to the bank's unsatisfactory financial condition. Many loans are made without any equity contribution from the borrower. Collateral is often insuffient, incorrectly valued, or lacking ownership registration.

(7) Donor aid that has been intermediated through GCDB has been treated with less care in its on-lending than might be the case with normal funds from the depositor. Furthermore, such aid programs, which are extended to government entities, invite pressure on GCDB's lending operations in response to social welfare requirements and patronage considerations.

(8) Loan administration is characterized by a considerable reluctance to deal forcefully with delinquent borrowers. Currently, loan matters are handled by four different departments, much of whose time is expended in reapportioning blame and reallocating responsibility for any action that might eventually be taken.

(9) General management defects include a lack of clear reporting lines and an absence of job descriptions and standardized operating procedures to guide the daily activities of the bank and provide a basis for evaluating performance.

(10) Leadership has been seriously affected by the removal of the bank's chief executive officer and three senior managers. No permanent replacements have been named. In the light of this management gap, a recently reconstituted board of directors has not supplied direction.

(11) Deficient management and a void in leadership have caused low morale among the staff, who are reluctant to act for fear that they might lose their jobs. In addition, GCDB does not inspire confidence among its deposit customers, and a generalized lack of respect for the bank pervades the private and public sectors. Furthermore, the absence of any significant degree of loan recovery effort has strengthened the disinclination of long-standing debtors to service their obligations.

(12) External supervision is the responsibility of the Ministry of Finance and Trade. The Central Bank of The Gambia, while lending financial support to GCDB, has not been involved to any extent in determining remedial policies.

(13) For several years the unsatisfactory condition of GCDB has been a concern to the World Bank and the IMF. Tangible progress in implementing GCDB's restructuring is a condition precedent to disbursements under the World Bank's second Structural Adjustment Credit of SDR 25 million. A thorough diagnostic study of the bank was published in June 1988, and this is the starting point for rehabilitation of GCDB. Following its approval by The Gambia's Ministry of Finance and Trade, USAID and the United Kingdom's Overseas Development Administration (ODA) have responded to the Government of The Gambia's (GOTG) request for technical assistance consistent with the recommendations contained in the diagnostic study. As a result, ODA will fund the long-term assignment of a Managing Director, who will remain in that capacity for 3 years, followed by 1 year in rendering technical assistance to his Gambian replacement. USAID will fund the 24-month assignment of an advisor to the Deputy Managing Director, who will report to the Managing Director. In addition, this advisor will serve as team leader for three other long-term advisors supplied by USAID or any short-term advisors who might be selected in different functional areas in lieu of one of these three long-term advisors originally envisaged.

(14) Additionally, the World Bank's recently signed Enterprise Development Project budgets an amount to meet the cost of other technical assistance from foreign sources.

(15) With this high-level technical assistance in place, GCDB will be restructured to ensure that it becomes a soundly managed and efficiently operating financial institution. After progress has been demonstrated in these two areas, the bank then can be recapitalized so that it will be able to legally and effectively function as the principal banking entity needed to participate in the execution of the GOTG's Economic Recovery Program.

(16) Given a reasonable period of satisfactory financial performance following its recapitalization, GCDB will be privatized. It must be stressed that the GOTG has already made this decision. Moreover, in 1987 the government's ownership in another commercial bank was successfully sold to private investors. Disposition of the GOTG's ownership of GCDB was extensively studied at that time; however, it was realized that no further steps in this direction could be taken until the bank's management and financial condition are sound.

Objectives

(1) A team led by an expatriate Managing Director will be responsible for GCDB's efforts to meet the following objectives. He will be assisted by three (rather than four, as subsequently explained)

long-term expatriate advisors, each of whom will serve concurrent terms of 2 years. The advisors will help as necessary in recruiting and training ongoing key managers. Later they will advise these managers and participate in evaluating their effectiveness. Additionally, up to eight short-term technical assistance personnel will be variously contracted over a 2- to 3-year period in order to perfect the bank's operations in specific functional areas.

(2) The four persons noted above will jointly develop a strategic plan and may, if needed, contract for short-term technical assistance to aid in this particular task. That plan will set forth detailed and quantitative goals that must be fulfilled in order for GCDB to become the primary financial institution needed in support of the GOTG'S Economic Recovery Program.

Under the leadership of the Managing Director, they also will:

(3) Design and implement an organizational structure that will enable GCDB to bring its capabilities to bear on desired market segments. This structure will not be obliged to replicate the organizational structures that exist in the other two commercial banks, mindful of the fact that the latter have available to them continuing offshore managerial and financial support.

(4) Enact organizational and operational changes to spur the loan recovery process. A demonstrated inflow of funds will greatly enhance the reputation of the bank's management in later presenting its case for recapitalizing of GCDB, as well as reduce the amount of money needed for this purpose.

(5) Prepare a recapitalization plan.

(6) Establish indicative loan provisions and quantify other liabilities, direct and contingent, so that they may be fully funded by the recapitalization.

(7) Determine the funding necessary for capital expenditures necessary to make the bank's operations more efficient and to supply management with the information it requires.

(8) Establish internal profit centers and measure each unit's performance against the specific goals of the strategic plan.

(9) Prepare a reorganization of the Development Banking Unit so that its personnel may help the loan recovery effort and form the nucleus of a project finance unit. The latter will initially work to restructure those loans for which there is some prospect of full or partial recovery. Thereafter, consistent with the strategic plan, the unit will perform quality project evaluations and restructure their financial, managerial, and marketing requirements so as to advance the implementation of projects that will achieve the objectives of the Economic Recovery Program without ever again imperiling GCDB's financial viability.

(10) As needed, prepare accounting details covering the Gambia Cooperative Union's relationship with GCDB so that the Managing Director may assist other governmental entities in developing a plan to rationalize the relationship between the Gambia Cooperative Union and the GCDB.

(11) As has been previously suggested, loan assets for which there is hope of recovery might be spun off to a completely separate financial entity, with GCDB charged with their recovery effort on a fee-paid basis. (The eventual loss on the unrecovered portion remaining after the passage of a predetermined period of time will be for the account of the owners of the separate financial entity). Alternatively, if these assets remain on GCDB's books, the funding of the indicative provisions must be included in the recapitalization requirements.

(12) Implement the recapitalization plan so that GCDB can function legally as a banking institution, independent of outside financial support.

(13) Develop a plan for the later privatization of GCDB. In the meantime, marketing efforts and publicity will enhance the bank's image in the home market, and its viable financial condition and operating efficiency will attract the favorable attention of its overseas correspondent banks, thus facilitating GCDB's introduction to potential foreign private-sector investors.

C. Statement of Work

Although it was originally thought that four long-term advisors would be needed in addition to the Managing Director, it is now clear that only three of the four functional areas require long-term assistance. These are the advisor to the Deputy General Manager,* the advisor to the Chief Inspector, and the advisor to the Development Banking Manager. It is important to note that the posts of Deputy General Manager, Chief Inspector, and Development Banking Manager are presently unfilled.

(1) Advisor to the Deputy General Manager

The post of Deputy General Manager has not been filled since the GCDB was established. This longstanding void is one of the reasons why the bank's previous management was unable to cope satisfactorily with many of its problems. In order for the recapitalization and later privatization of GCDB to proceed, the Managing Director will have responsibility for the formulation of the bank's broad policies, and much of his time will be spent ensuring that various agencies and departments of the government understand and support these policies.

Because the overwhelming reason for GCDB's present unsatisfactory financial condition is the past conduct of its lending activities, the principal function of the Deputy General Manager should serve as the bank's senior credit officer. Because it will be some time before GCDB can compete with its two competitors in terms of quality of service and price, it will continue to be more exposed to a high-risk clientele.

The advisor to the Deputy General Manager must assist in the direction of credit matters. The need for his services is immediate and his tenure must be for not less than 2 years. After

---

*The Deputy General Manager is the immediate deputy to the Managing Director. The latter is the only full-time member of the bank's staff to also be a director on the bank's Board of Directors, and therefore his title is properly "Managing Director." However, his deputy is not on the Board of Directors; thus, "Deputy General Manager" is a more accurate description of his position than would be "Deputy Managing Director."

the Managing Director, he will be the most senior of the long-term advisors and will serve as their team leader. Additionally, it may be appropriate for certain of the short-term technical assistance personnel to be under his direct supervision.

The advisor to the Deputy General Manager (the incumbent) will participate in recruiting, training, and regularly evaluating the Deputy General Manager, with the objective that the responsibilities of this post will be competently performed upon the advisor's departure. Under the direction of the Managing Director, the incumbent will be responsible for implementing the following illustrative activities:

(a) Studying ways to reorganize the Commercial Loan Unit, the Development Loan Unit, the Loan Recovery Unit, and the Credit Department in order to most effectively manage the functions of loan recovery, loan restructuring, and project financing. The goal of such a reorganization is to eliminate the inaction that results from the present shifting of responsibility among the four units.

(b) Preparing a credit procedures manual in order to codify credit procedures and clearly establish levels of credit authority.

(c) In order to achieve tangible loan recovery results the incumbent will:

(i) Quantify exact amounts owing in each commercial and development loan account.

(ii) Supervise the Chief Accountant in the segregation of principal, interest and penalty interest amounts due.

(iii) Oversee the classification of all loans into three categories: irrecoverable, recoverable in part or whole with continued access to bank credit, and recoverable in part or whole without further bank credit on either original or restructured terms.

(iv) Supervise the Chief Accountant in his analysis of all overdrawn accounts to prepare corrective action in cases where habitual overdrafts are simply permanent financings.

(v) Supervise the Chief Accountant in applying stringent non-performance criteria to all loans and chronic overdrafts and correcting income accrual calculations.

(vi) Supervise the Chief Accountant in establishing a monthly interest billing cycle.

(vii) Research the legal constraints to debt collection and enforcement techniques.

(d) The incumbent will regularly inform the Managing Director of progress in recovering debts so that the latter may present these positive results to external governmental agencies and international organizations who have an interest in GCDB's performance.

(e) The Chief Accountant will be supervised by the incumbent. The Chief Accountant will in turn exercise direct supervision over

'9

the branch banking department, the foreign department, the administration (personnel) department, and computer and management information systems. The incumbent, in order to evaluate the Chief Accountant's performance, will be expected to have a full understanding of those activities.

(f) In order to ease GCDB's current liquidity problems, the incumbent will work closely with the Managing Director to achieve a formalized arrangement with the Central Bank of The Gambia, pending GCDB's eventual recapitalization.

(g) In order to improve internal communication and management control, the incumbent and the Managing Director, the Chief Accountant, and the Chief Inspector will decide what reports to management will be generated. Knowledge of these requirements will precede the installation of a modern computerized information system.

(h) In order to gauge the bank's performance, the incumbent and the Chief Accountant will formulate a profit plan by bank client, product, and geographic unit. This profit plan will also attribute costs to each service that the bank provides.

(i) Together with the Chief Accountant and Chief Inspector, and in conjunction with the bank's present external auditors, the incumbent will evaluate past audits. The bank's management may thereafter elect to have an external management audit performed, and change auditors.

(j) To improve the methods of intermediating donor aid programs through the commercial banking system, the incumbent and the Chief Accountant will determine the costs that GCDB incurs in administering donor programs. Recommendations on revised techniques for intermediating this aid will be supplied to the managing director for referral to the appropriate authorities.

(k) To improve the quality of staff performance, the incumbent and the Chief Accountant and the head of the administration department will implement procedures covering performance evaluation, merit pay increases, incentive compensation schemes (such as a suggestion award program), harmonization of staff benefits, and a detailed program for staff development and training.

(l) To update banking legislation in The Gambia to correspond with current realities, the incumbent will work with the Managing Director so that the latter may submit proposed changes to the appropriate authorities.

(m) In the absence of the Managing Director, the incumbent will be responsible for participation in new business activities (over the near term this will mean only generating and retaining deposits), marketing strategies, asset and liability management, relations with the bank's Board of Directors, and relations with all other entities having a supervisory or policy formulation relationship with GCDB.

(2) Advisor to the Chief Inspector

After unsatisfactory lending activities, the paucity of clearly established management procedures is a major cause of GCDB's enfeebled condition. It is the role of a Chief Inspector to ensure that all necessary management policies, procedures and job descriptions are in place and that sound banking practices are rigorously adhered to.

The need for an advisor to the Chief Inspector (the incumbent) is immediate and his tenure must be for not less than 2 years. Although the incumbent will be a member of a USAID-supplied technical assistance team under the general administrative authority of the team leader, it is essential that the incumbent enjoy full operational autonomy in order for the control function of a chief inspectorate to have any meaning.

In a bank where the Managing Director exercises relatively little direction compared to an active and knowledgeable board of directors, a case can be made for the Chief Inspector to report directly to the board. Under the circumstances now foreseen for GCDB over the near term, it would seem more appropriate for the incumbent to furnish his audit reports to the Managing Director to be transmitted in their original form to the Board of Directors. The Managing Director would be expected to supplement the Chief Inspector's report with his own comments. The incumbent will have unimpeded access to all aspects of the bank's activities; conversely, he may be directed by the Managing Director to investigate a particular activity where there is cause for concern.

In accordance with operational guidelines supplied by the Managing Director, the incumbent will perform the following illustrative duties:

(a) Participate in recruiting, training, and regularly evaluating the Chief Inspector, with the objective that the responsibilities of this post will be competently performed upon the advisor's departure. Additionally, the incumbent will participate in the following responsibilities:

(b) To regularize and standardize the internal functioning of the bank, the incumbent will ensure that written statements of general bank policies and detailed operating procedures for each operating unit exist. In the event that such statements do not exist or are deficient, the incumbent will help the department head concerned prepare or revise them. Subsequently, every staff member will be trained and satisfactorily tested on their content.

(c) To establish uniform standards in all branches, including the head office branch, the incumbent and the branch banking department head will prepare a branch operating procedures manual.

(d) To accurately describe job functions and establish the basis for fair pay scales, the incumbent and the various department heads and the head of administration will ensure that accurate job descriptions exist or are prepared for each position in the bank.

(e) To regularize the inspection process, the incumbent will prepare an annual audit schedule. Sufficient notice shall be given to each department to be audited. Additionally, the incumbent will prepare a confidential program for unannounced spot checks of cash or particular functions performed by any given department.

(f) To ensure the completeness of his audits, the incumbent will prepare detailed confidential checklists to be used in conducting the audits.

(g) To minimize the possibility of losses from employee dishonesty or fraud from collusion between employees and clients, the incumbent will perfect and implement dual or multiple control of operating procedures to separate responsibility for any single transaction judged to be sensitive.

(h) To ensure the timely flow of information to management, the incumbent will verify the prompt dispatch of reports at their required intervals.

(i) To regularly apprise the Managing Director and Board of Directors of the Chief Inspectorate's findings, the incumbent will prepare detailed quarterly audit reports.

(j) To protect the bank's security interest in property pledged as collateral, the incumbent will ensure that the loan department conducts periodic checks of the continued presence and condition of the collateral, together with periodic valuations of its worth.

(k) To control costs, all expense control procedures shall be under the incumbent's supervision.

(l) To establish a proper value of the bank's fixed assets, all physical assets will be inventoried by the incumbent, and whatever insurance is necessary will be kept in force.

(m) To further verify staff attendance, the attendance reports of department heads and the Chief Accountant will be audited. Additionally, at the direction of the Deputy General Manager, attendance of advisors and short-term providers of technical assistance will be subject to verification.

(n) To ensure that the bank operates in full compliance with the regulations of the Central Bank of The Gambia and all other authorities (labor, fiscal, and so on) the incumbent will prepare a listing of all reports required and ensure that each department involved in their preparation is forewarned. All reports will be logged by the incumbent prior to their dispatch outside of the bank.

(3) Advisor to the Development Banking Unit

GCDB's loan losses derive mainly from its refinancing of agricultural loans made by the Gambia Cooperative Union and loans made by the development banking unit to large, medium, and small-sized business enterprises that violated virtually every principle of sound banking. They were in effect venture-capital donations with no prospect of any return. Thus were dissipated the funds provided by trusting depositors and magnanimous donors of foreign aid. Although GCDB's name bespeaks a development function, it must be firmly established that never again will the bank's financial viability be systematically put at peril for the sake of social or, more properly, individual welfare considerations.

The need for a development banking advisor is immediate and tenure must not be for less than 2 years. In reorganizing the development banking unit, it would be well to consider initially limiting its

72

role to loan restructuring and later to project finance. The advisor to this department (the incumbent) will report directly to the Deputy General Manager, and because of the latter's senior credit officer role, the incumbent will have a close working relationship with his superior, to such an extent that he could eventually be promoted to Deputy General Manager. The incumbent will:

(a) Participate in recruiting, training, and periodically evaluating the manager responsible for loan restructuring and project finance. He will also assist in recruiting two or three highly qualified individuals to work in that department. It may be expected that when most of the restructuring of the existing bad loans throughout the bank has been completed, the department could be simply titled the project finance department in order to shed its past vocation and highlight its role in dealing with new loan business. It is expected that upon the incumbent's departure the project finance department will represent the intellectual elite of GCDB, and its skills in project evaluation and corporate finance will surpass those of the other commercial banks and rival those of the National Investment Board.

(b) In order to assist in the recovery of nonperforming loans, the incumbent will identify those loans where restructuring of repayment terms and conditions will increase the recovery amount, and subject alternative restructuring solutions to a trenchant cost-benefit analysis.

(c) In order to properly evaluate a project's chances of financial success, the incumbent will be fully knowledgeable of and capable of teaching principles of rates of return and debt coverage under varying market conditions that affect selling prices, input costs, and interest charges. Computer techniques will be employed on a daily basis.

(d) In order to obtain for the bank a source of noninterest income, the incumbent will make available on a fee-paid basis the services of the project finance department to other agencies or companies that require project evaluation services.

(4) Short-Term Technical Assistance

With the possible exception of assistance in the field of loan recovery, no short-term technical assistance will be needed at the moment of the arrival of the long-term advisors. The latter will, in fairly short order, be able to determine the quantity and timing of specific short-term technical assistance. Areas in which such assistance will probably be required are:

(a) Computerization of bank operations and management information systems. Among the applications would be general ledger, various subledgers, daily proof, loan accounts, current savings and and time deposits, budget preparation, and payroll and monthly income statements. Management will first have to carefully determine its informational needs; the small size of GCDB, together with the availability of detailed studies provided by prospective equipment suppliers, means that short-term technical assistance will suffice.

(b) Loan recovery.

(c) Training. Consideration should also be given to appropriate in-country training that is available outside of the bank.

(d) Strategic corporate planning.

(e) Human resource development.

(f) Branch banking. Optimal siting of branches to maximize deposits should be a key consideration.

(g) Foreign department. An upgrade of this department is long overdue. Increased familiarity with banking practices that prevail in nearby African countries and reestablishment of correspondent banking relationships are needed to provide competently administered foreign trade finance services to GCDB's clientele.

(h) Asset and liability management. No formalized application of asset and liability management techniques can be contemplated until the the bank has been recapitalized. Until then, ad hoc arrangements necessary to provide needed liquidity will preclude selection of optimal funding sources.

The total effort required by providers of short-term technical assistance should not exceed 50 person-months. This would occur throughout the period of time that the long-term advisory team is present. In the event of the recapitalization plan being delayed or falling short of financing requirements, the short-term technical assistance budget would have to be modified accordingly.

D. Scheduling

The need for the three long-term advisors is immediate, and the duration of their services should not be less than 24 months each. The three posts to which each advisor will be assigned are all vacant at the present time; thus, a serious void in the management structure now exists. The new Managing Director is expected to arrive first, and his job will be considerably aided by the presence of the three long-term advisors. Reporting lines and working relationships have been described in the foregoing section.

E. Expertise Required

Qualifications required of each long-term advisor are as follows:

(1) The advisor to the Deputy General Manager should have not less than 15 years of commercial bank experience. His background should include all or most of the following areas.

(a) Managerial experience as head of a branch or an important line unit having both client contact and relationships with supporting operations departments.

(b) Loan initiation, documentation, administration, and restructuring.

(c) Asset-based and cash-flow-based lending.

(d) Self-liquidating and business-cycle working-capital lending.

(e) Lending to middle market and small business sectors.

(f) Techniques of collateral valuation.

(g) Accounting methods applicable to loans.

(h) Two years' commercial banking experience as a resident or 7 years as a transient in developing countries.

(2) The advisor to the Chief Inspector should have not less than 20 years of commercial bank experience. His background should include all or most of the following areas and qualities:

(a) Managerial experience as a bank controller or auditing team leader.

(b) Chief operations manager or deputy chief of operations in a large branch.

(c) Operational experience at the department or assistant department head level in several operating units.

(d) Experience in legal compliance matters involving regulatory authorities.

(e) Especially important qualities include an investigative nature, discretion, insight into human behavior and motivation, and interpersonal communicative skills that can be exercised at all levels.

(3) The advisor to the Development Banking Manager should have not less than 10 years experience within the project finance department of a commercial bank, the corporate finance department of an investment bank, or the financial analysis department in the treasurer's office of a large industrial corporation. Ideally, experience will have been gained in all three locations. His background should include all or most of the following areas:

(a) Project evaluation.

(b) Corporate finance.

(c) Capital budgeting.

(d) Cash-flow forecasting.

(e) Market research and marketing.

(f) Economic analysis of free markets.

(g) Computer skills.

(h) Teaching experience.

(i) Academic or professional background in an engineering discipline with technical work experience.

(j) Outstanding academic qualifications.

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

The African Economic Policy Reform Program (AEPRP) for The Gambia (635-0228)

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

YES

YES

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

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

   CONGRESSIONAL NOTIFICATION

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

   N/A

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

   NO
   N/A
   N/A

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

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

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

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

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

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

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

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

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

6. N/A

7. NO

8. YES

9. YES

10. YES

-17-

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

1. N/A

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

a. N/A

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

b. N/A

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

c. N/A

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

d. N/A

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

e. N/A

78

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

2. Nonproject Criteria for Development Assistance

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

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

b. N/A

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

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

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

b. (1) N/A

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

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

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

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

81

(ii) concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;	N/A
(iii) research into, and evaluation of, economic development processes and techniques;	N/A
(iv) reconstruction after natural or manmade disaster and program disaster preparedness;	N/A
(v) for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;	N/A
(vi) for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.	N/A
(5) [120-21] for the Sahelian region; if so, (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multidonor development plan which calls for equitable burden-sharing with other donors; (b) has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom)?	(5) USAID and the IBRD are cooperating in the restructuring of the GCDB. The GOTG has participated in the design of the reform agenda. The recapitalization of the GCDB and its privatization are a matter of national priority. The GOTG ERP is a multi-donor funded development plan which involves equitable burden-sharing among the donors. (5) (b) YES

62

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

c. The GOTG will proivde the Dalasis equivalent of AEPRP cash disbursements o $2.5 million and the Dalasis will be used for agreed upon program purpose, the recapitalization of the GCDB.

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

d. N/A

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

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

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

f. YES

83

5C(2) - PROJECT CHECKI ıST

Economic Policy Reform Support (EPRS) project (635-0231) for The Gambia

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

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

YES

YES

A. GENERAL CRITERIA FOR PROJECT

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

A. 1. YES

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

2. (a) YES
(b) YES

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

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

dy

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

4. N/A

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

5. N/A

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

6. NO

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

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

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

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

95

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

9. The GOTG will provide an equivalent amount of local currency (Dalasis) to the $2.5 million tranches which will be used to be the costs associated with the recapitalization of the GCDB so that it can be privatized.

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

10. NO

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

11. N/A

12. FY 1989 Appropriations Act Sec. 549. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

12. NO

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

13. N/A

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

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

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

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

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

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

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

B. 1.a. N/A

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

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

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

(b) N/A

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

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

(e) N/A

c. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1989 Appropriations Act (Development Fund for Africa). Does the project fit the criteria for the source of funds (functional account) being used?

c. YES

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

d. N/A

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

e. YES. Under the AEPRP the GOTG is providing a matching amount of local currency (Dalasis to fund the costs of the recapitalization of the GCDB.

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

f. YES

851

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

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

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

h. NO

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

NO

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

NO

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

i. NO

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

NO

90

j. F A Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — j. YES

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

l. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded by helping to increase — l. N/A

01

production on lands already cleared or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destructi loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k)/utilize the resources and abilities of all relevant U.S. government agencies?

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

m. N/A

97

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

n. N/A

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

o. N/A

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

p. (a) YES

(b) YES

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

(c) N/A

(d) YES

(e) N/A

qk'

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

2. Development Assistance Project Criteria (Loans Only) 2 N/A

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

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

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

3. <u>Economic Support Fund Project Criteria</u>

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

3. N/A

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

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

96