INTERNATIONAL MONEIARY FUND -IMF

FINANCIAL SECTOR STABILITY REVIEW – FSSR

AND

CENTRAL BANK OF THE GAMBIA

STRATEGIC PLAN FOR IMPLEMENTING

THE FSSR KEY RECOMMENDATIONS

STRATEGIC PLAN FOR IMPLEMENTING THE KEY RECOMMENDATIONS FROM THE 2019 FINANCIAL SECTOR STABILITY REVIEW

Introduction

At the request of the Central Bank of The Gambia (CBG), the International Monetary Fund's Financial Sector Stability Review (FSSR) mission visited The Gambia from October 29 – November 12, 2019. The FSSR is a comprehensive representation of the state of the financial sector in The Gambia. The report denotes facts with explanations followed by recommendations for the authorities to take the necessary action to correct processes and ensure the system is stable. The recent FSSR indicate that the financial system in The Gambia though small is growing at a rapid pace. Though faced by the challenges and the current COVID 19 impacts, the good part of the story highlighted in the report is that the banks have metamorphosed their growth model with private sector credit expanding by over 35 percent.

Objectives

The key aims of the FSSR mission was to conduct an assessment and health check of our existing supervisory and regulatory frameworks and practices with a view to making appropriate recommendations and prescriptions to align them with best international standards and practice to enhance effectiveness and efficiency to safeguard financial stability. Against the above backdrop, series of observations and recommendations were made. The recommendations, which were discussed and agreed with the CBG in terms of their relevance, covered banking supervision, macroprudential policies, stress testing, financial inclusion and financial stability, and bank resolution and crisis management. Below is a synopsis of the recommendations from the FSSR, the needed activities and the expected timeframe to accomplish them. The COVID-19 pandemic has necessitated a revision of the original prioritization and timeframe, particularly in bank supervision, stress testing, and crisis management and bank resolution (Table 1).

The CBG has finalized the development of the strategic plan across all the four supervisory and regulatory departments which is herewith forwarded to FSSR team and a copy published on the CBG website consistent with the structural benchmark under the ECF-supported program. This will then be followed by the execution of the strategic plans as soon as possible, with the help of technical assistance in most cases. The CBG stands fully ready to work with all concerned partners to ensure the comprehensive and timely execution of the strategic plans as approved by the CBG Senior Management are achieved.

1. BANK SUPERVISION

Introduction

Discussions with the Financial Services Department (FSD) of the CBG covered modalities for improving the effectiveness of banking supervision, stress testing, macroprudential policies, and crisis management and bank resolution. FSD provided comments on the draft FSSR report, most of which were incorporated in the final version of the recommendations, which this strategic plan aims to implement (see Table 1).

Objectives

The key aims of this submission is to conduct an assessment and health check of our existing supervisory and regulatory frameworks with a view to making appropriate recommendations and prescriptions to align them with best international standards.

The key objective of the financial sector review is to amend the Banking Law, revise regulatory Guidelines to ensure that financial sector remains safe, sound, stable and supportive to the growth prospects of the Gambian economy. The overarching objective is to promote a strong and dynamic financial sector and solvent to make the industry remain relevant to the demands of the economy. The amendments of the Banking Law, revised regulations, onsite and offsite risk-based supervision, build regulatory capacity in stress testing, crisis management, bank resolution, IFRS compliance and the on-going reforms agenda, will in no small measure strengthen the financial sector for growth.

Expected outcome

Addressing key supervisory and regulatory gaps – stress testing, governance framework, building capacity in stress testing, macro prudential toolkit, data quality review, recovery plans, deposit insurance, resolution plans, gaps in Prompt Corrective Action (PCA), cooperation and coordination in domestic and cross-border bank regulation are all expected to enhance efficient and effective surveillance.

Table 1: Financial Supervision Department Action Plan

		Priority	Planned activities	Timeframe
1	**Banking supervision**			
a-	Working group to review and amend the Banking Act 2009	**High/urgent**	**A taskforce would be setup to work with the CBG legal unit on this**	**Draft by end Dec 2022**
b-	Review of the manual of guidelines and instructions	**High/urgent**	**A team would be designated to provide a draft review of these which would be validated**	**Draft by end Dec 2022**
c	Define team in-charge of data quality functions	**High/urgent**	**A team would be tasked to be doing quality control review**	**By end Dec 2020**
d-	Revisit the offsite supervision Function	**High/urgent**	**Items for monitoring would be identified and thresholds set**	**By end June 2021**
e-	Revisit the onsite supervision Function	**High/urgent**	**Follow-up routines and planned visits would be outlined**	**By end June 2021**
2.	**Stress Testing**			
a-	Develop High Quality Stress testing governance framework	**High/urgent**	**Would partner with partners to develop this framework**	**By end Dec 2021**
b-	Process to conduct pre-stress testing preparations	**High/urgent**	**Put in place processes to adequately cater for stress testing**	**By end March 2022**
c	Building capacity in stress testing	**High/urgent**	**Would be seeking to build capacity as required and possible**	**Dec 2022**
3.	**Macroprudential policy**			
a-	Financial Stability report adopting forward-looking approach	**medium**	**Producing a stability report that would be forward looking**	**By end Dec 2021**
b	Developing detailed macroprudential toolkit	**Medium**	**Working with partners and other stakeholders to develop the toolkit**	**By end Dec 2021**
c	Assign macroprudential authority to the CBG	**Medium**	**Would seek to consult with MOFEA on this strategy**	**Draft proposal by end Dec 2022**

4-	Bank safety net, resolution and crisis management	Priority	Planned activities	Timeframe
a-	Capacity strengthening for stress detection and introduce recovery plans for banks	**High/urgent**	**Team set up to advise CBG Mgt.**	**On-going to end June 2022**
b-	Prepare legislation to set up deposit insurance and strengthen resolution powers	**High/urgent**	**Negotiation going on with Government on the matter**	**Draft by Dec 2022**
c-	Develop emergency liquidity assistance (ELA) policy and processes	**High/urgent**	**ELA framework to be developed and determined at CBG level**	**Draft by end June 2022**
d	Deficient PCA to intervene in time before breach of prudential requirement	**urgent**	**Team to advise on establishing frameworks for timely Bank intervention**	**End June , 2022**
e	Banks recovery plan	**urgent**	**Effective recovery capacity in all banks**	**Ongoing to End Dec, 2022**
f	Bank resolution framework is very underdeveloped with limited legal proves	**urgent**	**Develop comprehensive resolution framework in line with best practice – CBG to work with the industry and donor partners**	**End June , 2022**
g	Ineffective domestic and cross-border co-operation and co-ordination	**urgent**	**CBG work with relevant Government Agencies, sub-regional and international bodies on cross border cooperation and coordination**	**Dec 2022 – June 2023**

2. FINANCIAL INCLUSION AND FINANCIAL STABILITY

Introduction

Central Bank of the Gambia has taken the lead role in the formulation and implementation of a National Financial Inclusion Strategy to serve as a roadmap to achieving the national goal of a highly financially inclusive population. The need to increase access and usage of finance has been viewed as pivotal in ensuring inclusive economic growth and poverty reduction. The UNCDF funded FinScope Survey shows that only 19% of the population has access to formal financial services comprising of 5% from banks and 14% from Non-bank Financial Institutions (NBFIs). Meanwhile, 12% of the population resort to non-institutionalized and unstable informal providers including informal savings groups, family and friends to access finance. According to the FinScope survey 81% of the population do not have access to formal financial services.

Notwithstanding the need to increase financial inclusion as targeted to 70% by the year 2025, activities to achieve this must be implemented in such manner that do not compromise financial stability. Empowered by the Non-bank Financial Institutions Act 2016, the Microfinance Department (MFD) is responsible for the regulation and supervision of NBFIs (Finance Companies, Fiduciary Finance Institutions, Village Savings and Credit Associations, Credit Unions, Mobile Money Operators, Mortgage Finance Companies) as well as formulation and implementation of the NFIS in collaboration with stakeholders.

The IMF/FSSR focused mainly on the capacity and the TA needs of the MFD to carry out both regulatory and oversight functions as well as implementation of the NFIS bearing in mind the possible conflicts of this dual function in the absence of the appropriate framework.

The report has been well reviewed and the MFD is in agreement with the issues raised, and the recommendations put forward. However, work on some key issues raised by the FSSR has already commenced and these are also highlighted in the MFD reactions to the major findings.

An Action Plan on the recommendations is put forward with the expectation that the indicated timeframes are well achievable, given that two more staff have been hired and both will be provided with short term and on-the-job trainings. To facilitate effective implementation of the recommendations, the MFD will however require TA especially in key technical areas such as those requiring legal reviews, automation/improvement of data collection system, interfacing with data system of regulated FSPs.

Key observations on the findings:

i. In the area of supervision, it is agreed that each license type has a specific business model but all the NBFIs compete in the same segment for savings and loans. This is because of the narrowness of the market. However, the Bank has reviewed through consultancy with the African Development Bank (AfDB) the regulatory guidelines albeit identification of some gaps which would be addressed at departmental level. Furthermore, to ensure a proportionate and dynamic approach to regulation and supervision, a change would include streamlining regulation to focus on activity rather than institution and focusing more on risk-based rather than rule-based supervision.

ii. The CBG takes note of Basel Core Principle 4 which states that "entities taking public deposits must be licensed and supervised as banks". But in line with the fact that the Basel Committee also recognizes that in some countries NBFIs are allowed to mobilize public deposits without being licensed as banks. Based on the Gambian context, NBFIs like Reliance Financial Services (RFS) are allowed to mobilize public deposits in view of its microfinance business model. RFS has significantly grown to become the industry leader in the NBFI sector with nearly D1.0 billion in mobilized savings and has been allowed by the Bank to expand its activities outside the traditional scope of activities for microfinance including FX and money transfer and has disbursed loan sizes as high as commercial banks. Its risk profile has been assessed to be comparative to some of the small banks in terms of deposits mobilized, assets and loan sizes as high as D5.0 million to a single customer. The CBG is working on a tiered capital framework for FCs and has given directives for RFS to augment its paid-up capital to D150 million by end- December 2021 and subsequently to D200 million by end- December 2022 in view of its very high deposit to capital ratio. Furthermore, CBG will categorize the FCs into large, medium and small and will subject them to a tiered capital requirement in the licensing framework based on the risk profile of the FCs.

iii. Due to the systemic status of the 11 largest CUs and the lack of capacity of NACCUG to supervise them, the CBG at its last Board meeting of June 18, 2020 approved to bring 11 largest CUs under CBG's purview and will directly regulate and supervise them. It is understood that this will place increased demand on the MFD, and as such additional staff has been hired and will be subjected to continuous training to build the MFD technical capacity on regulation and supervision based on internationally accepted standards.

iv. Regarding the issue of over-delegating NACCUG with the regulatory and oversight functions on the remaining 43 CUs, while NACCUG also have an advocacy role, the CBG will formulate an MOU with NACCUG to focus on field data collection on the small community-based CUs for off-site assessment by CBG. To ensure accuracy of the returns, the Bank will conduct a bi-yearly onsite examination as was done with the VISACAs.

v. The new Manual of Regulations and Guidelines for NBFIs will be reviewed to identify the gaps and make the recommendations stated in the FSSR report. We agree that the Guideline is very lengthy as all guidelines for all the institutional types are contained in the same manual, but we always know which Guideline to use within the manual.

vi. We agree that in order to formulate and implement the NFIS, the CBG needs to ensure that the MFD has adequate capacity to carry-out both regulatory and financial inclusion development, hence the task force comprise of all regulatory departments that will collaborate to ensure financial inclusion and financial stability go hand in hand. The development of the Credit Reference Bureau (CRB) and the Collateral Registry (CR) as well as collaborate with Financial Intelligence Unit (FIU) and other regulatory agencies in the financial inclusion initiative will strengthen the framework.

vii. The CBG is being supported by development partners including UNCDF, World Bank and Alliance for Financial Inclusion. Within this collaboration the FinScope demand side survey has been done and a supply –side survey is in the pipeline. Indeed the perceived gaps in data cited in the report, which have been attributed to the lack of data synchronization of departmental data between the ERD and FSD will be addressed through urging them to update and link their databases where possible to serve the IMF Financial Access Survey.

viii. The NFIS has highlighted the need to have a Consumer Protection Unit at the Bank as this is largely absent in The Gambia regardless of the establishment of Gambia Competition and Consumer Protection Commission (GCCPC) which does not focus much on financial consumer protection. A guideline on consumer protection, formulated by GCCPC exists but is not well integrated with the requirements of the CBG.

ix. In terms of digital financial services (DFS), the CBG has been supportive in allowing the industry to grow without any regulatory intervention. DFS is highly mainstreamed in the NFIS and all encouragement will be given to ensure that financial inclusion is fast tracked. It is however obligatory that service providers capitalize on their talents to be innovative, while collaborating with each other to innovate new and consumer centric products and services. In terms of mobile banking, the MNOs have only recently started to submit returns to the CBG. A mobile money guideline has been formulated and is to be approved by the Board of Directors for rolling out. Furthermore, MMOs has now been transferred to the MFD to get its required attention. Accordingly, the CBG is building the MFD capacity to regulate and supervise MMOs. Issues of interoperability are high on the agenda to ensure convenient financial transactions.

x. With regards to the CBG needing a more proportionate strategy for overseeing the VISACAs, it is important to note that being rudimentary and community owned, the VISACAs were subjected to minimum oversight guided by the Operational Rules and Guidelines Vol. 2. They were subjected to onsite examinations every quarter and with the drop in the number of functional ones due to serious governance issues, the frequency of onsite examination was reduced to half yearly. Currently majority are dormant and only a handful are viable for revival which require a strong public /private collaboration to professionalize them through private equity contributions and operated on a profit basis. Another option is to transform them into agents for FCs and MMOs to increase access and usage in the rural areas. In this scenario, the CBG can employ a more proportionate oversight based on the risk profiles and maturity levels of each VISACA.

xi. NBFIs are not on the Credit Reference Bureaus. This was under due consideration by the Bank but the cost implication of FCs to contribute to the cost of the platform proves to be the stumbling block. However, consideration is being made to integrate FCs and large CUs onto the CRB.

xii. Regulatory guidelines for Home/Mortgage finance and MNOs are ready for Board consideration and approval in its third quarter session. This will go a long way to govern the operations of these institutional types.

Table 2: ACTION PLAN FOR MICROFINANCE DEPARTMENT

No.	ISSUES AND RECOMMENDATIONS	STRATEGIC ACTIONS	TIMEFRAME
1.	**The current supervisory framework for deposit taking Finance Companies (FCs) is the same for all despite the significant differences in terms of deposits mobilised, loans disbursed and risk profile. The CBG should revise its approach to supervising deposit taking FCs.**	1. Develop a Tier Capital Framework for FCs 2. Develop risk-based supervisory framework for large FCs. 3. CBG will issue directives for Reliance Financial Services (RFS) to augment capital.	Action point 1 to be completed by end December 2020. Action point 2 to be completed by end December 2021 Action point 3 to be completed by December 2022: D100 million by end December 2021 & D150 million by end December 2022.
2.	**The NBFIs Act 2016 is silent on permissible activities of NBFIs.**	1. Review the NBFI Act 2016 as well as the guidelines to assess the adequacy of licensing provisions. 2. Incorporate regulatory requirements related to permissible activities into the guidelines. 3. Develop regulatory guidelines for MMOs and Mortgage Finance Companies.	Action points 1 &2 to be achieved by end December 2021 for the guidelines. Action point 3 ongoing and to be completed by Dec 2020
3.	**The CRB does not include non-bank lenders, which are an important source of retail credit in the Gambia.**	1. Develop framework for the inclusion of FCs and large CUs into the CRB. 2. Reduce costs for NBFIs participation on the CRB platform to reduce NPLs.	Action point 1 to be achieved by end June 2022. Action point 2 to be achieved by end December 2022.

4.	**The CBG should upgrade its oversight of mobile money providers.**	1. Review and upgrade current guidelines on MMOs. 2. Develop onsite/off-site examination manual. 3. Develop off-site reporting templates to capture operations. 4. Ensure enforcement.	Action points 1, 2 & 3 to be completed by end June 2021. Action point 4 to be on-going
5.	**CBG Supervision of Credit Unions and the relationship with NACCUG.**	1. Assume direct oversight of 11 largest CUs. 2. Develop regulatory guidelines for CUs. 3. Develop reporting templates for CUs 4. Develop onsite and off-site examination framework. 5. Revise the delegated supervisory role of NACCUG.	All activities/actions to be completed by end December 2020
6.	**The CBG needs a more proportionate Strategy for overseeing VISACAs.**	1. Develop a collaborative framework with the VISACA Apex to supervise VISACAs. 2. Develop proportionate supervisory framework based on the risk profile of VISACAs. 3. Conduct onsite supervision on a half yearly basis to verify offsite returns.	Action point 1 to be completed by end June 2021. Action points 2 &3 to be completed by end December 2021.
7.	**There are perceived gaps for legal authority for the regulation and supervision of CUs**	1. Legal Department to provide clarity on the mandate of the CBG to regulate and supervise financial cooperatives in the NBFI Act 2016. 2. Develop an MOU with NACCUG and the Department of Cooperatives on roles and responsibilities of each party.	Action point 1 to be completed by end December 2020 Action point 2 by end December 2021

8.	**Improve data collection system for financial inclusion. The current data collection and storage process is manually done and these affect data quality and information sharing.**	1. Fully automate CBG data system. 2. Expand database to include financial inclusion requirements. 3. Interface with regulated service providers. 4. Develop a supervisory software that will be used both for the collection of data and supervision of NBFIs. 5. Nanotech to capture FX operations	Action points 1 and 5 are on-going. Action points 2, 3 and 4 to be completed by end June 2023.
9.	**Incorporate basic Consumer protection into financial inclusion efforts.**	• In collaboration with the Gambia Competition and Consumer Protection Commission, develop a consumer protection framework for all FSPs. • Establish a Consumer Protection desk at the CBG.	Action point 1 to be achieved by end December 2020. Action point 2 to be completed by end December 2021.
10.	**Financial Inclusion Ecosystem for digital financial services. There is a need to develop a clear framework to support digital financial services.**	1. Develop a financial inclusion ecosystem through DFS and other electronic means of payment. 2. MMOs to be mainstreamed in the NFIS. 3. Improve guidelines for MMOs operations 4. Build the capacity of the MFD staff to regulate and supervise digital finance.	Action point 1 to be completed by end June 2023. Action points 2, 3 &4 are ongoing
11	**Mobile Banking to deepen financial intermediation and inclusion**	Regulation, development of infrastructure – interoperability to boost inclusion	June 2022

3. INSURANCE SUPERVISION

Introduction

The CBG in March 2020 approved a draft insurance legislation (Bill) which fundamentally meets the requisite risk-based standards of regulation and supervision of the IAIS (International Association of Insurance Supervisors). The draft legislation also provides the establishment of an independent Insurance Supervisory Commission. The draft insurance legislation is followed by the draft regulation which will be finalised as soon as the insurance bill becomes law.

Objectives

The key objective of the new insurance legislation is to improve the penetration and growth of the insurance sector through promoting the maintenance of a fair, safe, sound and stable insurance market. The overarching objective is to promote a dynamic insurance industry, financially strong and solvent to make the industry remain relevant to the demands of the economy. The enactment of the draft Insurance Act and Guidelines, risk-based supervision and regulation, stress testing, IFRS compliance and the on-going reforms agenda, will to a large extent professionalise the industry moving forward.

Expected outcomes

The reforms underpinned by a risk-based approach are expected to have a positive impact on the drive towards achieving a more comprehensive macroprudential framework for financial stability as well as provide the basis on which to determine the priorities of the supervisors given the size, scale and complexity of risks in the insurance sector.

Conclusion

The ongoing reforms in the insurance sector in The Gambia are geared towards ensuring that the regulation and supervision of insurance is consistent with regional and international standards. The reforms have impacted positively on industry liquidity, profitability and cost control over the last three years and will also ensure that mechanisms are in place to ensure that the best interest of policyholders, other stakeholders and society are served.

The strategies to address the issues in the FSSR 2019 are outlined in the Action plan below.

Table 3. INSURANCE DEPARTMENT ACTION PLAN

1	Inadequacy of assessment of risks and vulnerabilities of the insurance sector	i)To develop relevant toolkits. ii) Map-out policy instruments to intermediate policy objectives and risk indicators. iii) Also, to broaden institutional coverage for relevant data collection.	End-Dec. 2022
2	Inadequate monetary data for other financial corporations (OFCs)	To review and adopt prudential reporting formats in line with international best practice.	End-December 2022
3	Lack of stress testing as a core risk management tool for insurance supervision.	To consider and adopt a relevant stress testing model or approach: (Top-down or Bottom-up) for our insurance industry. The top-down approach would be more feasible for the Insurance Supervision Department (ISD). Expose staff to training in stress testing	End-December 2022
4	Lack of full disclosure and standardized reporting	Adoption of IFRS	End-December 2021
5	Inadequate supervision	Migration to risk-based supervision	End-December 2021
6	Adoption of best practice in insurance supervision	Enactment of Insurance law	Sept 2021
7	Enhance insurance regulation	Development of insurance regulation	Dec 2022

4. The Foreign Exchange Market

The exercise concentrated on deposit-taking institutions, excluding the Foreign Exchange Bureaus. A concern flagged by the FSSR team, which by extension is common to the bureaus, is the quality of financial sector data submitted to the CBG. Currently, data is still being processed manually or by email to the Foreign Department which requires a lot of paper printing, very time consuming, and prone to errors. Therefore, the recommendations stated the need to improve the quality and expand the coverage of surveillance to include FX exposure, which are key to effective monetary policy and need to be taken into consideration to signal emerging risks.

The second concern highlighted is the lack, or the non-compilation, of data on Foreign Exchange loans which could undermine proper monitoring and pose credit risk emanating from lending to risky borrowers. Therefore, the advice given by the team is for the CBG to develop a detailed macroprudential toolkit that will mitigate the potential build-up of systemic risks. One such criterion is to monitor FX loan across banks, to better gauge its composition in total loans and to assess Net Open Position (NOP) levels.
Overall, though other issues are raised in the report the Department concerns will be able to review or comment further. A take-away is that the FSSR indicated a need to strengthen CBG's capacity to detect emerging stress by designing contingency plans with preventive and corrective measures.

Table 4: Action Plan for the Foreign Exchange Market, June 2020 to June 2023

Details	**Strategy to Address the Challenges**	**Timeline**
Lack of Data	Require foreign exchange bureaux to automate the submission of their daily returns/reporting to the CBG	End Dec 2020 – End March 2021
Data Quality	Nanotech Consulting Software will largely help improve data quality	End Dec 2020 – End March 2021
Non-compilation of Data on Forex loans	Work with FSD on compiling forex loans to monitor credit risk	On-going March 2021

Franchising	Increase supervision will help	On-going Dec 2022
MTO Violation	Collaboration with MTOs, Agents	On-going Dec 2022
Reserve Management-	• Strengthen staff capacity (training and professional) as investment continues to grow • TA mission on réserve management	End December 2020- End December 2023 End March 2021- End December 2021

CENTRAL BANK OF THE GAMBIA

1-2 ECOWAS AVENUE

BANJUL