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The Gambia Debt Management Activity Final Report

Leadership in Public Financial Management II

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THE GAMBIA DEBT MANAGEMENT ACTIVITY FINAL REPORT

Leadership in Public Financial Management II

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ACRONYMS AND INITIALISMS

CBG	Central Bank of The Gambia
DLDM	Directorate of Loans and Debt Management
GDP	Gross domestic product
GFMS	Government Financial Management Information System
IMF	International Monetary Fund
LPFM II	Leadership in Public Financial Management II
MOFEA	Ministry of Finance and Economic Affairs
MTDS	Medium-term debt strategy
PFM	Public financial management
PPP&PE	Directorate for Public-Private Partnerships and Public Enterprises
PURA	Public Utilities Regulatory Authority
SOE	State-owned enterprise
USAID	U.S. Agency for International Development

EXECUTIVE SUMMARY

The current government of The Gambia came to power in December 2016 as the result of a contested election that unseated the longtime president, who had ruled the country for almost 22 years. The new government was welcomed by international donors, regional leaders, and other stakeholders with optimism and the hope that the new government would usher in an era of improved governance, rule of law, and human rights. It inherited, however, an economy in deep distress with a host of fiscal and governance challenges. To support the government in achieving the requirements of the International Monetary Fund's Staff Monitored Plan's terms for rapid credit facility access, USAID agreed to provide technical assistance in areas that would help them reach these targets.

After an assessment mission was conducted in February and March 2018, LPFM II and Gambian government counterparts agreed to the following areas of technical assistance:

- Delivery of training for government counterparts to strengthen domestic debt market development
- Development of processes, guidelines, and a risk assessment framework to facilitate more prudent on-lending
- Technical support in operationalizing the government debt management strategy.

In addition to these technical areas, the team also delivered training to government counterparts on strengthening public financial management (PFM) and public accountability.

The LPFM II team conducted six trainings, for 377 person-days of training. The team supported government counterparts in discussion on the domestic market development and on-lending and guarantees, which resulted in counterparts defining and committing to achieving specific action items. The team also developed an on-lending procedures manual defining the processes and guidelines for the government to lend money to state-owned enterprises (SOEs), public enterprises and local governments.

INTRODUCTION

The government of The Gambia that came to power after the December 2016 election unseated a president who had ruled the country for more than 20 years. The installation of a new government created a window of opportunity to set the country on a new trajectory of improved governance, rule of law, and human rights. At the same time, however, the new government inherited an economy in deep distress and facing many fiscal and governance challenges.

Perhaps the most pressing issue facing the government is high external and domestic debt. In June of 2018, the total debt ratio stood at more than 120 percent of GDP. Domestic debt, representing about 59 percent of GDP, poses the greatest risk, with an average interest rate of 11 percent and short maturities. The external debt, representing about 63 percent of GDP, is concessional low-interest debt and poses less risk. In 2017, almost half of the government's revenue (42.8 percent) went to debt service, making much-needed government investment in infrastructure and critical social programs difficult.¹ The government's contingent liabilities—the result of poorly performing state-owned enterprises (SOE) and expenditure arrears—represent important risks to the country's fiscal prospects.

The government of The Gambia has been working with the International Monetary Fund (IMF) through a rapid credit facility and a staff monitored program to obtain funding, but such funding is conditional on the country's progress in implementing a reform program that includes debt management reforms. The Ministry of Finance and Economic Affairs (MOFEA) Directorate of Loans and Debt Management (DLDM), however, lacks the technical capacity and resources to implement its medium-term debt strategy (MTDS), to prolong maturity dates of the domestic debt, or replace the domestic debt with longer-term concessional external loan(s). The government's contingent liabilities – the result of poorly performing state owned enterprises and expenditure arrears – represent important risks to the country's fiscal prospects. The government needs clear guidelines and processes, as well as greater capacity to analyze, monitor, manage, and mitigate risk.

In this context, LPFM II worked with USAID/E3, USAID/Senegal and the U.S.Embassy in the Gambia asked LPFM II to implement a year-long intermittent technical assistance (TA) activity funded with E3 funds to strengthen the capacity of the government of The Gambia to meet these pressing challenges. The LPFM II team began this activity by conducting a rapid needs assessment in February and March 2018. On the basis of that assessment, the LPFM II team and MOFEA agreed to the following program of technical assistance:

¹ IMF Article IV Staff Report, June 2018

- A week-long training on strengthening public financial management (PFM) and public accountability for a range of national and subnational government stakeholders
- Training for government counterparts to strengthen domestic debt market development;
- Development of processes, guidelines, and a risk assessment framework to facilitate more prudent on-lending
- Technical assistance to the GOTG in the operationalization of its debt management strategy.

This report describes the major activities and achievements of the technical assistance program.

I. Rapid Assessment of Debt Management Capacity

From February 27 to March 9, 2018, the LPFM II team conducted a rapid assessment of the strengths and weaknesses of debt management in The Gambia to identify priorities for reform and capacity building. This assessment built off the findings of an initial assessment conducted by USAID/E3 in mid-2017.

INTERLOCUTORS

The team met with held a range of meetings with Gambian officials. Introductory meetings were held with the permanent secretary and the deputy permanent secretary of MOFEA. The team's principal technical counterparts were the director and staff of the DLDM. The team met with officials from MOFEA units involved in accountant-general operations, macroeconomic and fiscal policy and forecasting, budget management, and oversight of public-private partnerships and state-owned enterprises to understand the linkages and coordination mechanisms between those functions and debt management. The team also met with officials of the Central Bank of The Gambia, which plays a significant role in the management of domestic debt.

The team also met with other development partners to coordinate with their efforts. The Millennium Challenge Corporation, the IMF, the World Bank, the European Union, and the Tony Blair Initiative welcomed USAID's support to Gambian debt management authorities and confirmed that this support complements but does not duplicate the assistance that they provide or are planning to provide.

FINDINGS

The rapid assessment had the following key findings:

- The primary focus of the authorities is reducing debt sustainability risks while still securing new financing.
- A debt management strategy has been prepared and is updated on a regular basis but does not provide strong direction for debt issuance and contracting.
- The institutional arrangements for debt management are fragmented.
- Coordination between debt and cash management needs to be strengthened.
- Recording of debt and debt-related transactions is not comprehensive.
- The debt-recording information system used by the DLDM is at risk of failure.
- Stronger policy and operational guidance is needed for on-lending transactions and loan guarantees.
- Operational risk is high, but awareness of the need to manage operational risk is low.

PROGRAM OF ACTIVITIES

To address some of these issues, the LPFM II team, DLDM and MOFEA decided on the following program of activities:

- **Activity 1.** Provision of training on public financial management and public accountability for a range of Gambian government stakeholders
- **Activity 2.** Training on strengthening of domestic market operations
- **Activity 3.** Support in defining operational processes and tools and a risk management framework for on-lending
- **Activity 4.** Support for the implementation of government MTDS and Borrowing Plan

These activities are described in further detail in the sections that follow.

RESULTS

- Identification of critical debt management needs
- Consensus with the Gambian government on a package of debt management technical assistance

2. Strengthening Public Financial Management and Public Accountability Training

Strong, transparent PFM and effective public accountability systems are foundational to sustainable development in any sector. The USAID's Strengthening PFM and Public Accountability course provides an overview of PFM and public accountability systems, frameworks to assess strengths and weaknesses in both, and practical tools and examples of how to design contextually appropriate interventions and build local capacity. Sessions cover the government budget cycle from planning to audit, tax administration and domestic revenue mobilization, and intergovernmental fiscal relations.

The course also provides information on the role of government and nongovernmental accountability actors, budget transparency platforms including the Open Government Partnership and Open Budget Index, social accountability tools and practices, and emerging research on building more accountable public resource management and service delivery.

USAID and LPFM II offered this course to a group of sixty-two (62) participants in Banjul, Gambia from March 19-22, 2018. The offices and councils represented: 8 area councils, 6 ministries, 7 directorates from the Ministry of Finance and Economic Affairs, and the Gambian Revenue Authority.

RESULTS

- Provided 248 person-days of training to 62 participants on foundational PFM topics
- Promoted dialogue among the government agencies and offices involved in different stages of the budget cycle to promote understanding of the roles and mandates of those organizations
- 98 percent of respondents agreed or strongly agreed that the course's learning objectives were met and that they would use the information learned on the job.

Figure 1. Participants in the Strengthening Public Financial Management and Public Accountability



Figure 2. Selected Comments from Participants in the Strengthening PFM and Public Accounting Course

“The course has widened my scope of government financial operations and will be impact on my job positively in forms of applying the best practices.”

“As someone who takes part in procuring IT services, this will help in making better procurement decisions.”

“I will always be conscious that I am accountable of the job I do.”

“This will improve the job performance not only at my level but my subordinates too.”

“It will translate the importance of accountability and transparency to the taxpayer.”

3. Support For Domestic Debt Market Development

The Gambia has a fairly shallow financial sector, and the market for government debt is relatively undeveloped. Fourteen banks operate in the domestic market—13 conventional commercial banks and one Islamic bank. Financing is issued primarily through short-term treasury bills, although the authorities have been working to introduce securities with longer tenures. There is no functioning secondary market. Although the Gambia has 13 insurance companies and nine brokerage firms, these are small scale. There is no large life insurance fund or large pension fund and very little nonresident engagement in the domestic market.

In this context, LPFM II designed and delivered two training courses on developing and implementing strategies to reinforce domestic markets for government debt.

WORKSHOP ON DOMESTIC GOVERNMENT SECURITIES MARKET

The first domestic-market training was a three-day workshop from October 8 through 10, 2018 on the domestic government securities market. The workshop was divided into two parts.

Part 1

The first part of the workshop, lasting one-and-a-half days, engaged both government counterparts and representatives from the banking sector. Technical experts gave presentations on the dynamics of government securities markets and factors that influence their development and on translating the MTDS into an annual-issuance plan, including specific operations in the domestic market.

Then the workshop held a working session during which the participants set priorities for market development and measures to overcome or mitigate specific challenges in the functioning of market operations.

Part 2

The second part of the workshop, also one-and-a-half days long, was for government counterparts to operationalize the concepts covered during the first part of the training. In this part of the training, government of Gambia officials defined the plans and actions needed to achieve their domestic debt market goals.

During a first working session, officials identified measures to support formulation and execution of the calendar of dates, volumes, and tenors of government securities to be auctioned. A technical expert gave a presentation on developing a strategy for communicating with investors and market intermediaries, and then a second working session was held. In this final session,

officials identified the measures they would have to take to improve communication with the market.

Recommendations

In the recommendations that the workshop working session issued, government of The Gambia counterparts committed to a continuous process of engagement with government debt management stakeholders and to development of the market. MOFEA committed to developing a communication strategy to update stakeholders on government policy direction and lending instruments, to engage with the banking sector on issues hampering performance, to clarify communication roles and responsibilities within the DLDM, and to educate the press on debt data and debt management strategies. The government counterparts also agreed on the need for a committee to prepare the auction calendar and to establish protocols to ensure the submission of the MTDS to Cabinet, in accordance with the Public Finance Act Part vi. They also determined that their top focus should be on developing a robust primary market and that they would delay effort to develop the secondary market. The action matrix produced by the counterparts is in Annex 2.

TUTORIAL ON PRICING AND RISK MANAGEMENT OF DEBT

In addition to the domestic market development workshop, on October 11, the team delivered a one-day tutorial on pricing and risk management of debt instruments, such as treasury bills and bonds. This tutorial, attended by 11 MOFEA officials, taught techniques for determining interest rates, yield curves, and pricing formulae for bills and bonds. It also covered interest-rate risk management from the perspective of investors and intermediaries who hold government securities, as well as from the perspective of the government as the issuer of debt instruments.

RESULTS

- 45 person-days of training provided on domestic debt market development
- 94 percent of participants in the domestic debt market development workshop found the training met or exceeded its objectives
- 100 percent of participants in the domestic debt market development workshop indicated that they would apply what they had learned in their jobs
- 11 person-days of training provided on the design of debt instruments
- Action matrix for domestic debt market developed

4. Support for Improving On-Lending

In the Gambia, about 36 percent of total expenditures in 2017 went to servicing the debt, and debt service represented about 60 percent of domestic revenues. The addition of more government debt is a large risk for The Gambia. Furthermore, government on-lending to SOEs is in disarray. The process for SOEs to obtain on-lending is not followed, and on-lending agreements between the government and SOEs and public enterprises are rarely formalized and are approved whether the enterprise is qualified or not.

To provide assistance to the government of The Gambia in improving its on-lending, the LPFM II team visited Gambia September 11–19 and October 2–17.

CONSULTATIONS

In September, the team held meetings with several directorates of MOFEA: the PPP&PE directorate, Accountant General's office, Debt and Loans Management directorate, Budget directorate, PFM directorate, and Bureau of Statistics. The team also met with the Central Bank and state-owned enterprises GAMTEL, National Water and Electric Company, and Public Utilities Regulatory Authority. The meetings highlighted successes and challenges in the on-lending environment in The Gambia.

Consultations revealed that:

- Most transfer of funds or on-lending was occurring without any signed formal agreement.
- Officials need sensitization to requirements of the Public Finance Act, which stipulates the processes to be followed for lending to an SOE. Financial statements for most SOEs had not been published since 2015, but government counterparts were working on catching this up by the end of the year.
- Access to on-lending data is limited because there is no single system where this information is tracked.
- Governance on when SOEs can obtain loans needs to be improved; some SOEs have received loans from private banks if they cannot obtain them from the government.

“On behalf of the Ministry we would like to thank you and your team for the level (of) expertise demonstrated during the past weeks.

“The course has significantly broadened our knowledge and better equipped us with skills in the area of planning, measuring and managing on-lending and guarantees.

“Looking forward to see the final Procedure Manual and Risk Assessment tool be put to good use.”

Saho Ndumbeh, DLDM Activity Counterpart

STAKEHOLDER ENGAGEMENT WORKSHOP

Consultations were followed by a one-day stakeholder engagement workshop attended by representatives from the Ministry of Finance, SOEs, and private banks. Many issues identified in initial consultations were reinforced during the workshop and were used as the basis for the on-lending procedures manual.

ON-LENDING PROCEDURES MANUAL AND WORKSHOP

The team drafted an on-lending procedures manual and validated it with MOFEA counterparts, the directorate of loans and debt management, and the directorate for PPP&PE.

After incorporating feedback into the draft manual, the team held a two-day workshop to review the manual with personnel from MOFEA, the Central Bank, and SOEs. Workshop participants identified nine actions items to be addressed by Gambian government counterparts:

1. Seek Ministry of Justice advice on the extent to which lending and guarantee agreements require parliamentary approval.
2. Ensure that any noncommercial activities required by government of SOEs be contractually agree and remunerated.
3. Ensure attendance of SOE board meetings by an MOFEA strategic-level observer, who will also record minutes of the meeting.
4. In the State-Owned Enterprise Act being drafted, include provisions for screening appointments for SOE chairpersons and director generals.
5. Form a risk management committee to annually assess the risks of SOEs and local governments in relation to government loans, guarantees, and other risks.
6. Require SOEs to prepare medium- to long-term (according to the case) business strategies, financial projections, sensitivity analyses, and current audited financial statements.
7. The Accountant General should monitor the commitments and outstanding amounts under signed on-lending and guarantee agreements.
8. Separate where possible social (“noncommercial”) activities from commercial activities of SOEs and seek to attract low-cost funding for such projects.
9. When both a loan and grant have been provided by a donor to support on-lending, consideration should be given to converting the grant component to equity.

The on-lending procedures manual helps translate the Public Finance Act and the Public Enterprise Act into a step-by-step process that Gambian government officials can follow when evaluating SOEs and determining requirements for SOEs to be considered for a loan. The action items above show that the government counterparts are aware of measures needed to improve the process and ensure that they can take on future on-lending and credit guarantees while minimizing the financial risks borne by the country.

Discussions in the September and October workshops made it clear that the conditions necessary for assessing proposals of on-lending have much broader implications. Financial

statements, medium- or long-term business strategies, cash flow projections, and financial risk assessments are all essential for evaluating on-lending and guarantees of government loan decisions.

RESULTS

- 66 training days provided on on-lending and guarantee topics
- On-lending Procedures Manual
- Identification of next steps on on-lending

5. Support for Operationalizing the Medium-Term Debt Strategy

An MTDS is a 3-to-5-year plan that includes the composition of a country's debt portfolio, helps frame debt management goals, and identifies risks that a country must manage in relation to its debt portfolio. An MTDS is only a document—it must be translated into action and specific practices for a country to achieve its debt management goals—practices ranging from daily cash and debt management to designing the plans for loan issuance, and communicating with market players.

The rapid assessment team had noted in March 2018 that although the government had a relatively robust MTDS, the strategy was not being considered systematically in the preparation of the annual financing plan, and an annual financing plan had not been prepared at that time. In fulfillment of the agreed technical assistance program, during the October mission, the team conducted a workshop on operationalizing the MTDS. The workshop was attended by 18 staff from a range of MOFEA offices, but predominantly from the DLDM.

The workshop first focused on key considerations in the preparation of a high-quality debt management strategy. The workshop presentation differentiated debt management from macroeconomic management and determining a country's expenditure plans, and clarified that a debt management strategy should focus on managing the cost and risk of debt and ensuring access to capital. The tools for a debt management team to reach its goals include the composition of new issuances and management of the existing stock of debt.

The workshop then explored the practical elements of implementing a debt management strategy: (i) processes and mechanisms to link debt management, cash management, and budget execution; (ii) translation of the MTDS into an annual financing plan; (iii) prudent engagement that cultivates a domestic market able to provide the debt instruments the government needs; (iv) and processes embedded into a wider institutional arrangement that ensures transparent and effective management of debt.

The workshop also emphasized that progress in implementation of the strategy should be monitored regularly and the strategy should be updated to account for changing conditions.

The day concluded with a working session where participants identified measures to strengthen development and implementation of The Gambia's MTDS.

RESULTS

- 18 participants trained on operationalizing the MTDS
- 94 percent of participants who responded to training evaluations rated the training good or excellent

- 100 percent of participants who responded to training evaluations rated the training very relevant or somewhat relevant to their job.

ANNEX A. TRAINING PROVIDED

NO.	TRAINING PROVIDED	START DATE	END DATE	NO. DAYS	TRAINING CONTENT
1	Strengthening PFM/PA Course	3/19/18	3/22/18	5	USAID introduction course on PFM and PA topics
2	On-lending Stakeholder Engagement Workshop	9/18/18	9/18/18	1	Consultative workshop to collect information on on-lending and guarantees in the Gambia
3	Operationalizing the Government's Debt Management Strategy Workshop	10/4/18	10/4/18	1	Review of Gambia's MTDS and how to operationalize over the next few years
4	Domestic Market Development and Operations Workshop	10/8/18	10/10/18	3	Domestic market development, including approaches to deepen the investor base and communication with investors
5	Tutorial on Pricing and Risk Management of Debt Instruments	10/11/18	10/11/18	1	Review of pricing and risk management of debt instruments
6	On-lending Risk Assessment and Procedures Manual Workshop	10/15/18	10/16/18	2	Review of the on-lending procedures manual

ANNEX B. DEBT MANAGEMENT ACTION MATRICES

Table B-I. Domestic Market Development

RECOMMENDATION	ACTIVITY	ACTION UNIT OR PERSON	UPDATES	TIMEFRAME
Given the critical nature of domestic market development, it is important to make it not only periodic but also more frequent., i.e. frequent engagement with stakeholders.	Stakeholder forums and meetings	DLDM-Head of Front Office		Biannual
The more open a market to primary dealers, the less likely is a vibrant secondary market. So it is recommended to first improve transactions in the primary market and to work on developing the secondary market in the future.	Review primary dealership with the intention to restrict and allow others to participate in the secondary market	CBG		End-2018
<ul style="list-style-type: none"> •Need to improve on the communication channel or dynamics between MoFEA, market players and CBG, thus the development of a communication strategy •-Need for stakeholders to be updated on government policy direction • MoFEA to engage other stakeholders, including Bankers Association, to address burning issues hampering the performance of commercial banks, mainly nonperforming loans •Need to have a press release tap on the website so as to be updating stakeholders •Have contact person on the website for respective directorates so as to ease communication bottlenecks •Need to continue sensitizing stakeholders on long-dated instruments, i.e., bonds, which are relatively new in The Gambia 	Develop communication strategy	DLDM-Head of Front Office		End-2018
<ul style="list-style-type: none"> •Transparency and market predictability are essential for sound functioning of the domestic market, so it is recommended to prepare an auction calendar for both bills and bonds. •Need to have a committee for preparing the auction calendar made up of the following departments; DLDM, DOB, AGD, CBG Banking Department and MPAU. 	Establish a functional committee	DLDM-Director		End-October
Submission of MTDS to Cabinet in accordance with the Public Finance Act Part vi, Section 38	Write a Cabinet Paper for approval		DLDM-Head of Middle Office	After every review of MTDS
Submission of Annual Debt Bulletin to Parliament	Prepare annual debt bulletin		DLDM-Head of Middle	First quarter of proceeding year

RECOMMENDATION	ACTIVITY	ACTION UNIT OR PERSON	UPDATES	TIMEFRAME
			Office	
Need to meet media houses and educate them on debt management activities for clarity in presenting debt data.	Sensitization and awareness creation		DLDM-Head of Front Office	Before publication of the annual public debt bulletin

Table B.2 On-lending and credit guarantee procedures and risk management framework

RECOMMENDATION	ACTION POINT	TIMELINE
Seek legal advice on whether the on-lending and guarantee agreements need parliament approval	Consult Ministry of Justices	Next week ending
Draw up subsidies framework on some of the social services that SOEs are offering outside their investment priority	PPP to ensure that subsidies frameworks are embedded in the performances contract	Before concluding the PC
MOFEA should identify qualified representative at strategic level to be attending board meetings of each SOES at consistent bases. Attendants should record and report minutes of meetings for references purposes.		End of this month
Review the governance structure (screening) of appointments of chairpersons and director generals of SOEs. This needs to be reflected in the draft State-Owned Enterprise Act	National Assembly approval	
Establish a risk management committee involving all stakeholders to annually assess the risks of all SOEs/LGA to advise policies on lending and guarantees. This should be in line with the enterprise risk management framework. Proposed stakeholders include DLDM, Budget, MPEAU, PFM, PURA, Internal Audit, and PPP.	Internal Audit through Mr. Ceesay	End of this week
Advise SOEs to develop a medium- or long-term business strategy. SOE project proposals should include business strategy, sensitivity analysis, and copy of the current audited financial statements. The guarantee fee should be charged on all approved guarantee projects, according to the risk score of the SOEs.	PPP	As per the SOE's Act
Accountant General should bill and monitor the receivables from on-lending and guarantees as soon as the subsidiary loan agreements are signed. Scanned copies of signed subsidiary loan agreements should be shared with all stakeholders.	DLDM to share and Account General to ensure compliances	As per subsidiary agreement
When possible, separate social activities from public enterprises and set up agencies to attract cheap funding for social projects. This will give the enterprise room to focus on other investment activities.	Top management through DPS/PPP	Ongoing
Where on-lending instrument combine both loan and grant, it is recommended that the grant component be converted to equity in the enterprise. Moreover, for the loan component that was on-lent, if it was used by the enterprise on social activities the government can add it as equity.	Top management/DLDM	Ongoing