

Central Bank of The Gambia

NEWS



March 2006

Third Edition

The Governor, Hon. Famara L Jatta on Banking and Financial Services



The third edition of the Newsletter captures an important presentation by the Hon. Governor, at the West Africa Investment forum held in Abuja, Nigeria from February 20-22, 2006.

Introduction

Investments are regarded as catalyst for economic growth particularly in developing countries since they generally provide employment, income to Government amongst others. For these reasons, Governments usually provide certain incentive as well as enhance their financial systems to attract investments and the West

African sub-region is no exception.

Investments all over the World are highly complimented by the numerous services and products provided by banks and other financial institutions. In some instances, such investments are dictated by the availability of certain services from the financial sector.

Investments require the movement of funds and other support services starting with the transfer of investment outlays to the repatriation of funds by way of dividends. It is therefore quite apt to talk about “*banking and financial services*” in a discussion on investment promotion in West Africa.

Investors would always wish to know the availability of financial services, their efficiencies, costs and more importantly, the confidentiality and security

of their operations. In addition, other services regarding insurance and the possibility of raising finance or capital from the market are quite important.

Governments in the sub-region of West Africa have put in a lot of efforts to enhance growth and stability in their macro-economic environments as well as ensuring safe and sound financial systems.

Macro-Economic Environment

It is quite evident that investments are only attracted to environments with macro-economic stability. As a result, countries in the sub-region have made significant progress in achieving stability in macro-economic environments. This is quite pronounced at the regional level through the regional body ECOWAS. The projects, some of which are at an advanced stage, include the following –

- ◎Statistical harmonization
- ◎National Accounts harmonization
- ◎Common/Company Laws harmonization
- ◎Regional development and integration projects

At the level of the second Monetary Zone comprising of the English speaking West African countries plus Guinea, member countries have task themselves in achieving the following regarded as convergence criteria:

- ◎Price stability – inflation of 5% or less
- ◎Ratio of budget deficit to GDP of 4% or less
- ◎Limit Central Bank financing of the deficit to 10% or less
- ◎Maintain gross official reserves of at least 3 months of import cover

On the above tasks, significant progress has been made with countries achieving an average of 2 criteria.

Financial Stability

Conscious of the need to build and maintain safe and sound financial systems, countries in West Africa have strived individually and collectively to meet international standards in the area of supervision of the financial sector.

Legal Framework

To this effect, almost all countries have revised their legal frameworks to accommodate the rising need in transparency, sharing of information, operational independence, cross-border supervision,

etc. The successful passing of such laws in nearly all countries in this region has been a major achievement in the area of supervision.

Capital Augmentation and Basel II

In line with the aspirations of the Basel Committee on Banking Supervision to financially strengthen banks and other financial institutions, the West African Countries have augmented their banking businesses' capital requirements. This is a first step in ensuring adequate buffer in the banking system to mitigate the rising association risks in the market place. With regards to the New Capital Accord, countries are engaged in the development of strategies to adopt this framework partially. It is envisaged that the adoption will be beyond the 2007 deadline. This program, though very important, is not urgent for economies with small and internationally inactive banks like ours. The emphasis in these regions is to ensure an effective supervisory process based on the Basel Core Principles (BCPs) and other international standards.

Basel Core Principles

Compliance with Basel Core Principles on Banking Supervision has been a priority for the sub-regional countries both individually and collectively. Countries conducted a self-assessment exercise on their level of compliance

but given the importance of the BCPs, assessment by an independent assessor was subsequently conducted. The outcome of this assessment revealed an average compliance level of 22 out of 30 principles. This was encouraging but countries are still being urged to continue on their efforts for full compliance.

Money Laundering and Terrorist Financing

Money Laundering and Terrorist Financing issues are being taken very seriously in our economies. Countries are aware of the devastating effect such issue could have on our economic development process and also the need to adhere to the requirements of the UN Conventions signed by member nations. No country wants to be seen to be the “weak” spot of the chain in the fight against this menace. As a result, counties in the sub-region have strived not only to have a law that is of international standard, but to ensure that the associated requirements are met. These include the setting up of a Financial Intelligence Unit, reporting requirement of suspicious transactions, policies on “*Know Your Customer*” etc. There has been a high level coordinating body under the regional grouping, ECOWAS, charged with the responsibility of ensuring compliance with the Financial Action Task Force (FATF) recommendations on

Money Laundering and Terrorist Financing.

In addition, this body has started an evaluation process on member countries' compliance with FATF recommendation and international standards in the fight against Money Laundering and Terrorist Financing.

Credit Reference Bureau

Countries of the sub-region are conscious of the need to avoid a high level of bad assets in their systems which is a threat to financial instability. To this effect, countries are making efforts to establish Credit Reference Bureau that would equip lenders (*banks*) with information on "bad" borrowers.

Technological Advancement

With the sophistication of customers resulting in diverse and complex transactions, countries have made effort in developing their communication systems to accommodate technological advancement in the financial sector. Given the risk of technology, users, particularly financial institutions are encouraged to provide adequate training for their staff as well as put in place contingency measures to mitigate any associated risks.

The Gambian Experience

The Gambia is one of the regional countries engaged in enhancing both macro-economic as well as financial system

stability to attract investments for growth.

At the moment, the country is undergoing a Staff Monitored Programme with the support of the IMF over a period of six months which would lead to a Poverty Reduction Growth Facility arrangement with IMF. The targets set under the programme which are mainly the Net Usage Reserves and Net Domestic Assets have been met. With regards to basic primary balance of the budget, significant progress has been registered by Government.

Point to point inflation for December 2005 stood at 1.8% and the exchange rate is stable. The ratio of the budget deficit to GDP stands at 6.5% with zero percent Central Bank financing of the deficit. The country's external reserves now stand at 4.8 months of import cover.

In the area of financial stability, The Gambia is engaged in a number of measures/projects to reform the financial sector. These include the following:-

◎Capital Augmentation for banks and insurance companies. Implementation dates for banks is March 2006 and Insurance Companies being March 2007.

◎Partial implementation of Basel II Capital Accord by 2010.

◎Setting-up of the Financial Intelligence Unit after the passing of a Law on Anti-Money Laundering and Terrorist Financing during the course of 2006.

◎Reduction of the bad asset portfolio from its current level of 11.6% through the establishment of a credit reference bureau during the course of 2006.

◎To encourage saving, the feasibility of a Deposit Insurance Scheme is being studied for establishment in The Gambia

◎A stock/financial market study has been concluded to deepen the financial sector and broaden access to financing

Investment Promotion

To encourage investments into The Gambia, the Government established The Gambia Investment Promotion and Free Zones Agency (*GIPFZA*) to foster local and foreign direct investments, promote the export of local and value added products from The Gambia and to develop and regulate free zones.

The Agency provides assistance in securing permission, exemptions, authorization, licenses, land and any other requirements for the establishment and operations of a business enterprise. It also offers advice in the preparation of project proposal and assists in the identification of suitable partners, source of financing, etc.

The Gambia is an attractive investment destination and has the following unique advantages amongst others –

- A stable and peaceful country
- Liberal and free market economy
- Easy and quick investment approval procedures
- Functional and efficient banking services

- Free repatriation of capital and profits
- Efficient sea port, airport and telecommunication services
- Close proximity to EU and USA
- Attractive investment incentive packages

Conclusion

The West African Countries are conscious of the benefits of investments in enhancing economic development. At the same time, the pre-conditions to

attract such investments are quite clear to them. As a result, these regional countries have been making considerable efforts both individually and collectively to enhance their systems to enable the safe and sound functioning of financial institutions. Legal frameworks have been revised, relevant legislations put in place, structural reforms effected, institutions financially strengthened, transparency and corporate governance enhanced to ensure stable financial systems.

Economic outlook

Recent growth performances have been robust and the near-term outlook remains broadly favourable. Growth in gross domestic product (GDP) is estimated at 5.0 per cent in 2005 and a solid rate of economic expansion of about 4.5 per cent is forecast for 2006.

Money supply growth decelerated to 13.1 per cent in 2005 from 18.3 per cent in 2004. However, the growth rate in money supply was higher than the end-December 2005 programmed target of 9.4 per cent.

Domestic credit grew by 30.8 per cent following a contraction of 17.6 per cent in 2004. Private sector credit in particular rose by 16.2 per cent compared to a contraction of 12.5 per cent in 2004. This, coupled with robust gains in real incomes

should substantially increase consumer spending and investment in 2006.

The Central Bank observed all the end-December 2005 quantitative targets agreed with the International Monetary Fund under the Staff Monitored Programmed (SMP). The net usable reserves totalling D2.1 billion (US \$71.2 million) at end-December 2005 was above target (floor) by D72.5 million (US \$2.5 million). The net domestic assets of the Central Bank, amounting to D200.7 million, was below target (ceiling) by D58.0 million.

Inflation remains low and non-volatile. End-period inflation, measured by the consumer price index (CPI), declined from 8.0 per cent in

December 2004 to 1.8 per cent at end-December 2005. Average inflation rate (12-months moving average) was 3.2 per cent in 2005 compared to 14.2 percent in 2004.

Food and non-food price inflation fell to 0.9 per cent and 3.8 per cent compared to 9.9 per cent and 3.9 per cent respectively at end-December 2004.

Government's fiscal operations resulted in an overall budget deficit including grants amounting to D891.4 million, equivalent to 6.5 per cent of GDP in 2005. This was higher than the 2005 budget estimate of D662.6 million, or 4.5 per cent of GDP.

Government is desirous to attaining fiscal sustainability. The overall fiscal deficit including grants is projected to

improve to 4.5 per cent of GDP in 2006. The right mix of fiscal and monetary policy should sustain the favourable macro-economic environment and allow for a further reduction in interest rates.

The Dalasi appreciated against all the major currencies in 2005 relative to 2004. It strengthened against the Pound Sterling, Dollar and Euro by 8.9 per cent, 5.2 per cent and 10.7 per cent respectively. Robust inflows from remittances, re-exports, foreign direct investment (FDI) and tourism related flows continue to contribute to the strength of the Dalasi.

Preliminary projections suggest an overall balance

of payments (BOP) surplus of D240.0 million (US \$8.0 million) in 2006 relative to an estimated D320.9 million (US \$11.2 million) in 2005 reflecting projected decline in the capital account surplus and widening of the current account deficit.

Gross official reserves is estimated to increase by D168.0 million (US \$6.0 million) to D3.0 billion (US \$99.2 million) in 2006 against D2.7 billion (US \$93.7 million) in 2005. The Gambia was current on its external debt service payments in 2005.

The financial sector remains sound and profitable. The average capital adequacy ratio of the industry was 53.6 per cent at end-December

2005. All the banks observed the minimum capital requirement of 8.0 per cent.

The industry's assets increased to D7.74 billion in 2005 from D6.69 billion in 2004 on the back of an improved macroeconomic environment. However, the increase in non-performing loans remain a major concern, notwithstanding adequate provisioning.

Owing to modest growth in the monetary aggregates, stable exchange rate and the anticipated strengthening of public finances, the near-term outlook for inflation is good. However, there are still medium-term risks relating primarily to the evolution of oil prices.

Developments in the Financial Sector

Microfinance Department

A new VISACA at Sukuta was officially opened on February 2, 2006 bringing the total number of VISACAs and MISACIs to 63.

The Central Bank continues to collaborate with stakeholders in the microfinance sector and is currently participating in the formulation of a National Strategic Framework Paper together with the Rural Finance and Community Initiatives Project (RFCIP) on microfinance development in The Gambia. The preparation of this document has reached an advanced stage of readiness for validation in

a workshop to be organised in due course.

In response to the Central Bank's advocacy for private sector participation in microfinance, applications are being reviewed for registration. It is hoped that the entry of new and viable companies into the microfinance system would encourage healthy competition among MFIs and also spur the creation of linkages among MFIs and between Commercial Banks and MFIs. This would contribute significantly towards increasing the poor's access to financial services. The first phase of RFCIP is ending July 2006 and the Bank and stakeholders are in

advanced negotiations to launch the second phase of the project which would predominantly centre on microfinance with limited agricultural components. Currently the Bank, RFCIP and IFAD consultants are assessing the needs and priorities of stakeholders for the next phase spanning a five year period beginning January 2007.

Banking Services Department

The Bank is fully poised to introduce Primary Dealership System in Government securities in The Gambia's money market in April 2006. Already potential would-be dealers have applied and their applications were

evaluated. The registration process has been completed and the press

release has been published in the media.

Regional Integration

The Governor, Honourable Famara L Jatta attended the meeting of WAMZ Committee of Governors in Accra, Ghana on March 10, 2006. The meeting centered on the restructuring of the West

African Monetary Institute (WAMI). Phase II of the restructuring is due to start shortly and the process of recruitment exercise , short-listing of candidates for the positions of Director General, Directors and

eight professionals and budgetary implications were discussed according to the Governor. He was accompanied by Ms. Haddy Joof, Deputy Director Administration Department.

International Cooperation

E-Trade Forum

The General Manager attended the e-Trade Forum in Addis Ababa, Ethiopia from March 12-20, 2006. The forum was organized by ECA under the auspices of ePolnet.

IMF-SMP Mission

From February 26- March 12, 2006 the Central Bank received an International Monetary Fund (IMF) surveillance mission on the Staff Monitored Program (SMP) agreed with The Gambian authorities in September 2005. The mission was here to review structural benchmarks, fiscal and monetary targets set within the SMP.

During their stay, the mission observed that all the quantitative monetary targets were observed for the first 3 months ending December 2005 and all indications point to the Bank being on course to observing the end-March 2006 targets.

Commonwealth Secretariat

A team of experts from the Debt Management Section, Special Advisory Division of the Commonwealth Secretariat visited the Gambia in 2005. They conducted training on the use of Debt Recording and Management System (CSDRMS 2000+). The

training was attended by staff of the Banking Services Department and the IT Unit.

FIRST

A Book Entry System, which is an automated system that helps in the recording and management of data relating to securities has been implemented at the Banking Services Department. This was commissioned at the request of the Bank by the Financial Sector Reform and Strengthening Initiative and implemented by Information Technology Consultants Ltd.

Staff News

Cocktail Reception

On December 29, 2005, the Staff Association hosted a Cocktail Reception in honour of the retired staff. The August event was graced by the presence of the Governor, General Manager,

Directors and all members of staff.

Senior Management Retreat

In an effort to have Strategic Plan to guide the Bank in the next five years, a senior management retreat was held at Ocean Bay Hotel

on Saturday, January 28, 2006. A draft Strategic Plan was prepared and presented by the General Manager, Mr. Momodou B. Saho. The document was discussed by senior management under the chairmanship of Mr. Ousman Sowe, Director-FSD. Both the Hon.

Governor and the president of the Staff Association were in attendance.

Staff Party

The Staff Association successfully organized a staff party on Saturday, February 25, 2006 at the Bakadaji Hotel and Restaurant. This fun-filled evening was graced by the General Manager and attended by many staff members. Memorable pictures are enclosed in this edition.

Welcome

We welcome the new staff members, who joined the Bank and urged all staff to give them the necessary support to make them feel comfortable in their respective departments. The names of the new staff: Amie Ndure (ERD), Haddy Njie (BSD), B E Sarr (BSD), Cicilia Portin (BSD), Momodu Iamin Jarjue (BSD), Mustapha Senghore (FSD), Ndey

Mbengeh Bah (AD), Richard Jassy (AD), Nykassi MB Sanyang (ERD), Sait Mboob (ERD) and Sheriff Touray (ERD).

Congratulations

Congratulations to Mr. Omar K Janneh, Principal Administration Officer, who successfully completed Master of Arts in Public Administration and an Advanced Certificate in Conflict Resolution at the Maxwell School of Syracuse University in the United States of America. Mr. Janneh will resume duties soon.

Fellowship Award

The Board of Directors at their meeting No. 3/2005 approved fellowship awards / Long-Term Academic Training for the following to pursue postgraduate studies in their respective fields of study: Ismaila Jarjue (ERD), Amadou Koora (FSD), Haja Jallow (AD), Ousainou Corr (FISD) and

Momodou Njie (FSD). Arona John was awarded six months to complete the ACCA.

Unit Transfers

Mr. A B S Gaye, Deputy Director at the Banking Services Department has been permanently redeployed from the department to take charge of the newly created Risk Management unit under the Governors office.

Mr. Micheal Barrai, Senior Accountant at the FISD, has been temporarily moved to the Open Market Operations Unit effective January 2006.

Resignation

We say thank you and good bye to the below listed staff who left the services of the Bank recently and wish them well on their future endeavours: Abdoulie TB Jarra (on Secondment), Alhaji Jallow, Ebrima Suwareh and Mafugi Faal.

Memorable scenes from the staff party



GM chilling with the fellows



FSD ladies having fun



Director Sowe getting a taste



Director Gaye with the fellows



Mariam and Co on the dance floor



One of 2 Buffet tables



Senghore and Co having fun



What a fun time?



Director Carr, Mendy and Barrai



Chief and the ladies on the floor



“T” & Co enjoying the dance floor



Look at the smiles



Tête-à-tête Efe, Safie & Co



Look at these moves



Yahaddy, Ida & Yam being entertained



Tijan & Chalton taking charge



Nothing but enjoyment



Riley Chilling



Having fun too



Fellows having drinks



BSD ladies smiling



DD Deen-Touray & Ida



Habib & Co



Ladies corner



Ajaratous at the scene



Yama, Haddy & Co